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, 2008

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	**58-2480149**
(State or Other Jurisdiction of Incorporation or Organization)	***(I.R.S. Employer Identification No.)***
55 Glenlake Parkway, N.E. Atlanta, Georgia	**30328**
(Address of Principal Executive Offices)	***(Zip Code)***

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Class B common stock, par value $.01 per share	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 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 approximately $42,078,109,321 as of June 30, 2008. 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, 2009, there were 306,493,075 outstanding shares of class A common stock and 688,945,611 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 7, 2009 are incorporated by reference into Part III of this report.

UNITED PARCEL SERVICE, INC.
ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2008
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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 2008, we delivered an average of 15.5 million pieces per day worldwide, or a total of 3.92 billion packages. Total revenue in 2008 was $51.5 billion.

Our primary business is the time-definite delivery of packages and documents worldwide. In recent years, we have extended our service portfolio to include 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.* U.S. 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 from or to the United States with another country as the destination or origin point.
- *Supply Chain & Freight.* Supply Chain & Freight includes our forwarding and logistics operations, UPS Freight, and other related 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 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 107,000 vehicles, which reaches all business and residential zip codes in the contiguous U.S. We also operate an air fleet of about 570 aircraft, the ninth largest airline in the world. Our primary air hub is in Louisville, KY. Regional air hubs are located in Columbia, SC; Dallas, TX; 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 have established a global transportation infrastructure and 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. We believe that the following trends will allow us to continue to grow our business over the long term:

- Globalization of trade is a worldwide economic reality, which will continue to expand as trade barriers are eliminated and large consumer markets, in particular China, India and Europe, experience economic growth.
- To be effective, just-in-time inventory management, increased use of the Internet for ordering goods, and direct-to-consumer business models require transportation services.
- 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.

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.

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.

This business is built on an integrated air and ground pick-up and delivery network. We believe that this model 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 2006, we made the most significant upgrade ever to our U.S. ground package delivery network, accelerating the transit times for more than a half-million packages nationwide by one day or more. Additional lane enhancements were introduced in February 2008.

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.
- 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.

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

- In 2006, to capitalize on growth opportunities across the whole of Europe, we completed the expansion of our automated package sorting hub at the Cologne/Bonn airport in Germany. The expansion doubled the hub's sorting capacity to 110,000 packages per hour, largely through the use of new automation technology.

- 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 replaces three smaller facilities, and adds 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.

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 2006, we added three additional daily flights between Shanghai, China and the U.S., and another new flight between Qingdao, China and Incheon, Korea. We also began direct air service between Shanghai and Cologne. Those flights support international express volume into and out of China, which has seen dramatic growth in recent years.
- 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.
- Also in 2008, we broke ground on a new intra-Asia air hub in Shenzhen, China, which is expected to be operational in 2010. We also acquired our partner's interest in a small package shipping joint venture in Korea.

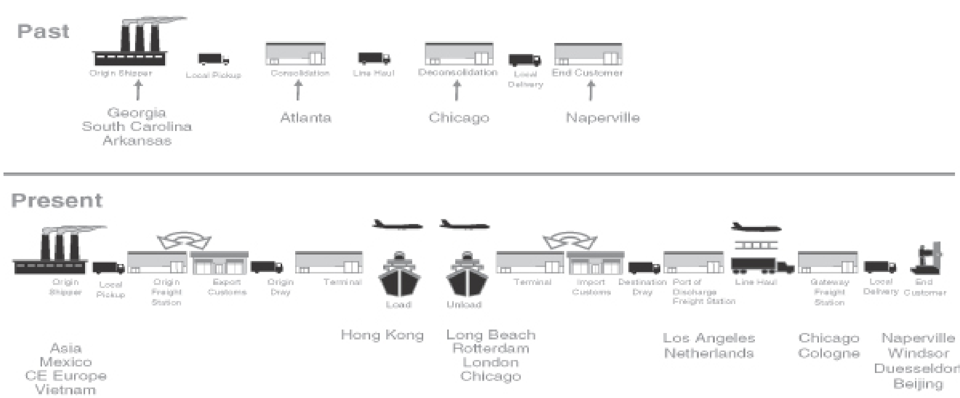
The international package delivery market has been growing at a faster rate than that of the U.S., and our international package operations have historically been growing faster than the market. We plan to use our worldwide infrastructure and broad product portfolio to grow high-margin premium services. We will also 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.

In today's global economy, companies' supply chains are growing increasingly complex, as shown in Diagram 1 below. 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 services with financial and information services. We believe that we can capitalize on this opportunity because:

- We manage supply chains in over 175 countries and territories, with about 35 million square feet of distribution space worldwide.
- We focus on supply chain optimization, freight forwarding, international trade services and management-based solutions for our customers rather than solely on more traditional asset-based logistics such as warehouses and vehicle fleets.
- We provide a broad range of transportation solutions to customers worldwide, including air, ocean and ground freight, as well as customs brokerage, and trade and materials management.
- We provide service, information technology systems and distribution facilities adapted to the unique supply chains of specific industries such as healthcare, technology, and consumer/retail. We call this “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.
- We offer a portfolio of financial services that provides customers with short-term and long-term financing, secured lending, working capital, government guaranteed lending, letters of credit, global trade financing, credit cards and equipment leasing.

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.

Our growth strategy is to increase the number of customers benefiting from repeatable 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.

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 services in 23 major 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.

We provide our customers with easy access to UPS. There are almost 150,000 domestic and international access points to UPS. These include: 38,800 branded drop-boxes, 1,000 UPS Customer Centers, 6,000 independently owned and operated The UPS Store® and Mail Boxes Etc.® locations worldwide, 2,800 alliance partner locations, 13,200 Authorized Shipping Outlets and commercial counters, and 87,000 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 ("FCL") and less than container load ("LCL") 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.
- *International Trade Management:* customs brokerage and international trade consulting.
- *Industry-specific Solutions:* for healthcare, retail, high tech, automotive, industrial manufacturing and government customers.
- *UPS Capital*℠ provides asset-based lending, global trade finance and export-import lending services.

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 12,000 lanes. Significant service and reliability improvements for freight transportation enabled us to implement a no-fee, guaranteed delivery service in early 2008 and expand it to Canadian deliveries later in the year.

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 18 million package tracking transactions daily. A growing number of those tracking requests now 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 *OnLine Tools 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 savings in fuel usage. The re-engineered system provides the basis for unique customer-focused services based on the customer-specific data which powers the system.

In 2008, we began deploying Telematics, a technology that combines information from our drivers' hand-held computers with GPS and automotive sensors to help us better manage our ground fleet operations. It will help us to improve vehicle maintenance, enhance safety and fine-tune delivery and pick-up service. This technology will also help us improve on-road performance by reducing vehicle expense, fuel consumption, and carbon emissions. In 2008, we equipped 3,226 of our U.S. vehicles with the sensors needed to achieve the benefits from this technology.

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 *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 2008 attest to our success, such as:

- Included in the Dow Jones Sustainability Index for the sixth consecutive year and the FTSE4Good Index for the fourth consecutive year,
- Listed in the top tier of the World's Most Respected Companies by the Reputation Institute,
- Named as one of the World's Most Ethical Companies by Ethisphere Magazine,
- Cited as one of 100 Best Corporate Citizens by CRO Magazine,
- Received the 2007 Green Cross for Safety from the National Safety Council,
- Received the Corporation of the Year award from the National Minority Supplier Development Council,
- UPS Supply Chain Solutions ranked among top "Green" Outsourcers,
- Ranked No. 11 in *Barron's* World's Most Respected Companies.

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.

Our worldwide marketing organization also supports global small package and our supply chain and freight businesses. Our corporate marketing function is engaged in market and customer research, brand management, rate-making and revenue management policy, new product development, product portfolio management, marketing alliances and e-commerce, including the non-technical aspects of our web presence. Advertising, public relations, and most formal marketing communications are 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, bid preparation and revenue management activities. These local marketing teams support the execution of corporate initiatives while also managing limited promotional and public relations activities pertinent to their local markets.

Employees

As of December 31, 2008, we had approximately 426,000 employees.

Approximately 260,000 of our employees are 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 2,900 pilots who are employed under a collective bargaining agreement with the Independent Pilots Association ("IPA"). The current contract becomes amendable at the end of 2011. Our airline mechanics are covered by a collective bargaining agreement with Teamsters Local 2727, which became amendable on November 1, 2006. We began formal negotiations with Teamsters Local 2727 in October 2006. In addition, the majority of our ground mechanics who are not employed under agreements with the Teamsters are employed under collective bargaining agreements with the International Association of Machinists and Aerospace Workers (approximately 3,000). These agreements run through July 31, 2009.

We believe that our relations with our employees are good. We 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.

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 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 in our industry—a 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, 2008, we had a balance of cash and marketable securities of approximately $1.049 billion and shareowners' equity of $6.780 billion. As of December 31, 2008, our Moody's and Standard & Poor's ("S&P") short-term credit ratings were P-1 and A-1+, respectively, and our Moody's and S&P long-term credit ratings were Aa2 and AA-, respectively, with a stable outlook from both of these credit rating agencies. This reflects our strong capacity to service our obligations. Our financial strength gives us the resources to achieve global scale; to invest in 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.

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.

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 2008 were $12 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. 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.

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.

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 *http://investor.shareholder.com/ups,* 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 presents the highlights of 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 *http://investor.shareholder.com/ups*. 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.

See Footnote 12 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.

Item 1A. ***Risk Factors***

The following are some of the factors that could cause our actual results to differ materially from the expected results described in our forward-looking statements:

- The effect of general economic and other conditions in the markets in which we operate, both in the United States and internationally. Our operations in international markets are also affected by currency exchange and inflation risks.
- The impact of 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. Our industry is undergoing rapid consolidation, and the combining entities are competing aggressively for business.
- The impact of complex and stringent aviation, transportation, environmental, labor, employment and other governmental laws and regulations, and the impact of new laws and regulations that may result from increased security concerns following the events of September 11, 2001. Our failure to comply with applicable laws, ordinances or regulations could result in substantial fines or possible revocation of our authority to conduct our operations.
- Strikes, work stoppages and slowdowns by our employees. Such actions may affect our ability to meet our customers needs, and customers may do more business with competitors if they believe that such actions may adversely affect our ability to provide service. We may face permanent loss of customers if we are unable to provide uninterrupted service. The terms of future collective bargaining agreements also may affect our competitive position and results of operations.

- Possible disruption of supplies, or unanticipated changes in the prices, of gasoline, diesel and jet fuel for our aircraft and delivery vehicles, as a result of war, actions by producers, or other factors. We require significant quantities of fuel and are exposed to the commodity price risk associated with variations in the market price for petroleum products.
- Cyclical and seasonal fluctuations in our operating results due to decreased demand for our services.

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 approximately 200 service centers with a total of 5.9 million square feet of floor space. UPS Freight owns 135 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 300,000 packages per hour in the Worldport facility. We also have regional air hubs in Columbia, SC; Dallas, TX; 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 2008, work continued on our Worldport facility expansion that will increase sorting capacity by 37 percent to 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 by 1.1 million square feet to 5.2 million square feet, and the facility will be able to accommodate the Boeing 747-400 aircraft currently on order. The expansion will cost over $1 billion and is expected to be completed by 2010.

Over the past five 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.

In the fourth quarter of 2008, we began construction of a new intra-Asia air hub at Shenzhen International Airport in China. Once completed, the Shenzhen facility will replace 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 is expected to open in 2010. The facility is being built on a parcel of almost 1 million square feet, and will have a planned 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, 2008:

Description	Owned and Capital Leases	Short-term Leased or Chartered From Others	On Order	Under Option
McDonnell-Douglas DC-8-71	19	—	—	—
McDonnell-Douglas DC-8-73	25	—	—	—
Boeing 747-100	7	—	—	—
Boeing 747-200	4	—	—	—
Boeing 747-400F	7	—	5	—
Boeing 747-400BCF	2	—	—	—
Boeing 757-200	75	—	—	—
Boeing 767-300	32	—	27	—
Boeing MD-11	38	—	—	—
Airbus A300-600	53	—	—	—
Other	—	309	—	—
Total	262	309	32	—

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

All 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 2008, we took delivery of four Boeing 747-400F aircraft and two Boeing 747-400BCF aircraft. We have firm commitments to purchase 27 Boeing 767-300ER freighters to be delivered between 2009 and 2012, and five Boeing 747-400F aircraft scheduled for delivery during 2009 and 2010. Also, during 2008 we sold eight Boeing 727-100 aircraft, two Boeing 727-200 aircraft, one McDonnell-Douglas DC-8-71 aircraft and one McDonnell-Douglas DC-8-73 aircraft.

Vehicles

We operate a ground fleet of approximately 107,000 package cars, vans, tractors and motorcycles. Our ground support fleet consists of 31,000 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 37,000 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 4,450 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*

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 June 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 plaintiff 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 April 29, 2008. 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 the Company's Petition to hear the appeal of the trial court's certification order. Oral argument took place in November 2008. The appeal will likely take one year. 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 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. 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.

UPS Freight, along with several other companies involved in the LTL freight business, is a defendant in a Multi-District Litigation pending in the United States District Court for the Northern District of Georgia. The lawsuits allege that the defendants conspired to fix fuel surcharge rates, and they seek injunctive relief, treble damages and attorneys' fees. We have denied any liability with respect to these claims and intend to vigorously defend ourselves in these cases, and defendants' motion to dismiss is pending for decision by the Court. These cases are at a preliminary stage and 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 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.

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 and June 2008, we received information requests from the European Commission relating to its investigation of certain pricing practices in the freight forwarding industry. We also received and responded to related information requests from competition authorities in other jurisdictions. We are cooperating with these inquiries.

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

None

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 2008 and 2007. Our Class B common stock is listed on the New York Stock Exchange under the symbol "UPS."

	High	Low	Close	Dividends Declared
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
2007:				
First Quarter	$75.98	$68.66	$70.10	$ 0.42
Second Quarter	$74.48	$69.54	$73.00	$ 0.42
Third Quarter	$78.99	$72.70	$75.10	$ 0.42
Fourth Quarter	$77.00	$70.00	$70.72	$ 0.42

As of January 29, 2009, there were 170,327 and 206,558 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 11, 2009, our Board declared a dividend of $0.45 per share, which is payable on March 10, 2009 to shareowners of record on February 23, 2009.

In January 2008, we announced a new financial policy regarding our capital structure to enhance shareowner value. We intend to manage our balance sheet to a target debt ratio of approximately 50%-60% funds from operations to total debt. In connection with this policy, the Board of Directors authorized 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.

A summary of repurchases of our Class A and Class B common stock during the fourth quarter of 2008 is as follows (in millions, except per share amounts):

	Total Number of Shares Purchased(1)	Average Price Paid Per Share(1)	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program (as of month-end)
October 1—October 31, 2008	3.3	$ 49.73	3.3	$ 6,666
November 1—November 30, 2008	1.0	52.56	1.0	6,615
December 1—December 31, 2008	0.8	54.25	0.8	6,572
Total October 1—December 31, 2008	5.1	$ 50.96	5.1	$ 6,572

(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.

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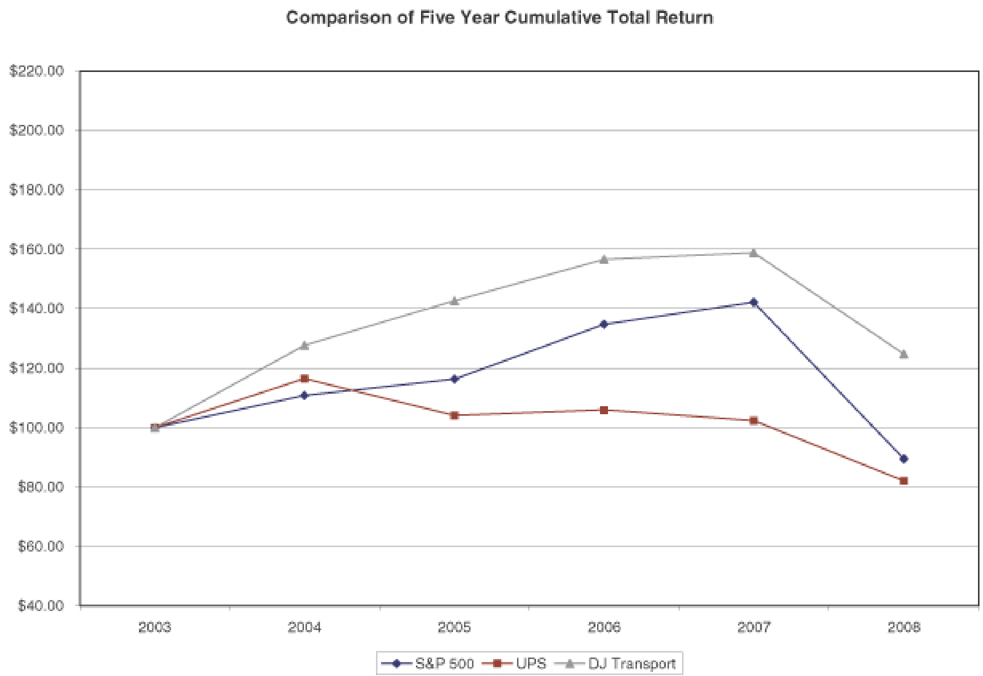
Shareowner Return Performance Graph

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, 2003 in the S&P 500 Index, the Dow Jones Transportation Average, and the class B common stock of United Parcel Service, Inc.



	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08
United Parcel Service, Inc.	$ 100.00	$ 116.40	$ 104.17	$ 106.00	$ 102.29	$ 82.04
S&P 500 Index	$ 100.00	$ 110.88	$ 116.32	$ 134.69	$ 142.09	$ 89.52
Dow Jones Transportation Average	$ 100.00	$ 127.73	$ 142.60	$ 156.60	$ 158.84	$ 124.81

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, 2008 (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,				
	2008	2007	2006	2005	2004
Selected Income Statement Data					
Revenue:					
U.S. Domestic Package	$31,278	$30,985	$30,456	$28,610	$26,960
International Package	11,293	10,281	9,089	7,977	6,809
Supply Chain & Freight	8,915	8,426	8,002	5,994	2,813
Total revenue	51,486	49,692	47,547	42,581	36,582
Operating expenses:					
Compensation and benefits	26,063	31,745	24,421	22,517	20,823
Other	20,041	17,369	16,491	13,921	10,770
Total operating expenses	46,104	49,114	40,912	36,438	31,593
Operating profit (loss):					
U.S. Domestic Package	3,907	(1,531)	4,923	4,493	3,702
International Package	1,580	1,831	1,710	1,494	1,149
Supply Chain and Freight	(105)	278	2	156	138
Total operating profit	5,382	578	6,635	6,143	4,989
Other income (expense):					
Investment income	75	99	86	104	82
Interest expense	(442)	(246)	(211)	(172)	(149)
Income before income taxes	5,015	431	6,510	6,075	4,922
Income tax expense	(2,012)	(49)	(2,308)	(2,205)	(1,589)
Net income	$ 3,003	$ 382	$ 4,202	$ 3,870	$ 3,333
Per share amounts:					
Basic earnings per share	$ 2.96	$ 0.36	$ 3.87	$ 3.48	$ 2.95
Diluted earnings per share	$ 2.94	$ 0.36	$ 3.86	$ 3.47	$ 2.93
Dividends declared per share	$ 1.80	$ 1.68	$ 1.52	$ 1.32	$ 1.12
Weighted average shares outstanding:					
Basic	1,016	1,057	1,085	1,113	1,129
Diluted	1,022	1,063	1,089	1,116	1,137

	As of December 31,				
	2008	2007	2006	2005	2004
Selected Balance Sheet Data					
Cash and marketable securities	$ 1,049	$ 2,604	$ 1,983	$ 3,041	$ 5,197
Total assets	31,879	39,042	33,210	34,947	32,847
Long-term debt	7,797	7,506	3,133	3,159	3,261
Shareowners' equity	6,780	12,183	15,482	16,884	16,378

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

Operations

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

	Year Ended December 31,		Change	
	2008	2007	$	%
Revenue (in millions):				
U.S. Domestic Package:				
Next Day Air	$ 6,559	$ 6,738	$ (179)	(2.7)%
Deferred	3,325	3,359	(34)	(1.0)
Ground	21,394	20,888	506	2.4
Total U.S. Domestic Package	31,278	30,985	293	0.9
International Package:				
Domestic	2,344	2,177	167	7.7
Export	8,294	7,488	806	10.8
Cargo	655	616	39	6.3
Total International Package	11,293	10,281	1,012	9.8
Supply Chain & Freight:				
Forwarding and Logistics	6,293	5,911	382	6.5
Freight	2,191	2,108	83	3.9
Other	431	407	24	5.9
Total Supply Chain & Freight	8,915	8,426	489	5.8
Consolidated	$51,486	$49,692	$1,794	3.6%
Average Daily Package Volume (in thousands):			#	
U.S. Domestic Package:				
Next Day Air	1,186	1,277	(91)	(7.1)%
Deferred	947	974	(27)	(2.8)
Ground	11,443	11,606	(163)	(1.4)
Total U.S. Domestic Package	13,576	13,857	(281)	(2.0)
International Package:				
Domestic	1,150	1,132	18	1.6
Export	813	761	52	6.8
Total International Package	1,963	1,893	70	3.7
Consolidated	15,539	15,750	(211)	(1.3)%
Operating days in period	252	252		
Average Revenue Per Piece:			$	
U.S. Domestic Package:				
Next Day Air	$ 21.95	$ 20.94	$ 1.01	4.8%
Deferred	13.93	13.69	0.24	1.8
Ground	7.42	7.14	0.28	3.9
Total U.S. Domestic Package	9.14	8.87	0.27	3.0
International Package:				
Domestic	8.09	7.63	0.46	6.0
Export	40.48	39.05	1.43	3.7
Total International Package	21.50	20.26	1.24	6.1
Consolidated	$ 10.70	$ 10.24	$ 0.46	4.5%

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	Year Ended December 31, 2007	2006	Change $	%
Revenue (in millions):				
U.S. Domestic Package:				
Next Day Air	$ 6,738	$ 6,778	$ (40)	(0.6)%
Deferred	3,359	3,424	(65)	(1.9)
Ground	20,888	20,254	634	3.1
Total U.S. Domestic Package	30,985	30,456	529	1.7
International Package:				
Domestic	2,177	1,950	227	11.6
Export	7,488	6,554	934	14.3
Cargo	616	585	31	5.3
Total International Package	10,281	9,089	1,192	13.1
Supply Chain & Freight:				
Forwarding and Logistics	5,911	5,681	230	4.0
UPS Freight	2,108	1,952	156	8.0
Other	407	369	38	10.3
Total Supply Chain & Freight	8,426	8,002	424	5.3
Consolidated	$49,692	$47,547	$2,145	4.5%
Average Daily Package Volume (in thousands):			#	
U.S. Domestic Package:				
Next Day Air	1,277	1,267	10	0.8%
Deferred	974	993	(19)	(1.9)
Ground	11,606	11,537	69	0.6
Total U.S. Domestic Package	13,857	13,797	60	0.4
International Package:				
Domestic	1,132	1,108	24	2.2
Export	761	689	72	10.4
Total International Package	1,893	1,797	96	5.3
Consolidated	15,750	15,594	156	1.0%
Operating days in period	252	253		
Average Revenue Per Piece:			$	
U.S. Domestic Package:				
Next Day Air	$ 20.94	$ 21.14	$ (0.20)	(0.9)%
Deferred	13.69	13.63	0.06	0.4
Ground	7.14	6.94	0.20	2.9
Total U.S. Domestic Package	8.87	8.73	0.14	1.6
International Package:				
Domestic	7.63	6.96	0.67	9.6
Export	39.05	37.60	1.45	3.9
Total International Package	20.26	18.70	1.56	8.3
Consolidated	$ 10.24	$ 9.88	$ 0.36	3.6%

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The following tables set forth information showing the change in UPS Freight's less-than-truckload ("LTL") revenue, shipments, and gross weight hauled, both in dollars or amounts and in percentage terms:

	Year Ended December 31,		Change	
	2008	2007	$	%
LTL revenue (in millions)	$ 2,062	$ 2,013	$ 49	2.4%
LTL revenue per LTL hundredweight	$ 18.68	$ 17.41	$1.27	7.3%
LTL shipments (in thousands)	10,036	10,481	(445)	(4.2)%
LTL shipments per day (in thousands)	39.5	41.4	(1.9)	(4.6)%
LTL gross weight hauled (in millions of pounds)	11,037	11,560	(523)	(4.5)%
LTL weight per shipment	1,100	1,103	(3)	(0.3)%
Operating days in period	254	253		

	Year Ended December 31,		Change	
	2007	2006	$	%
LTL revenue (in millions)	$ 2,013	$ 1,831	$ 182	9.9%
LTL revenue per LTL hundredweight	$ 17.41	$ 15.93	$1.48	9.3%
LTL shipments (in thousands)	10,481	9,638	843	8.7%
LTL shipments per day (in thousands)	41.4	38.2	3.2	8.3%
LTL gross weight hauled (in millions of pounds)	11,560	11,498	62	0.5%
LTL weight per shipment	1,103	1,193	(90)	(7.5)%
Operating days in period	253	252		

Operating Profit and Margin

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

	Year Ended December 31,		Change	
	2008	2007	$	%
Reporting Segment				
U.S. Domestic Package	$ 3,907	$(1,531)	$ 5,438	N/A
International Package	1,580	1,831	(251)	(13.7)%
Supply Chain & Freight	(105)	278	(383)	N/A
Consolidated Operating Profit	$ 5,382	$ 578	$ 4,804	N/A

	Year Ended December 31,		Change	
	2007	2006	$	%
Reporting Segment				
U.S. Domestic Package	$(1,531)	$ 4,923	$(6,454)	N/A
International Package	1,831	1,710	121	7.1%
Supply Chain & Freight	278	2	276	N/A
Consolidated Operating Profit	$ 578	$ 6,635	$(6,057)	(91.3)%

The following table sets forth information showing the operating margin for each reporting segment:

	Year Ended December 31,		
	2008	2007	2006
Reporting Segment			
U.S. Domestic Package	12.5%	(4.9)%	16.2%
International Package	14.0%	17.8%	18.8%
Supply Chain & Freight	(1.2)%	3.3%	0.0%
Consolidated Operating Margin	10.5%	1.2%	14.0%

U.S. Domestic Package Operations

2008 compared to 2007

U.S. domestic package revenue increased $293 million, or 0.9%, for the year, largely due to a 3.0% improvement in revenue per piece, partially offset by a 2.0% decrease in average daily package volume.

Next Day Air volume, deferred air volume and ground volume declined 7.1%, 2.8%, and 1.4%, respectively for the year, primarily as a result of the current U.S. recession. These declining volume trends worsened through the year with Next Day Air, deferred air, and ground volume declining 8.6%, 3.5%, and 2.1%, respectively, during the fourth quarter. Relatively high energy costs during most of the year combined with the deepening recession and weak output within the industrial production and retail sales sectors adversely affected the small package market, which places additional pressure on our domestic package volume.

The increase in overall revenue per piece of 3.0% resulted primarily from a rate increase that took effect during the first quarter and higher fuel surcharge rates, but was partially offset by an unfavorable shift in product mix. Next Day Air and Deferred revenue per piece increased 4.8% and 1.8%, respectively, and were positively impacted by the base rate increase and a higher fuel surcharge rate for air products (discussed further below). This increase was adversely impacted by lower average package weights, a mix shift toward lower yielding products, and hedging losses. Ground revenue per piece increased 3.9%, mainly due to the rate increase, as well as a higher fuel surcharge rate due to increased diesel fuel prices in 2008 compared with 2007.

On November 9, 2007, we announced a rate increase and a change in the fuel surcharge that took effect on December 31, 2007. We 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 a $0.10 increase in the residential surcharge, and an increase of $0.10 in the delivery area surcharge on both residential and commercial services to certain ZIP codes.

We also modified the fuel surcharge on domestic air services by reducing the index used to determine the fuel surcharge by 2%. This fuel surcharge continues to be based on the U.S. Energy Department's Gulf Coast spot price for a gallon of kerosene-type jet fuel. Based on published rates, the average fuel surcharge on domestic air products was 25.17% in 2008, an increase from the 12.17% in 2007, due to the significant increase in jet fuel prices in early and mid-2008, but partially offset by the 2% reduction in the index. The ground fuel surcharge rate continues to fluctuate based on the U.S. Energy Department's On-Highway Diesel Fuel Price. Based on published rates, the average fuel surcharge on domestic ground products increased to 7.97% in 2008 from 4.30% in 2007, due to significantly higher diesel fuel prices in early and mid-2008. Total domestic fuel surcharge revenue, net of the impact of hedging losses, increased by $1.119 billion in 2008 compared with 2007, primarily due to the higher fuel surcharge rates discussed above, but partially offset by the decline in volume for our air and ground products.

U.S. domestic package operating profit increased $5.438 billion in 2008 compared with 2007. Operating profit for 2007 was adversely affected by a charge to withdraw from the Central States, Southeast and Southwest

Areas Pension Fund ("Central States Pension Fund"), an aircraft impairment and a Special Voluntary Separation Opportunity ("SVSO") charge (all discussed further in the "Operating Expenses" section), which reduced domestic operating profit by $6.100 billion, $159 million and $53 million, respectively. The absence of these charges in 2008 favorably affected the operating profit comparison between periods.

Operating profit in 2008 was adversely impacted by the current 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 the year, 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 opposite of the effect the company experienced in 2007, when fuel costs rose much faster than the fuel surcharge rate and operating profit was adversely impacted.

2007 compared to 2006

U.S. Domestic Package revenue increased $529 million, or 1.7%, in 2007, due to a 1.6% improvement in revenue per piece and a 0.4% increase in average daily package volume. Next Day Air volume increased 0.8% and Ground volume increased 0.6% for the year, largely as a result of a solid peak season in the fourth quarter, when our Next Day Air volume rose 2.2% and Ground volume increased 1.5%. Deferred air volume declined 1.9% in 2007. Our domestic air and ground products have been impacted by the slowing U.S. economy and weak small package market in 2007. Trends in U.S. industrial production and business-to-consumer shipments in 2007 were not favorable to the overall small package market, which places pressure on our domestic package volume.

The increase in overall revenue per piece of 1.6% in 2007 resulted primarily from a rate increase that took effect earlier in the year, but was negatively impacted by lower fuel surcharge revenue and an unfavorable shift in product mix. Next Day Air revenue per piece declined 0.9%, and was negatively impacted by strong growth in our lower-yielding Next Day Air Saver products. Deferred revenue per piece increased only 0.4%. The change in revenue per piece for all our air products was negatively impacted by a lower fuel surcharge rate (discussed further below). Ground revenue per piece increased 2.9%, primarily due to the rate increase, but was also impacted slightly by a higher fuel surcharge due to higher diesel fuel prices in 2007 compared with 2006. Overall product mix reduced revenue per piece, as our premium air products suffered volume declines while our ground volume grew 0.6%.

Consistent with the practice in previous years, a rate increase took effect on January 1, 2007. We 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 a $0.10 increase in the residential surcharge, and a $0.75 increase in the charge for undeliverable packages after three delivery attempts.

In January 2007, we modified the fuel surcharge on domestic air services by reducing the index used to determine the fuel surcharge by 2%. This fuel surcharge continued to be based on the U.S. Energy Department's Gulf Coast spot price for a gallon of kerosene-type jet fuel. Based on published rates, the average fuel surcharge on domestic air products was 12.17% in 2007, a decline from the 14.02% in 2006, primarily due to the 2% reduction in the index. The ground fuel surcharge rate continued to fluctuate based on the U.S. Energy Department's On-Highway Diesel Fuel Price. Based on published rates, the average fuel surcharge on domestic ground products was 4.30% in 2007, an increase from 4.13% in 2006, due to higher diesel fuel prices. As a result of the air products index rate reduction and fuel market price movements, total domestic fuel surcharge revenue decreased by $110 million in 2007.

U.S. Domestic Package incurred an operating loss of $1.531 billion in 2007, compared with a $4.923 billion operating profit in 2006, largely due to a $6.100 billion charge related to our withdrawal from the Central States Pension Fund. Additionally, Domestic Package operating results were negatively impacted by low revenue growth, the aircraft impairment charge, the SVSO charge, and the impact of fuel. The aircraft impairment and SVSO charges reduced domestic operating profit by $159 million and $53 million, respectively. Fuel negatively impacted the change in operating profit during 2007, as fuel costs rose much faster than the fuel surcharge rate. These factors were partially offset by cost controls, including, among other categories, lower self-insurance expense. The expense associated with our self-insurance accruals for workers' compensation claims, automotive liability and general business liabilities declined as a result of several factors. The Central States Pension Fund withdrawal, aircraft impairment, and SVSO charges, as well as the impact of lower self-insurance expense, are discussed further in the "Operating Expenses" section.

International Package Operations

2008 compared to 2007

International Package revenue improved $1.012 billion, or 9.8%, for the year, driven by a 6.8% volume increase for our export products and a 6.1% increase in total revenue per piece. The growth in revenue per piece was primarily due to rate increases, the impact of currency exchange rates, and increased fuel surcharge rates. However, as the global economic recession deepened throughout the year, fourth quarter revenue trended downward compared to the prior year fourth quarter, declining $230 million, or 8.0%, including the impact of unfavorable currency exchange rate fluctuations discussed later.

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 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 1.6% for the year, 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.

Export revenue per piece increased 3.7% for the year, 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 6.0% for the year, 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, and the overall change in segment revenue was positively affected by $324 million during the year due to currency fluctuations, net of hedging activity. 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 also impacted by an acceleration in the shift away from our premium services and lower package weights. Fourth quarter 2008 total segment revenue was negatively impacted by $144 million due to the currency fluctuations, net of hedging activity.

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). Rate changes for international shipments originating outside the United States vary by geographical market and occur throughout the year.

Additionally, 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 surcharge for products originating outside the United States continues to be indexed to fuel prices in our different international regions, depending upon where the shipment takes place. Total international 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.

International Package operating profit decreased $251 million, or 13.7%, in 2008, and the operating margin declined to 14.0% from 17.8% in 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. Global economic weakness resulted in a weakening operating profit trend, with fourth quarter operating profit declining 34.3%.

Because fuel costs decreased rapidly in the latter half of the year, 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 opposite of the effect the company experienced in 2007, when fuel costs rose much faster than the fuel surcharge rate and operating profit was adversely impacted. The change in operating profit was also positively affected by $136 million during the year due to favorable currency exchange rates, net of hedging activity.

Operating profit in 2008 was adversely impacted by a fourth quarter $27 million impairment charge incurred on certain intangible assets in our domestic package business in the United Kingdom (discussed further in the “Operating Expenses” section). Operating profit for 2007 was adversely affected by the aircraft impairment and SVSO charges ($62 million of the aircraft impairment charge and $7 million of the SVSO charge impacted the International Package segment), and the absence of these charges in 2008 favorably affected the operating profit comparison between periods.

2007 compared to 2006

International Package revenue improved $1.192 billion, or 13.1% in 2007, driven by a 10.4% volume increase for our export products and an 8.3% increase in total revenue per piece. The growth in revenue per piece was positively impacted by base rate increases and the weakening of the U.S. Dollar against several major foreign currencies in 2007, but was adversely affected by a lower fuel surcharge rate applied to our U.S. origin international air products.

Export volume increased throughout the world. Asian export volume grew strongly in key markets during the year, especially China. Asian export volume continues to benefit from our geographic service expansion, as well as strong economic growth, which benefits our intra-Asian package business. To continue this expansion, we received authority in 2007 to operate six daily flights between the U.S. and Nagoya, Japan, and began constructing a package and freight air hub in Shanghai, China that will link Shanghai to our international air network, with direct service to Europe, Asia, and the Americas.

European export volume also grew solidly, largely due to continued growth in the transborder business and improved economic and industrial output in the European Union. U.S. export volume increased at a slower pace. Non-U.S. domestic volume increased 2.2% for the year, and was impacted by growth in several major European countries and Canada.

Export revenue per piece increased 3.9% for the year, largely due to rate increases and favorable exchange rates, but was adversely impacted by relatively higher growth in lower revenue per piece transborder products, and a reduction in certain fuel surcharge rates. Non-U.S. domestic revenue per piece increased 9.6% for the year, and was affected by rate increases and favorable exchange rates. Total average revenue per piece increased 2.7% on a currency-adjusted basis, and the overall change in segment revenue was positively affected by $464 million in 2007 due to currency fluctuations, net of hedging activity.

In January 2007, we increased 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 international shipments originating outside the United States vary by geographical market and occur throughout the year.

Also in January 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 surcharge for products originating outside the United States continues to be indexed to fuel prices in our different international regions. Total international fuel surcharge revenue increased by $12 million during the year due to increased volume, but was partially offset by the reduction in the fuel surcharge index.

International Package operating profit increased $121 million, or 7.1%, for the year, primarily due to the volume and revenue per piece improvements described above. The change in operating profit was also positively affected by $153 million during the year due to favorable currency exchange rates, net of hedging activity. International Package operating profit was adversely affected in 2007 by charges related to the aircraft impairment ($62 million) and the SVSO ($7 million), both of which are discussed further in the “Operating Expenses” section. Operating profit was negatively impacted by fuel, as the increase in fuel surcharge revenue was more than offset by the increase in fuel expense. The adverse impact of the aircraft impairment, SVSO charge, and fuel were the primary causes of the 100 basis point decline in operating margin to 17.8%.

Supply Chain & Freight Operations

2008 compared to 2007

Supply Chain & Freight revenue increased $489 million, or 5.8%, for the year. Forwarding and logistics revenue increased $382 million, or 6.5%, for the year, 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. Revenue declined by $98 million in the fourth quarter of 2008 compared with 2007, as difficult worldwide economic conditions, slowing world trade, and unfavorable currency exchange rate movements negatively impacted the forwarding and logistics business. The overall change in forwarding and logistics revenue was positively affected by $166 million during the year due to favorable currency exchange rates, but was negatively impacted by $58 million in the fourth quarter of 2008.

UPS Freight increased revenue $83 million, or 3.9%, 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 4.6% during the year, reflecting the weak LTL market in the United States in 2008 as compared with 2007. However, LTL revenue per hundredweight increased 7.3% for the year, due to an increase in base rates in 2008 and an increase in fuel surcharge revenue as a result of higher diesel prices. The weak U.S. LTL market declined further in the fourth quarter of 2008, which led to a revenue decline of $41 million, or 7.8%, from the comparable quarter of 2007. Fourth quarter average LTL shipments per day decreased 8.2%, with LTL revenue per hundredweight declining 2.4%, partially due to declining fuel surcharge rates.

In January 2008, UPS Freight announced a general rate increase averaging 5.4% covering non-contractual shipments in the United States and Canada. The increase became effective on February 4, 2008, and applies to minimum charge, LTL and TL rates.

The other businesses within Supply Chain & Freight, which include our retail franchising business and our financial business, increased revenue by 5.9% during the year. This revenue growth was impacted by increased revenue from our contract to provide domestic air transportation services for the U.S. Postal Service.

Operating profit for the Supply Chain & Freight segment decreased by $383 million for the year, primarily due to a $548 million goodwill impairment charge recorded in the fourth quarter in the UPS Freight business unit, as discussed further in the “Operating Expenses” section. Operating profit improved in the forwarding and logistics business, primarily resulting from revenue management initiatives and a focus on asset utilization. The change in operating profit was also positively affected by $12 million in 2008 due to favorable currency exchange rates.

Operating profit for this segment was negatively impacted in 2007 by $8 million due to the SVSO charge and by $46 million as a result of a charge for restructuring and disposing of certain non-core business units in France, as discussed further in the “Operating Expenses” section. The absence of these charges in 2008 favorably affected the operating profit comparison between periods.

2007 compared to 2006

Supply Chain & Freight revenue increased $424 million, or 5.3%, in 2007. Forwarding and logistics revenue increased $230 million, or 4.0%, for the year, and was affected by favorable exchange rate movements and revenue management initiatives begun in 2006. Favorable exchange rate movements positively affected the growth in revenue by $178 million during the year. Revenue growth in this business was driven by improvements in international air freight and mail services, which were impacted by overall market growth and lower customer turnover rates.

UPS Freight increased revenue $156 million, or 8.0%, for the year as a result of improved yields and a strong increase in average daily shipment volume. Average LTL shipments per day increased 8.3% during the year, driven by new customer wins and leveraging our existing small package customer base for new sales opportunities. LTL revenue per hundredweight increased 9.3% during the year, due to an increase in base rates in 2007 and a focus on higher-yielding customer segments. The increase in revenue per hundredweight and average daily shipments were somewhat offset by a 7.5% decrease for the year in the LTL weight per shipment.

The other businesses within Supply Chain & Freight, which include our retail franchising business, our financial business, and our U.S. domestic cargo operations, increased revenue by 10.3% during the year. This revenue growth was primarily due to increased revenue from our contract to provide domestic air transportation services for the U.S. Postal Service.

Operating profit for the Supply Chain & Freight segment was $278 million in 2007, compared with a profit of $2 million in 2006, resulting in a 330 basis point improvement in the operating margin. This improvement was largely due to improved results in the forwarding and logistics business as a result of cost controls, a focus on asset utilization, and revenue management initiatives. Cost improvements were realized as a result of the restructuring program that began in 2006, which included a reduction of non-operating staff of approximately 1,400 people. Additionally, margin improvements are being realized by focusing on capacity utilization in the air freight business, through better utilizing space available on our own aircraft. Finally, revenue management initiatives put into place last year are producing better returns through reducing less profitable accounts, and ensuring that new accounts meet specific criteria that allow us to better utilize our existing transportation assets.

Operating profit in 2007 for this segment was reduced by $46 million as a result of a charge for restructuring and disposing of certain non-core business units in France, as well as by $8 million due to the SVSO charge. These charges are discussed further in the “Operating Expenses” section. Currency fluctuations positively affected the growth in operating profit by $18 million in 2007.

Operating Expenses

2008 compared to 2007

Consolidated operating expenses decreased by $3.010 billion, or 6.1%, for the year, primarily due to a reduction in compensation and benefits expense. Currency fluctuations in our International Package and Supply Chain & Freight segments accounted for approximately $342 million of increased operating expenses from 2007 to 2008.

Compensation and benefits expense decreased by $5.682 billion, or 17.9%, for the year, and was impacted by several items. The primary reason for the decrease was a reduction in pension expense for our multiemployer pension plans, largely relating to a $6.100 billion charge in 2007 to withdraw from the Central States Pension

Fund. Partially offsetting this was a $216 million increase in expense for UPS-sponsored pension plans in the U.S., which was impacted by expense recognition now being required for the new UPS IBT Pension Plan. Non-pension benefits expense increased largely due to higher employee health and welfare program costs, which is 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. Compensation and benefits expense also declined due to the absence in 2008 of the SVSO and France restructuring charges, which had increased compensation and benefits expense by $68 and $42 million in 2007, respectively.

The 3.2% increase in repairs and maintenance was largely due to increased aircraft maintenance, somewhat offset by reduced vehicle maintenance expense. The 4.0% increase in depreciation and amortization was influenced by several factors, including higher depreciation expense on aircraft and vehicles resulting from new deliveries, but partially offset by reduced amortization expense on capitalized software resulting from a decrease in software development projects. The 11.0% increase in purchased transportation was driven by a combination of higher volume in our international package and forwarding businesses, the impact of currency exchange rates, and increased fuel surcharge rates charged to us by third-party carriers. The 39.0% increase in fuel expense was impacted by higher prices for jet-A fuel, diesel, and unleaded gasoline as well as lower hedging gains. The 7.2% increase in other occupancy expense was influenced by higher electricity and natural gas costs, as well as higher rent and property tax expense. During the fourth quarter of 2008, declining energy prices impacted costs such as purchased transportation, which decreased $132 million, or 7.6%, and fuel, which decreased $118 million, or 12.7%, compared with the fourth quarter of 2007.

Other expenses increased 14.9% for the year primarily due to goodwill and intangible asset impairment charges. In addition, we also experienced increased expenses for leased transportation equipment, data processing, advertising, professional services, and bad debts. These factors were partially offset by the absence in 2008 of a $221 million aircraft impairment charge recorded in 2007.

We test our goodwill for impairment annually, as of October 1st, on a reporting unit basis in accordance with FASB Statement No. 142 “Goodwill and Other Intangible Assets” (“FAS 142”). 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. 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 has been 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 2007 or 2006.

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 a 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 an acquired business. Accordingly, an intangible asset impairment charge of $27 million was recorded for the year ended December 31, 2008.

2007 compared to 2006

Consolidated operating expenses increased by $8.202 billion, or 20.0%, in 2007 compared with 2006. Currency fluctuations in our International Package and Supply Chain & Freight segments resulted in consolidated operating expenses increasing by $471 million for the year.

Compensation and benefits expense increased by $7.324 billion for the year, and was impacted by several items including the charge for the withdrawal from the Central States Pension Fund, higher wage rates in the union workforce, increased stock-based compensation, higher expense for union pension and welfare programs, the SVSO charge, and the restructuring charge in our Supply Chain & Freight business in France. These increases were slightly offset by lower workers compensation expense.

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 trusteed 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 pre-tax $6.100 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.

In December 2006, we offered the SVSO to approximately 640 employees who work 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 $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.

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 ($42 million related to severance costs, and thus recorded in compensation and benefits expense) in 2007 related to this program.

Stock-based and other management incentive compensation expense increased $113 million, or 17.7%, during 2007, primarily due to 2007 awards of stock options, restricted performance units, and restricted stock units. Pension and healthcare expense increased during the year, largely due to higher expense associated with plans covering union employees, but was somewhat offset by a $59 million decrease in expense for the UPS-sponsored pension plans in the U.S.

The expense associated with our self-insurance accruals for workers' compensation claims, automotive liability and general business liabilities was $46 million lower in 2007 compared with 2006. 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. The lower expense reflects favorable claims experience resulting from several company initiatives put into place over the last several years and other factors, including initiatives to decrease accident frequencies, improved oversight and management of claims, improved trends in health care costs, and favorable state legislative reforms.

The 0.2% increase in repairs and maintenance reflects higher maintenance expense on aircraft, largely offset by lower maintenance expense on vehicles and buildings. The 0.2% decrease in depreciation and amortization was influenced by several factors, including lower depreciation expense on aircraft and amortization expense on capitalized software, partially offset by increased depreciation expense on vehicles. The 7.4% increase in purchased transportation was impacted by volume growth in our International Package business and currency fluctuations, as well as growth in our international forwarding business. The 12.0% increase in fuel expense for the year was primarily due to higher prices for jet and diesel fuel, as well as higher usage, but was partially mitigated by hedging gains. Other occupancy expense increased 2.1% for the year, and was affected by increased rent expense and property taxes, but partially offset by lower utilities expense. The 3.0% increase in other expenses for the year was affected by a $221 million aircraft impairment charge, discussed further below, but partially offset with cost controls in several areas. The comparison in other expenses was also affected by an $87 million charge to settle class action litigation in 2006.

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.

Investment Income and Interest Expense

2008 compared to 2007

The decrease in investment income of $24 million was primarily due to a lower average balance of interest-earning investments, investment impairment charges, and a lower yield earned on our investments. During 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 followed actions by the U.S. Treasury Department and the Federal Housing

Finance Agency with respect to FNMA and FHLMC. 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 2008. We do not hold any other securities in any of these entities. The total of these credit-related impairment losses during 2008 was $23 million, which was recorded in investment income on the income statement.

Interest expense increased $196 million in 2008, primarily 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 $6.100 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.

2007 compared to 2006

The increase in investment income of $13 million was primarily due to higher realized gains on sales of investments, but partially offset by a lower average balance of interest-earning investments and increased equity-method losses on investment partnerships.

Interest expense increased $35 million in 2007, primarily due to higher average debt balances outstanding, largely related to commercial paper. Our commercial paper balances increased in the fourth quarter of 2007, causing a corresponding increase in interest expense, as a result of the payment made to withdraw from the Central States Pension Fund. Increased interest charges were somewhat offset, however, by higher capitalized interest related to various construction projects, including aircraft purchases and our Worldport expansion.

Income Tax Expense

2008 compared to 2007

Income tax expense increased by $1.963 billion in 2008 compared with 2007, 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 effective tax rate was 40.1% in 2008, compared with 11.4% in 2007. 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 percentage points higher due to the lack of tax deductibility of the $548 million goodwill and $27 million intangible impairment charges discussed previously.

2007 compared to 2006

Income tax expense declined by $2.259 billion in 2007 compared with 2006, due to lower pre-tax income primarily resulting from the Central States Pension Fund withdrawal charge. The effective tax rate was 11.4% in 2007 and 35.5% in 2006. During 2007, our effective tax rate was reduced primarily due to proportionally higher tax credits and the effect of having a relatively larger proportion of our taxable income being earned in international jurisdictions with lower tax rates.

Net Income and Earnings Per Share

2008 compared to 2007

Net income for 2008 was $3.003 billion, compared with the $382 million achieved in 2007, resulting in an increase in diluted earnings per share to $2.94 in 2008 from $0.36 in 2007. The increase in net income was largely due to the absence in 2008 of some of the previously discussed charges to expense in 2007. In 2007, net income was negatively impacted by the after-tax impact of the charge recorded to reflect our withdrawal from the Central States Pension Fund ($3.772 billion), the charge related to the restructuring and disposal of certain logistics operations in France ($31 million), the aircraft impairment charge ($141 million), and SVSO charge ($43 million). The combination of these four charges reduced 2007 diluted earnings per share by $3.75.

In 2008, net income was adversely affected by the UPS Freight goodwill impairment charge ($548 million) and customer list intangible asset impairment charge in the United Kingdom ($27 million). The combination of these two charges reduced 2008 diluted earnings per share by $0.56. Net income during 2008 was also adversely impacted by the deteriorating worldwide economic situation, as previously discussed. Earnings per share was favorably impacted by a reduction in outstanding shares as a result of our ongoing share repurchase program, as the total number of outstanding shares declined by 4.3% during 2008.

2007 compared to 2006

Net income for 2007 was $382 million, a decrease from the $4.202 billion achieved in 2006, resulting in a decrease in diluted earnings per share to $0.36 in 2007 from $3.86 in 2006. This decrease in net income was largely due to the after-tax $3.772 billion charge recorded to reflect our withdrawal from the Central States Pension Fund. Additionally, 2007 net income was adversely impacted by $31 million as a result of the restructuring charge in our France Supply Chain & Freight business, $141 million as a result of the aircraft impairment charge, and $43 million as a result of the SVSO charge. These items were partially offset by the improved results in our International Package and Supply Chain & Freight segments.

The reduction in basic and diluted earnings per share were largely due to the pension withdrawal, aircraft impairment, France restructuring, and SVSO charges noted above. These items reduced basic and diluted earnings per share by $3.77 and $3.75 in 2007. Earnings per share was favorably impacted by a reduction in outstanding shares as a result of our ongoing share repurchase program, as the total number of outstanding shares declined by 2.7% during 2007.

Liquidity and Capital Resources

Operating Activities

Net cash provided by operating activities was $8.426, $1.123, and $5.589 billion in 2008, 2007, and 2006, respectively. The increase in 2008 operating cash flows compared with 2007 was impacted by several items, including changes in pension fundings, tax payments and refunds, and rates for our delivery services.

In 2007, operating cash flow was adversely impacted by the $6.100 billion payment made to withdraw from the Central States Pension Fund. Total contributions to our pension and postretirement benefit plans declined in 2008 compared with 2007, even excluding the Central States Pension Fund withdrawal payment. As discussed in Note 5 to the consolidated financial statements, total multiemployer pension plan fundings decreased by $473 million in 2008 compared with 2007 (excluding the $6.100 billion withdrawal charge in 2007), largely due to the lack of contributions to the Central States Pension Fund in 2008 subsequent to our withdrawal. Additionally, contributions to our company-sponsored pension and postretirement plans declined by $441 million in 2008 compared with 2007, as we had no material minimum funding requirements in 2008 and we made no significant discretionary contributions to our plans. As discussed further in the “Contractual Commitments” section, we do have minimum funding requirements in the next several years, primarily related to the UPS IBT Pension Plan.

The increase in operating cash flow was also favorably impacted by the timing of tax refunds and estimated tax payments in both 2008 and 2007. In 2008, we received an $850 million U.S. federal tax refund due to prior overpayments of our estimated tax liability, primarily resulting from the deductibility of the Central States Pension Fund withdrawal payment for tax purposes. Additionally, the amount of U.S. federal quarterly estimated income tax payments was lower in 2007 compared with 2006, also primarily relating to the deductibility of the pension withdrawal payment. As of December 31, 2008, we have received substantially all of the expected cash tax benefits resulting from the withdrawal payment.

Changes in package volume and pricing affect operating cash flow. As noted previously, we increased rates in our package delivery and LTL services at the end of 2007. Additionally, in October 2008, we announced a base rate increase and a change in the fuel surcharge 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. We also 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). Other pricing changes included a $0.10 increase in the residential surcharge, and an increase of $0.10 in the delivery area surcharge on both residential and commercial services to certain ZIP codes. These rate changes are customary, and are consistent with previous years' rate increases. Additionally, we modified the fuel surcharge on domestic and U.S.-origin international air services by reducing by 2% the index used to determine the fuel surcharge. The UPS Ground fuel surcharge continues to fluctuate based on the U.S. Energy Department's On-Highway Diesel Fuel Price. Rate changes for shipments originating outside the U.S. are made throughout the year and vary by geographic market.

In October 2008, UPS Freight announced a general rate increase averaging 5.9% covering non-contractual shipments in the United States and Canada. The increase took effect on January 5, 2009, and applies to minimum charge, LTL and TL rates.

Investing Activities

Net cash used in investing activities was $3.179, $2.199, and $2.340 billion in 2008, 2007, and 2006, respectively. The increase in cash used in 2008 compared with 2007 was primarily due to increased net purchases of marketable securities. Net (purchases) sales of marketable securities were ($278), $621, and $482 million in 2008, 2007, and 2006, respectively. The net sales of marketable securities in 2007 and 2006 were primarily used to fund our pension and postretirement medical benefit plans, as well as to repurchase shares.

Capital expenditures represent a primary use of cash in investing activities, as follows (in millions):

	2008	2007	2006
Buildings and facilities	$ 968	$ 853	$ 720
Aircraft and parts	852	1,137	1,150
Vehicles	539	492	831
Information technology	277	338	384
	$ 2,636	$ 2,820	$ 3,085

As described in the "Contractual Commitments" section below, we have commitments for the purchase of aircraft, vehicles, equipment and other fixed assets to provide for the replacement of existing capacity and anticipated future growth. We fund our capital expenditures with our cash from operations. The reduction in capital expenditures was largely due to the timing of aircraft deliveries. Capital expenditures on buildings and facilities increased in 2008, primarily resulting from our Worldport hub expansion, as well as the expansion and new construction projects at other facilities in Europe, Canada, and China. In the fourth quarter of 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.

We had a net cash use of $49 and $39 million in 2008 and 2007, respectively, and net cash generation of $68 million in 2006, due to originations, sales, and customer paydowns of finance receivables, primarily in our commercial lending, asset-based lending, and leasing portfolios.

Other investing activities reflected a cash outflow of $363 million in 2008 as compared with a $46 million outflow in 2007 and a $120 million cash inflow in 2006, and was impacted by cash settlements 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 increases in restricted cash balances. In 2008, we entered into an escrow agreement with an insurance carrier to guarantee our self-insurance obligations. This agreement required us to provide $191 million in cash collateral to the insurance carrier, which is classified as restricted cash within other non-current assets on our consolidated balance sheet as of December 31, 2008. We received (paid) cash related to purchases and settlements of energy and currency derivative contracts of ($208), ($140), and $233 million during 2008, 2007, and 2006, respectively.

Financing Activities

Net cash provided by (used in) financing activities was $(6.702), $2.297, and ($3.851) billion in 2008, 2007, and 2006, respectively. Our primary uses of cash flows for financing activities are to repurchase shares, pay cash dividends, and make debt principal repayments.

We repaid debt principal, net of issuances, of $921 million in 2008, compared with net issuances of debt of $6.509 billion in 2007. In 2007, we increased our commercial paper borrowings to fund the $6.100 billion withdrawal payment to the Central States Pension Fund (commercial paper increased $6.575 billion at December 31, 2007 over December 31, 2006) upon ratification of our labor contract with the Teamsters, as previously discussed. In 2008, we repaid most of this commercial paper with the proceeds from a $4.0 billion senior notes offering, as well as the $850 million U.S. federal tax refund received. 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 these 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. Concurrent with the issuance these notes, we settled certain derivatives that were designated as hedges of the notes offering, resulting in a cash outflow of $84 million (which is reported in other financing activities on the cash flow statement).

Other than commercial paper, repayments of debt consisted primarily of scheduled principal payments on our capital lease obligations, redemption of certain tranches of UPS Notes, and principal payments on debt related to our investment in certain partnerships. During 2008, we called for the redemption of $327 million of notes issued under our UPS Notes program, and the associated swaps on the notes were terminated. 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.

In January 2008, we announced a new financial policy regarding our capital structure to enhance shareowner value. We intend to manage our balance sheet to a target debt ratio of approximately 50%-60% funds from operations to total debt. In connection with this policy, the Board of Directors authorized 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. During 2008, 2007, and 2006, we repurchased a total of 53.6, 35.9, and 32.6 million shares of Class A and Class B common stock for $3.558, $2.618, and $2.455 billion, respectively ($3.570, $2.639, and $2.460 billion reported on the statement of cash flows due to timing of settlements).

Our quarterly cash dividends declared were $0.45, $0.42, and $0.38 per share in 2008, 2007, and 2006, respectively. Additionally, in 2008 the Board of Directors approved an earlier payment schedule for the November dividend declaration, as in prior years this dividend was payable the following January. As a result, a total of five dividend payments were made in 2008. This extra dividend payment, along with the higher quarterly dividend per share, resulted in an increase in total cash dividends paid to $2.219 billion in 2008 from $1.703 billion in 2007 and $1.577 billion in 2006. 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. On February 11, 2009, our Board declared a dividend of $0.45 per share, which is payable on March 10, 2009 to shareowners of record on February 23, 2009.

Sources of Credit

We are authorized to borrow up to $10.0 billion under our U.S. commercial paper program. We had $2.922 billion outstanding under this program as of December 31, 2008, with an average interest rate of 0.55%. At December 31, 2008, we classified $1.0 billion of our commercial paper as long-term debt on our balance sheet, based on our intent and ability to refinance this debt on a long-term basis in the future. 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, 2008.

We maintain two credit agreements with a consortium of banks. One of these agreements provides revolving credit facilities of $4.5 billion, and expires on April 16, 2009. The second agreement provides revolving credit facilities of $1.0 billion, and expires on April 19, 2012. Interest on any amounts we borrow under these facilities would be charged at 90-day LIBOR plus 15 basis points. At December 31, 2008, there were no outstanding borrowings under 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.

As of December 31, 2008, our Moody’s and Standard & Poor’s (“S&P”) short-term credit ratings were P-1 and A-1+, respectively, and our Moody’s and S&P long-term credit ratings were Aa2 and AA-, respectively, with a stable outlook from both of these credit rating agencies.

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. These covenants limit the amount of secured indebtedness that may be incurred by the Company, and limit the amount of sale-leaseback transactions that the Company may engage in, to 10% of net tangible assets each. As of December 31, 2008 and for all prior periods, we have satisfied these financial covenants. As of December 31, 2008, 10% of net tangible assets is equivalent to $2.156 billion, however we have no qualifying sale-leaseback transactions or secured indebtedness outstanding. We do not expect these covenants to have a material impact on 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, pension fundings, 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, 2008 (in millions):

Year	Capital Leases	Operating Leases	Debt Principal	Debt Interest	Purchase Commitments	Pension Fundings	Other Liabilities
2009	$ 83	$ 344	$ 2,007	$ 331	$ 708	$ 778	$ 74
2010	121	288	18	326	658	593	71
2011	29	217	5	326	667	828	69
2012	30	147	22	325	406	945	67
2013	31	109	1,768	285	—	964	65
After 2013	246	423	5,658	4,526	—	—	139
Total	$ 540	$ 1,528	$ 9,478	$ 6,119	$ 2,439	$ 4,108	$ 485

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 8 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, 2008. The calculations of debt interest do not 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, 2008, we maintain orders for 27 Boeing 767-300ER freighters to be delivered between 2009 and 2012, and five Boeing 747-400F aircraft scheduled for delivery during 2009 and 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 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.

As a result of losses experienced in the global equity markets, our U.S. domestic pension plans experienced a negative return on assets of approximately 26% in 2008, however these losses did not trigger any minimum funding requirement for contributions in 2009 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 under the “other liabilities” column primarily includes commitment payments related to our investment in certain partnerships. The table above does not include approximately $388 million of unrecognized tax benefits that have been recognized as liabilities in accordance with FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109" ("FIN 48"), 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 in accordance with FIN 48, 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. FIN 48 is discussed further in Note 13 to the consolidated financial statements.

As of December 31, 2008, we had outstanding letters of credit totaling approximately $2.132 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, 2008, we had $262 million of surety bonds written. As of December 31, 2008, we had unfunded loan commitments totaling $885 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 June 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 plaintiff 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 April 29, 2008. 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 the Company's Petition to hear the appeal of the trial court's certification order. Oral argument took place in November 2008. The appeal will likely take one year. 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 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. 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.

UPS Freight, along with several other companies involved in the LTL freight business, is a defendant in a Multi-District Litigation pending in the United States District Court for the Northern District of Georgia. The lawsuits allege that the defendants conspired to fix fuel surcharge rates, and they seek injunctive relief, treble damages and attorneys' fees. We have denied any liability with respect to these claims and intend to vigorously defend ourselves in these cases, and defendants' motion to dismiss is pending for decision by the Court. These cases are at a preliminary stage and 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. As of December 31, 2008, we had substantially resolved all U.S. federal income tax matters for tax years prior to 1999. In February and July 2008, the Internal Revenue Service ("IRS") completed its audit of the tax years 1999 through 2002 and tax years 2003 through 2004, respectively, with only a limited number of issues that will be considered by the IRS Appeals Office by the end of 2009. In late 2008, the IRS began the initial planning phase of the income tax audit for tax years 2005 through 2007. Along with this audit for tax years 2005 through 2007, the IRS is currently examining non-income based taxes, including employment and excise taxes on transportation of property by air and fuel purchases, 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; however, we do not believe that the resolution of this matter would have a material adverse effect on our financial condition, results of operations, or liquidity. With few exceptions, we are no longer subject to U.S. state and local and non-U.S. income tax examinations by tax authorities for tax years prior to 1999, but certain U.S. state and local matters are subject to ongoing litigation.

As of December 31, 2008, we had approximately 260,000 employees employed under a national master agreement and various supplemental agreements with local unions affiliated with the Teamsters. In September 2007, we reached a new national master agreement with the Teamsters, which was ratified in December 2007. The new agreement provides for wage increases as well as contributions to healthcare and pension plans, and most economic provisions of the new five year agreement took effect on August 1, 2008, with the exception of our withdrawal from the Central States Pension Fund which occurred in 2007. We have approximately 2,900 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 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 (approximately 3,000). These agreements run through July 31, 2009.

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.

Other Matters

We received grand jury subpoenas from the Antitrust Division of the 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 and June 2008, we received information requests from the European Commission relating to its investigation of certain pricing practices in the freight forwarding industry. We also received and responded to related information requests from competition authorities in other jurisdictions. We are cooperating with these inquiries.

New Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157 "Fair Value Measurements" ("FAS 157"), which was issued to define fair value, establish a framework for measuring fair value, and expand disclosures about fair value measurements, and is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB deferred the effective date of FAS 157 for one year for certain nonfinancial assets and liabilities, and removed certain leasing transactions from its scope. We adopted FAS 157 on January 1, 2008, and the impact of adoption was not material to our results of operations or financial condition. The disclosures required by FAS 157 are discussed in Note 16 to the consolidated financial statements.

In September 2006, the FASB issued Statement No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (an amendment of FASB Statements No. 87, 88, 106, and 132(R))" ("FAS 158"). This statement requires us to recognize the funded status of defined benefit pension and other postretirement plans as an asset or liability in the balance sheet, and required delayed recognition items, consisting of actuarial gains and losses and prior service costs and credits, to be recognized in other comprehensive income and subsequently amortized to the income statement. On December 31, 2006, we adopted the recognition and disclosure provisions of FAS 158, which resulted in a reduction to AOCI of $2.097 billion and a reduction of long-term deferred tax liabilities of $1.258 billion.

Additionally, we previously utilized the early measurement date option available under Statement No. 87 "Employers' Accounting for Pensions", and we measured the funded status of our plans as of September 30 each year. Under the provisions of FAS 158, 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. The adoption of FAS 158 is discussed in Note 5 to the consolidated financial statements.

In February 2007, the FASB issued Statement No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities" ("FAS 159"), which 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, FAS 159 allows for a one-time election for existing positions upon adoption, with the transition adjustment recorded to beginning retained earnings. We adopted FAS 159 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, representing the cumulative effect adjustment of adopting FAS 159. The adoption of FAS 159 is discussed in Note 16 to the consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 requires 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. On January 1, 2007, we adopted the provisions of FIN 48, and the impact of this Interpretation is discussed in Note 13 to the consolidated financial statements.

In June 2007, the EITF reached consensus on Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards." EITF 06-11 requires that the tax benefit related to dividend equivalents paid on restricted stock units, which are expected to vest, be recorded as an increase to additional paid-in capital. EITF 06-11 is applied prospectively for tax benefits on dividends declared in fiscal years beginning after December 15, 2007. We adopted the provisions of EITF 06-11 beginning in the first quarter of 2008. This adoption did not have a material impact on our results of operations or financial condition.

In December 2007, the FASB issued Statement No. 141(R) “Business Combinations” (“FAS 141(R)”). FAS 141(R) requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to disclose in its financial statements the information needed to evaluate and understand the nature and financial effect of the business combination. FAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The impact of FAS No. 141(R) on our consolidated financial statements will depend upon the nature, terms and size of the acquisitions we consummate after the effective date.

In December 2007, the FASB issued Statement No. 160, “Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51” (“FAS 160”). FAS 160 requires reporting entities to present noncontrolling (minority) interests as equity (as opposed to as a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. As of December 31, 2008, we had approximately $5 million in noncontrolling interests classified in other non-current liabilities. FAS 160 applies prospectively as of January 1, 2009, except for the presentation and disclosure requirements which will be applied retrospectively for all periods presented.

In March 2008, the FASB issued Statement No. 161, “Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133” (“FAS 161”), which requires additional disclosures about the objectives of derivative instruments and hedging activities, the method of accounting for such instruments under FAS 133 and its related interpretations, and a tabular disclosure of the effects of such instruments and related hedged items on our financial position, financial performance, and cash flows. We adopted FAS 161 on January 1, 2009. FAS 161 only impacts our disclosures, and does not impact our financial position, results of operations, or cash flows. These new disclosures will be required for us beginning in our Form 10-Q for the quarter ended March 31, 2009.

In October 2008, the FASB issued Staff Position No. FAS 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active” (“FSP 157-3”). FSP 157-3 clarifies the application of FAS 157, which we adopted as of January 1, 2008, in cases where a market is not active. We have considered the guidance provided by FSP 157-3 in our determination of estimated fair values as of December 31, 2008, and the impact was not material.

In December 2008, the FASB issued FSP FAS 132(R)-1, “Employers’ Disclosure about Postretirement Benefit Plan Assets”, which amends Statement 132(R) to require more detailed disclosures about employers’ pension plan assets. New disclosures will include more information on investment strategies, major categories of assets, concentrations of risk within plan assets, and valuation techniques used to measure the fair value of plan assets. This new standard requires new disclosures only, and will have no impact on our consolidated financial position, results of operations, or cash flows. These new disclosures will be required for us beginning in our Form 10-K for the year ending December 31, 2009.

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.

Contingencies—As discussed in Note 9 to our consolidated financial statements, we are involved in various legal proceedings and contingencies. We have recorded liabilities for these matters in accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies" ("FAS 5"). FAS 5 requires a liability to be recorded 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 FAS 5 evaluation. We record a liability for a loss that meets the recognition criteria of FAS 5. These criteria require recognition of a liability 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 meet the recognition criteria under FAS 5, 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, 2008. In addition, we have certain contingent liabilities that have not been recognized as of December 31, 2008, because a loss is not reasonably estimable.

Goodwill and Intangible Impairment—We account for goodwill in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"), which requires annual impairment testing of goodwill for each of our reporting units. 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 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 have been below our expectations. Additionally, the LTL sector in 2008 has been 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 2007 or 2006.

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. In accordance with Statement of Financial Accounting Standards No. 144 “Accounting for the Impairment or Disposal of Long-Lived Assets” (“FAS 144”), 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 a 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 an 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 2007 or 2006.

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.

Pension and Postretirement Medical Benefits—As discussed in Note 5 to our consolidated financial statements, we maintain several defined benefit and postretirement benefit plans. Our pension and other postretirement benefit costs are calculated using various actuarial assumptions and methodologies as prescribed by Statement of Financial Accounting Standards No. 87, “Employers’ Accounting for Pensions” and Statement of Financial Accounting Standards No. 106, “Employers’ Accounting for Postretirement Benefits Other than

Pensions." These assumptions include discount rates, health care cost trend rates, inflation, rate of compensation increases, 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 2008 (in millions):

	25 Basis Point Increase	25 Basis Point Decrease
Pension Plans		
Discount Rate:		
Effect on net periodic benefit cost	$ (44)	$ 52
Effect on projected benefit obligation	(605)	639
Return on Assets:		
Effect on net periodic benefit cost	(42)	42
Postretirement Medical Plans		
Discount Rate:		
Effect on net periodic benefit cost	(7)	6
Effect on accumulated postretirement benefit obligation	(80)	82
Health Care Cost Trend Rate:		
Effect on net periodic benefit cost	2	(3)
Effect on accumulated postretirement benefit obligation	25	(26)

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, 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.

Our assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with FAS 157. 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.

The following is a general description of the valuation methodologies used for financial assets and liabilities measured at fair value, including the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Derivative Contracts—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.

Marketable Securities—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. These valuations may be revised in future periods as market conditions evolve. These securities were valued as of December 31, 2008 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.

Other Investments—Financial assets and liabilities utilizing Level 3 inputs include our holdings in certain investment partnerships. 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.

Depreciation, Residual Value, and Impairment of Fixed Assets—As of December 31, 2008, we had $18.265 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 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.

In accordance with the provisions of FAS 144, 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).

We continually monitor our aircraft fleet utilization in light of current and projected volume levels, aircraft fuel prices, and other factors. Changes in any of these factors, including a continuation of the rapid economic decline experienced in the second half of 2008, could result in modifications to our current aircraft fleet plan. Such modifications could result in a reduction in the expected useful life of an aircraft type or in impairment losses related to the early retirement of particular aircraft.

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.

During 2006, we reevaluated the anticipated service lives of our Boeing 757, Boeing 767, and Airbus A300 fleets, and as a result of this evaluation, increased the depreciable lives from 20 to 30 years and reduced the residual values from 30% to 10% of original cost. This change did not have a material effect on our results of operations.

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.

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. In the first quarter of 2007, we adopted FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes—an interpretation of SFAS No. 109” (“FIN 48”), and related guidance (see Note 13 in the consolidated financial statements). As a result of the implementation of FIN 48, we recognize liabilities for uncertain tax positions based on a two-step process prescribed in the interpretation. 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. 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 would result in the recognition of a tax benefit or an additional charge to the tax provision.

Accounts Receivable—We utilize the reserve method for recognizing bad debt expense associated with our accounts receivable. This 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, 2008 and 2007 was $155 and $163 million, respectively. Our total provision for doubtful accounts charged to expense during the years ended December 31, 2008, 2007, and 2006 was $277, $225, and $159 million, respectively.

Forward-Looking Statements

"Management's Discussion and Analysis of Financial Condition and Results of Operations" and other parts of this report contain "forward-looking" statements about matters that inherently are difficult to predict. The words "believes," "expects," "anticipates," "we see," and similar expressions are intended to identify forward-looking statements. These statements include statements regarding our intent, belief and current expectations about our strategic direction, prospects and future results. We have described some of the important factors that affect these statements as we discussed each subject. Forward-looking statements involve risks and uncertainties, and certain factors may cause actual results to differ materially from those contained in the forward-looking statements.

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 foreign exchange, interest rate, equity and commodity forward contracts, options, and swaps.

The following analysis provides quantitative information regarding our exposure to commodity price risk, foreign currency exchange risk, interest rate risk, and equity price risk. 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.

A discussion of our accounting policies for derivative instruments and further disclosures are provided in Note 15 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 use a combination of options contracts to provide partial protection from changing fuel and energy prices. The net fair value of such contracts subject to price risk, excluding the underlying exposures, as of December 31, 2008 and 2007 was an asset (liability) of $0 and $(179) million, respectively. The potential loss in the fair value of these derivative contracts, assuming a hypothetical 10% adverse change in the underlying commodity price, would be approximately $0 and $42 million at December 31, 2008 and 2007, respectively. This amount excludes the offsetting impact of the price risk inherent in the physical purchase of the underlying commodities.

In the fourth quarter of 2008, we terminated several energy derivatives and received $87 million in cash. Additionally, in the second quarter of 2006, we terminated several energy derivatives and received $229 million in cash. These transactions are 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. The hedges that were terminated in the fourth quarter of 2008 will be recognized in the income statement 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 cash flow currency exposures. These derivative instruments generally cover forecasted foreign currency exposures for periods of 12 to 24 months. As of December 31, 2008 and 2007, the net fair value of the hedging instruments described above was an asset (liability) of $241 and $(42) million, respectively. The potential loss in fair value for such instruments from a hypothetical 10% adverse change in quoted foreign currency exchange rates would be approximately $239 and $387 million at December 31, 2008 and 2007, respectively. This sensitivity analysis assumes a parallel shift in the foreign currency exchange rates. Exchange rates rarely move in the same direction. The assumption that exchange rates change in a parallel fashion may overstate the impact of changing exchange rates on assets and liabilities denominated in a foreign currency.

Interest Rate Risk

As described in Note 8 to the consolidated financial statements, 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 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. These swaps are generally entered into concurrently with the issuance of the debt that they are intended to modify, and 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. The net fair value of our interest rate swaps at December 31, 2008 and 2007 was a liability of $388 and $94 million, respectively.

Our floating rate debt and interest rate swaps subject us to risk resulting from changes in short-term (primarily LIBOR) interest rates. The potential change in annual interest expense resulting from a hypothetical 100 basis point change in short-term interest rates applied to our floating rate debt and swap instruments (excluding hedges of anticipated debt issuances) at December 31, 2008 and 2007 would be approximately $41 and $100 million, respectively.

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. The potential change in annual investment income resulting from a hypothetical 100 basis point change in interest rates applied to our investments exposed to variable interest rates at December 31, 2008 and 2007 would be approximately $6 and $15 million, respectively.

Additionally, as described in Note 3 to the consolidated financial statements, we hold a portfolio of finance receivables that accrue income at fixed and floating rates of interest. The potential change in the annual income resulting from a hypothetical 100 basis point change in interest rates applied to our variable rate finance receivables at December 31, 2008 and 2007 would be immaterial.

This interest rate sensitivity analysis assumes interest rate changes are instantaneous, parallel shifts in the yield curve. In reality, interest rate changes are rarely instantaneous or parallel. 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.

Equity Price Risk

We hold investments in various common equity securities that are subject to price risk, and for certain of these securities, we utilize options to hedge this price risk. At December 31, 2008 and 2007, the fair value of such investments was $30 and $35 million, respectively. The potential change in the fair value of such investments, assuming a 10% change in equity prices net of the offsetting impact of any hedges, would be approximately $3 and $4 million at December 31, 2008 and 2007.

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.

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, 2008, 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, 2008, 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, 2008, and the related statements of consolidated income, comprehensive income (loss), and cash flows for the year ended December 31, 2008 and our report dated February 27, 2009 expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP

Atlanta, Georgia
February 27, 2009

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, 2008 and 2007, 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, 2008. 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, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

As described in Notes 1, 5, and 13 to the consolidated financial statements, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109)," on January 1, 2007, the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," on January 1, 2006, and the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (an amendment of FASB Statements No. 87, 88, 106, and 132(R))," on December 31, 2006.

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, 2008, 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 27, 2009 expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte & Touche LLP

Atlanta, Georgia
February 27, 2009

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In millions)

	December 31, 2008	December 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 507	$ 2,027
Marketable securities	542	577
Accounts receivable, net	5,547	6,084
Finance receivables, net	480	468
Deferred income tax assets	494	606
Income taxes receivable	167	1,256
Other current assets	1,108	742
Total Current Assets	8,845	11,760
Property, Plant and Equipment, Net	18,265	17,663
Pension and Postretirement Benefit Assets	10	4,421
Goodwill	1,986	2,577
Intangible Assets, Net	511	628
Non-Current Finance Receivables, Net	476	431
Other Non-Current Assets	1,786	1,562
Total Assets	$31,879	$39,042
LIABILITIES AND SHAREOWNERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt and commercial paper	$ 2,074	$ 3,512
Accounts payable	1,855	1,819
Accrued wages and withholdings	1,436	1,414
Dividends payable	—	440
Self-insurance reserves	732	704
Other current liabilities	1,720	1,951
Total Current Liabilities	7,817	9,840
Long-Term Debt	7,797	7,506
Pension and Postretirement Benefit Obligations	6,323	4,438
Deferred Income Tax Liabilities	588	2,620
Self-Insurance Reserves	1,710	1,651
Other Non-Current Liabilities	864	804
Shareowners' Equity:		
Class A common stock (314 and 349 shares issued in 2008 and 2007)	3	3
Class B common stock (684 and 694 shares issued in 2008 and 2007)	7	7
Additional paid-in capital	—	—
Retained earnings	12,412	14,186
Accumulated other comprehensive loss	(5,642)	(2,013)
Deferred compensation obligations	121	137
	6,901	12,320
Less: Treasury stock (2 shares in 2008 and 2007)	(121)	(137)
Total Shareowners' Equity	6,780	12,183
Total Liabilities and Shareowners' Equity	$31,879	$39,042

See notes to consolidated financial statements.

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UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME

(In millions, except per share amounts)

	Years Ended December 31,		
	2008	2007	2006
Revenue	$51,486	$49,692	$47,547
Operating Expenses:			
Compensation and benefits	26,063	31,745	24,421
Repairs and maintenance	1,194	1,157	1,155
Depreciation and amortization	1,814	1,745	1,748
Purchased transportation	6,550	5,902	5,496
Fuel	4,134	2,974	2,655
Other occupancy	1,027	958	938
Other expenses	5,322	4,633	4,499
Total Operating Expenses	46,104	49,114	40,912
Operating Profit	5,382	578	6,635
Other Income and (Expense):			
Investment income	75	99	86
Interest expense	(442)	(246)	(211)
Total Other Income and (Expense)	(367)	(147)	(125)
Income Before Income Taxes	5,015	431	6,510
Income Tax Expense	2,012	49	2,308
Net Income	$ 3,003	$ 382	$ 4,202
Basic Earnings Per Share	$ 2.96	$ 0.36	$ 3.87
Diluted Earnings Per Share	$ 2.94	$ 0.36	$ 3.86

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)

(In millions)

	Years Ended December 31,		
	2008	2007	2006
Net income	$ 3,003	$ 382	$4,202
Change in foreign currency translation adjustment	(119)	190	54
Change in unrealized gain (loss) on marketable securities, net of tax	(69)	(3)	1
Change in unrealized gain (loss) on cash flow hedges, net of tax	143	(318)	(15)
Change in unrecognized pension and postretirement benefit costs, net of tax	(3,597)	323	16
Comprehensive income (loss)	$ (639)	$ 574	$4,258

See notes to consolidated financial statements.

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UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED CASH FLOWS
(In millions)

	Years Ended December 31,		
	2008	2007	2006
Cash Flows From Operating Activities:			
Net income	$ 3,003	$ 382	$ 4,202
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	1,814	1,745	1,748
Pension and postretirement benefit expense	726	513	568
Pension and postretirement benefit contributions	(246)	(687)	(1,625)
Deferred taxes, credits and other	187	(249)	99
Stock compensation expense	516	447	369
Self-insurance reserves	87	69	180
Asset impairment charges	575	221	—
Other (gains) losses	634	243	128
Changes in assets and liabilities, net of effect of acquisitions:			
Accounts receivable	197	(380)	(77)
Income taxes receivable	1,161	(1,191)	17
Other current assets	(144)	(3)	82
Accounts payable	87	(37)	24
Accrued wages and withholdings	44	108	12
Other current liabilities	(184)	56	(120)
Other operating activities	(31)	(114)	(18)
Net cash from operating activities	8,426	1,123	5,589
Cash Flows From Investing Activities:			
Capital expenditures	(2,636)	(2,820)	(3,085)
Proceeds from disposals of property, plant and equipment	147	85	75
Purchases of marketable securities and short-term investments	(3,391)	(9,017)	(9,056)
Sales and maturities of marketable securities and short-term investments	3,113	9,638	9,538
Net (increase) decrease in finance receivables	(49)	(39)	68
Other investing activities	(363)	(46)	120
Net cash (used in) investing activities	(3,179)	(2,199)	(2,340)
Cash Flows From Financing Activities:			
Net change in short-term debt	(2,016)	2,613	(513)
Proceeds from long-term borrowings	3,613	4,094	649
Repayments of long-term borrowings	(2,518)	(198)	(90)
Purchases of common stock	(3,570)	(2,639)	(2,460)
Issuances of common stock	169	174	164
Dividends	(2,219)	(1,703)	(1,577)
Other financing activities	(161)	(44)	(24)
Net cash provided by (used in) financing activities	(6,702)	2,297	(3,851)
Effect Of Exchange Rate Changes On Cash And Cash Equivalents	(65)	12	27
Net Increase (Decrease) In Cash And Cash Equivalents	(1,520)	1,233	(575)
Cash And Cash Equivalents:			
Beginning of period	2,027	794	1,369
End of period	$ 507	$ 2,027	$ 794
Cash Paid During The Period For:			
Interest (net of amount capitalized)	$ 359	$ 248	$ 210
Income taxes	$ 760	$ 1,351	$ 2,061

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, in accordance with EITF 91-9 "Revenue and Expense Recognition for Freight Services in Process".

Forwarding and Logistics—Freight forwarding revenue and the expense related to the transportation of freight is recognized at the time the services are performed, and presented in accordance with EITF 99-19 "Reporting Revenue Gross as a Principal Versus Net as an Agent". 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, in accordance with EITF 91-9.

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.

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 required us to provide $191 million in collateral to the insurance carrier, which is classified as "other non-current assets" on our consolidated balance sheet as of December 31, 2008, and in "other investing activities" in the cash flow statement. This restricted cash is invested in money market funds and similar cash equivalent type assets.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Marketable Securities

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 shareowners' equity. The amortized cost of debt securities is adjusted for amortization of 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.

Investment securities are reviewed for impairment in accordance with FASB Statement No. 115 "Accounting for Certain Investments in Debt and Equity Securities" and FASB Staff Position ("FSP") 115-1 "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." 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

We utilize the reserve method for recognizing bad debt expense associated with our accounts receivable. This requires us to make our best estimate of the probable losses in our customer receivables at each balance sheet date. These estimates consider 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 total allowance for doubtful accounts as of December 31, 2008 and 2007 was $155 and $163 million, respectively. Our total provision for doubtful accounts charged to expense during the years ended December 31, 2008, 2007, and 2006 was $277, $225, and $159 million, respectively.

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—5 to 15 years; Aircraft—12 to 30 years; Buildings—20 to 40 years; Leasehold Improvements—terms of leases; Plant Equipment—6 to 10 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. During 2006, we reevaluated the anticipated service lives of our Boeing 757, Boeing 767, and Airbus A300 fleets, and as a result of this evaluation, increased the depreciable lives from 20 to 30 years and reduced the residual values from 30% to 10% of original cost. This change did not have a material effect on our results of operations.

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 $48, $67, and $48 million for 2008, 2007, and 2006, respectively.

Impairment of Long-Lived Assets

In accordance with the provisions of FASB Statement No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," 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.

Goodwill and Intangible Assets

Costs of purchased businesses in excess of net assets acquired (goodwill), and intangible assets are accounted for under the provisions of FASB Statement No. 142 "Goodwill and Other Intangible Assets" ("FAS 142"). Under FAS 142, we are required to test all goodwill 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.

Income Taxes

Income taxes are accounted for under FASB Statement No. 109, "Accounting for Income Taxes" ("FAS 109"). FAS 109 is 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, FAS 109 generally considers 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.

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. 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 would 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 of $46, $26, and $23 million in 2008, 2007 and 2006, respectively.

Stock-Based Compensation

Stock-based compensation is accounted for under FASB Statement No. 123 (revised 2004), "Share-Based Payment" ("FAS 123(R)"). FAS 123(R), which was adopted on January 1, 2006 using the modified-prospective transition method, requires all share-based awards to employees 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). Prior to January 1, 2006, we accounted for stock-based compensation under the recognition and measurement provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation". 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. For awards that specify an employee vests in the award upon retirement, we accounted for the awards using the nominal vesting period approach prior to the adoption of FAS 123(R). Under this approach, we record compensation expense over the nominal vesting period. If the employee retires before the end of the nominal vesting period, any remaining unrecognized compensation expense is recorded at the date of retirement.

Upon our adoption of FAS 123(R), we revised our approach to apply the non-substantive vesting period approach to all new share-based compensation awards. Under this approach, 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. We continue to apply the nominal vesting period approach for any awards granted prior to January 1, 2006, and for the remaining portion of the then unvested outstanding awards.

If we had accounted for all share-based compensation awards granted prior to January 1, 2006 under the non-substantive vesting period approach, the impact to our net income and earnings per share would have been immaterial for all prior periods.

Derivative Instruments

Derivative instruments are accounted for in accordance with FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"), as amended, which requires all financial derivative instruments to be 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, 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.

New Accounting Pronouncements

In June 2007, the EITF reached consensus on Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards." EITF 06-11 requires that the tax benefit related to dividend equivalents paid on restricted stock units, which are expected to vest, be recorded as an increase to additional paid-in capital. EITF 06-11 is applied prospectively for tax benefits on dividends declared in fiscal years beginning after December 15, 2007. We adopted the provisions of EITF 06-11 beginning in the first quarter of 2008. This adoption did not have a material impact on our results of operations or financial condition.

In December 2007, the FASB issued Statement No. 141(R) "Business Combinations" ("FAS 141(R)"). FAS 141(R) requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to disclose in its financial statements the information needed to evaluate and understand the nature and financial effect of the business combination. FAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The impact of FAS No. 141(R) on our consolidated financial statements will depend upon the nature, terms and size of the acquisitions we consummate after the effective date.

In December 2007, the FASB issued Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51" ("FAS 160"). FAS 160 requires reporting entities to present noncontrolling (minority) interests as equity (as opposed to as a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. As of December 31, 2008, we had approximately $5 million in noncontrolling interests classified in other non-current liabilities. FAS 160 applies prospectively as of January 1, 2009, except for the presentation and disclosure requirements which will be applied retrospectively for all periods presented.

In March 2008, the FASB issued Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" ("FAS 161"), which requires additional disclosures about the objectives of derivative instruments and hedging activities, the method of accounting for such instruments under FAS 133 and its related interpretations, and a tabular disclosure of the effects of such instruments and related hedged items on our financial position, financial performance, and cash flows. We adopted FAS 161 on January 1, 2009. FAS 161 only impacts our disclosures, and does not impact our financial position, results of operations, or cash flows. These new disclosures will be required for us beginning in our Form 10-Q for the quarter ended March 31, 2009.

In October 2008, the FASB issued Staff Position No. FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active" ("FSP 157-3"). FSP 157-3 clarifies the application of FAS 157, which we adopted as of January 1, 2008, in cases where a market is not active. We have considered the guidance provided by FSP 157-3 in our determination of estimated fair values as of December 31, 2008, and the impact was not material.

In December 2008, the FASB issued FSP FAS 132(R)-1, "Employers' Disclosure about Postretirement Benefit Plan Assets", which amends Statement 132(R) to require more detailed disclosures about employers' pension plan assets. New disclosures will include more information on investment strategies, major categories of assets, concentrations of risk within plan assets, and valuation techniques used to measure the fair value of plan assets. This new standard requires new disclosures only, and will have no impact on our consolidated financial position, results of operations, or cash flows. These new disclosures will be required for us beginning in our Form 10-K for the year ending December 31, 2009.

Changes in Presentation

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

NOTE 2. MARKETABLE SECURITIES

The following is a summary of marketable securities classified as available-for-sale at December 31, 2008 and 2007 (in millions):

	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
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 securities	2	—	—	2
Preferred equity securities	26	—	13	13
Common equity securities	2	—	—	2
Current marketable securities	559	10	27	542
Non-current marketable securities:				
Asset-backed debt securities	150	—	34	116
U.S. state and local municipal debt securities	116	—	29	87
Preferred equity securities	21	—	8	13
Common equity securities	25	3	—	28
Non-current marketable securities	312	3	71	244
Total marketable securities	$871	$ 13	$ 98	$ 786

	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
2007				
U.S. government and agency debt securities	$ 59	$ 2	$ —	$ 61
Mortgage and asset-backed debt securities	251	2	2	251
Corporate debt securities	152	2	—	154
U.S. state and local municipal debt securities	4	—	—	4
Other debt securities	2	—	—	2
Preferred equity securities	103	—	—	103
Common equity securities	2	—	—	2
Current marketable securities	573	6	2	577
Non-current common equity securities	25	8	—	33
Total marketable securities	$598	$ 14	$ 2	$ 610

The gross realized gains on sales of marketable securities totaled $19, $23, and $12 million in 2008, 2007, and 2006, respectively. The gross realized losses totaled $10, $9, and $21 million in 2008, 2007, and 2006, respectively. Impairment losses recognized on marketable securities and short-term investments totaled $23 million during 2008 (discussed further below), with no such losses recognized in 2007 or 2006.

At December 31, 2008, we held $287 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. Substantially all of our investments in auction rate securities maintain ratings of A / A1 or higher by Standard and Poor's and 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 have classified all of our investments in auction rate securities to non-current marketable securities (which are reported in "Other Non-Current Assets" on the consolidated balance sheet), as noted in the table above, as of December 31, 2008. 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 $47 million on these securities as of December 31, 2008 in other comprehensive income ($71 million pre-tax), reflecting the decline in the estimated fair value of these securities.

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 followed actions by the U.S. Treasury Department and the Federal Housing Finance Agency with respect to FNMA and FHLMC. 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. We do not hold any other securities issued by 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, 2008. 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 length of time the investments have been in an unrealized loss position, the probability that we will be unable to collect 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.

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, 2008 (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	$ 12	$ —	$—	$ —	$ 12	$ —
Mortgage and asset-backed securities	179	41	31	4	210	45
Corporate securities	43	2	5	1	48	3
U.S. state and local municipal securities	81	29	—	—	81	29
Other debt securities	—	—	—	—	—	—
Total debt securities	315	72	36	5	351	77
Common equity securities	1	—	—	—	1	—
Preferred equity securities	26	21	—	—	26	21
	$ 342	$ 93	$ 36	$ 5	$378	$ 98

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.

The amortized cost and estimated fair value of marketable securities and short-term investments at December 31, 2008, 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	$ 21	$ 21
Due after one year through three years	160	162
Due after three years through five years	27	26
Due after five years	589	521
	797	730
Equity securities	74	56
	$871	$ 786

NOTE 3. FINANCE RECEIVABLES

The following is a summary of finance receivables at December 31, 2008 and 2007 (in millions):

	2008	2007
Commercial term loans	$420	$351
Investment in finance leases	126	143
Asset-based lending	345	309
Receivable factoring	90	109
Gross finance receivables	981	912
Less: Allowance for credit losses	(25)	(13)
Balance at December 31	$956	$899

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Outstanding receivable balances at December 31, 2008 and 2007 are net of unearned income of $26 and $30 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, 2008 and 2007 (in millions):

	2008	2007
Customer receivable balances	$ 90	$109
Less: Amounts due to client	(62)	(74)
Net funds employed	$ 28	$ 35

Non-earning finance receivables were $94 and $42 million at December 31, 2008 and 2007, respectively, of which $57 and $19 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):

	2008	2007
Balance at January 1	$ 13	$ 22
Provisions charged to operations	28	2
Charge-offs, net of recoveries	(16)	(11)
Balance at December 31	$ 25	$ 13

The carrying value of finance receivables at December 31, 2008, 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.

	Carrying Value
Due in one year or less	$ 487
Due after one year through three years	68
Due after three years through five years	32
Due after five years	394
	$ 981

Based on interest rates for financial instruments with similar terms and maturities, the estimated fair value of finance receivables is approximately $957 and $895 million as of December 31, 2008 and 2007, respectively. At December 31, 2008, we had unfunded loan commitments totaling $885 million, consisting of standby letters of credit of $136 million and other unfunded lending commitments of $749 million.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

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

	2008	2007
Vehicles	$ 5,508	$ 5,295
Aircraft (including aircraft under capitalized leases)	14,564	13,541
Land	1,068	1,056
Buildings	2,836	2,837
Building and leasehold improvements	2,702	2,604
Plant equipment	5,720	5,537
Technology equipment	1,620	1,699
Equipment under operating leases	136	153
Construction-in-progress	944	889
	35,098	33,611
Less: Accumulated depreciation and amortization	(16,833)	(15,948)
	$ 18,265	$ 17,663

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 Statements of Consolidated Income, of which $159 million impacted our U.S. Domestic Package segment and $62 million impacted our International Package segment. No impairments of aircraft or other long-lived assets were recognized in 2008 or 2006.

We continually monitor our aircraft fleet utilization in light of current and projected volume levels, aircraft fuel prices, and other factors. Changes in any of these factors, including a continuation of the rapid economic decline experienced in the second half of 2008, could result in modifications to our current aircraft fleet plan. Such modifications could result in a reduction in the expected useful life of an aircraft type or in impairment losses related to the early retirement of particular aircraft.

NOTE 5. EMPLOYEE BENEFIT PLANS

We sponsor various retirement and pension plans, including defined benefit and defined contribution plans which cover our employees worldwide. In the U.S. we maintain the following defined benefit pension plans: UPS Retirement Plan, UPS Pension Plan, UPS IBT Pension Plan, and one non-qualified plan, the UPS Excess Coordinating Benefit Plan.

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.

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

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. Additionally, retirement benefits for certain participants are determined by an earnings-based formula.

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 their domestic subsidiary company or 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.

Our national master agreement with the International Brotherhood of Teamsters (“Teamsters”) allowed us, upon ratification, to withdraw employees from the Central States, Southeast and Southwest Areas Pension Fund (“Central States Pension Fund”), a multi-employer pension plan, and to establish a jointly trusteed single-employer plan (“UPS IBT Pension Plan”) for this group of employees. We recorded a pre-tax charge of $6.100 billion to establish our withdrawal liability upon ratification of the national master agreement, and made a $6.100 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 long-term deferred tax liabilities.

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.

In September 2006, the FASB issued Statement No. 158 “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans (an amendment of FASB Statements No. 87, 88, 106, and 132(R))” (“FAS 158”). This statement requires us to recognize the funded status of defined benefit pension and other postretirement plans as an asset or liability in the balance sheet, and required delayed recognition items, consisting of actuarial gains and losses and prior service costs and credits, to be recognized in other comprehensive income and subsequently amortized to the income statement. On December 31, 2006, we adopted the recognition and disclosure provisions of FAS 158, which resulted in a reduction to AOCI of $2.097 billion and a reduction of long-term deferred tax liabilities of $1.258 billion.

Additionally, we previously utilized the early measurement date option available under Statement No. 87 "Employers' Accounting for Pensions", and we measured the funded status of our plans as of September 30 each year. Under the provisions of FAS 158, 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.

Net Periodic Benefit Cost

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

	U.S. Pension Benefits			U.S. Postretirement Medical Benefits			International Pension Benefits		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Net Periodic Cost:									
Service cost	$ 707	$ 520	$ 474	$ 96	$101	$102	$ 26	$ 31	$ 24
Interest cost	1,051	835	726	202	182	170	31	31	26
Expected return on assets	(1,517)	(1,302)	(1,106)	(49)	(46)	(43)	(35)	(31)	(22)
Amortization of:									
Transition obligation	5	3	3	—	—	—	—	—	—
Prior service cost	184	57	36	(4)	(8)	(8)	1	1	1
Actuarial (gain) loss	8	109	148	20	22	29	—	5	7
Settlements / curtailments	—	—	—	—	3	—	—	—	1
Net periodic benefit cost	$ 438	$ 222	$ 281	$265	$254	$250	$ 23	$ 37	$ 37

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		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Discount rate	6.47%	6.00%	5.75%	6.25%	6.00%	5.75%	5.57%	4.97%	4.93%
Rate of compensation increase	4.50%	4.50%	4.00%	N/A	N/A	N/A	3.64%	3.40%	3.94%
Expected return on assets	8.96%	8.96%	8.96%	9.00%	9.00%	9.00%	7.54%	7.53%	7.67%

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	
	2008	2007	2008	2007	2008	2007
Discount rate	6.75%	6.47%	6.66%	6.25%	6.17%	5.56%
Rate of compensation increase	4.50%	4.50%	N/A	N/A	3.65%	3.64%

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Our pension and other postretirement benefit costs are calculated using various actuarial assumptions and methodologies as prescribed by Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" and Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions." These assumptions include discount rates, expected return on plan assets, health care cost trend rates, inflation, rate of compensation increases, mortality rates, and other factors. Actuarial assumptions are reviewed on an annual basis.

A discount rate is used to determine the present value of our future benefit obligations. For plans in the U.S., Canada, and the U.K., the discount rate is 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, a modification was made to the population from which the bond portfolio was chosen. We believe this change more closely approximates the population from which we would select bonds to settle our pension and postretirement medical benefit obligations. This particular change had an impact of raising the discount rate on average 23 and 17 basis points for the pension benefits and postretirement medical benefits, respectively. Each basis point increase in the discount rate decreases the projected benefit obligation by approximately $24 million and $3 million for pension and postretirement medical benefits, respectively. For all other plans outside the U.S., 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 each year.

An assumption for return on plan assets is used to determine the expected return on asset 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. For our U.S. plans, the 10-year U.S. Treasury yield is the foundation for all other asset class returns, and various risk premiums are added to determine the expected return for each allocation.

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 2008 obligations, future postretirement medical benefit costs were forecasted assuming an initial annual increase of 8.0%, decreasing to 5.0% by the year 2014 and with consistent annual increases at that ultimate level 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):

	1% Increase	1% Decrease
Effect on total of service cost and interest cost	$ 6	$ (6)
Effect on postretirement benefit obligation	91	(94)

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). The measurement date for 2007 was September 30. Under the provisions of FAS 158, we began to use a December 31 measurement date for all of our pension and postretirement benefit plans beginning in 2008.

	U.S. Pension Benefits		U.S. Postretirement Medical Benefits		International Pension Benefits	
	2008	2007	2008	2007	2008	2007
Benefit Obligations:						
Net benefit obligation at beginning of year	$ 15,469	$ 13,558	$ 3,153	$ 2,992	$ 574	$ 551
Service cost	707	520	96	101	26	31
Interest cost	1,051	835	202	182	31	31
Gross benefits paid	(418)	(342)	(192)	(190)	(14)	(11)
Plan participants' contributions	—	—	14	12	2	2
Plan amendments	20	1,722	182	47	—	—
Actuarial (gain)/loss	(782)	(824)	(324)	8	(70)	(95)
Foreign currency exchange rate changes	—	—	—	—	(113)	46
Curtailments and settlements	—	—	—	—	(4)	(6)
Effect of eliminating early measurement date	256	—	34	—	12	—
Other	—	—	1	1	(6)	25
Net benefit obligation at end of year	$ 16,303	$ 15,469	$ 3,166	$ 3,153	$ 438	$ 574
Fair Value of Plan Assets:						
Fair value of plan assets at beginning of year	$ 17,954	$ 15,374	$ 598	$ 551	$ 470	$ 348
Actual return on plan assets	(5,124)	2,445	(145)	73	(83)	37
Employer contributions	120	477	82	152	44	56
Plan participants' contributions	—	—	14	12	2	2
Gross benefits paid	(418)	(342)	(192)	(190)	(14)	(11)
Foreign currency exchange rate changes	—	—	—	—	(103)	32
Curtailments and settlements	—	—	—	—	(4)	6
Effect of eliminating early measurement date	277	—	(8)	—	31	—
Fair value of plan assets at end of year	$ 12,809	$ 17,954	$ 349	$ 598	$ 343	$ 470

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, on a pre-tax basis (in millions):

	U.S. Pension Benefits		U.S. Postretirement Medical Benefits		International Pension Benefits	
	2008	2007	2008	2007	2008	2007
Funded Status:						
Fair value of plan assets	$ 12,809	$ 17,954	$ 349	$ 598	$ 343	$ 470
Benefit obligation	(16,303)	(15,469)	(3,166)	(3,153)	(438)	(574)
Funded status	(3,494)	2,485	(2,817)	(2,555)	(95)	(104)
Employer contributions in the fourth quarter	—	4	—	25	—	24
Net amount recognized at December 31	$ (3,494)	$ 2,489	$ (2,817)	$ (2,530)	$ (95)	$ (80)
Amounts Recognized in AOCI:						
Unrecognized net transition obligation	4	9	—	—	—	—
Unrecognized net prior service cost / (benefit)	2,017	2,197	137	(51)	10	13
Unrecognized net actuarial loss	5,963	113	534	683	42	5
Net unrecognized cost at December 31	$ 7,984	$ 2,319	$ 671	$ 632	$ 52	$ 18
Amounts Recognized in our Balance Sheet:						
Pension and postretirement benefit assets	$ —	$ 4,406	$ —	$ —	$ 10	$ 15
Other current liabilities	(10)	(36)	(78)	(65)	(5)	(3)
Pension and postretirement benefit obligations	(3,484)	(1,881)	(2,739)	(2,465)	(100)	(92)
Net asset (liability) at December 31	$ (3,494)	$ 2,489	$ (2,817)	$ (2,530)	$ (95)	$ (80)

The accumulated benefit obligation for our pension plans as of the measurement dates in 2008 and 2007 was $15.301 and $14.419 billion, respectively.

Employer contributions and benefits paid under the pension plans include $24 and $19 million paid from employer assets in 2008 and 2007, respectively. Employer contributions and benefits paid (net of participant contributions) under the postretirement medical benefit plans include $81 and $80 million paid from employer assets in 2008 and 2007, respectively.

As a result of losses experienced in the global equity markets, our U.S. domestic pension plans experienced a negative return on assets of approximately 26% in 2008. This negative return on assets, combined with a change in the discount rate, will increase pension costs by approximately $121 million in 2009 compared to 2008. The negative return on assets also had a significant adverse impact on shareowners' equity in 2008, as the unrealized pension losses reduced AOCI by $3.717 billion, after-tax.

At the respective measurement dates in 2008 and 2007, 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	
	2008	2007
U.S. Pension Benefits		
Projected benefit obligation	$ 4,274	$ 1,920
Accumulated benefit obligation	4,249	1,883
Fair value of plan assets	1,908	—
International Pension Benefits		
Projected benefit obligation	$ 165	$ 180
Accumulated benefit obligation	137	150
Fair value of plan assets	89	99

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 2009 are as follows (in millions):

	U.S. Pension Benefits	U.S. Postretirement Medical Benefits	International Pension Benefits
Transition obligation	$ 4	$ —	$ —
Prior service cost / (benefit)	178	6	1
Actuarial loss	46	14	2
	$ 228	$ 20	$ 3

Plan Asset Investment Policy

The asset allocation for our U.S. pension and other postretirement plans as of the respective measurement dates in 2008 and 2007, and the target allocation as of December 31, 2008, by asset category, are as follows:

	Weighted Average Target Allocation	Percentage of Plan Assets	
	2008	2008	2007
Equity securities	45% – 60%	44.2%	59.0%
Debt securities	20% – 35%	31.0%	25.0%
Real estate / other	10% – 25%	24.8%	16.0%
Total		100.0%	100.0%

Equity securities include UPS Class A shares of common stock in the amounts of $338 million (2.6% of total plan assets) and $460 million (2.5% of total plan assets), as of December 31, 2008 and September 30, 2007, respectively.

The applicable benefit plan committees establish investment guidelines and strategies, and regularly monitor the performance of the funds and portfolio managers. 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, without undue exposure to risk; and protect the assets from erosion of purchasing power, and (2) provide investment results that meet or exceed the plans' actuarially assumed long-term rate of return.

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:			
2009 (expected) to plan trusts	$ 778	$ —	$ 29
2009 (expected) to plan participants	11	81	5
Expected Benefit Payments:			
2009	$ 462	$ 184	$ 13
2010	535	199	14
2011	612	217	15
2012	696	229	16
2013	783	247	18
2014 - 2018	5,457	1,355	99

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.

Other Plans

We also contribute to several multi-employer pension plans for which the previous disclosure information is not determinable. Amounts charged to operations for pension contributions to these multi-employer plans were $1.069, $7.642, and $1.405 billion during 2008, 2007, and 2006, respectively. The 2007 amount includes the $6.100 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 previous disclosure information is not determinable. Amounts charged to operations for contributions to multi-employer health and welfare plans were $990, $919, and $862 million during 2008, 2007, and 2006, respectively.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 Company matches, in shares of UPS common stock or cash, a portion of the participating employees' contributions. Matching contributions charged to expense were $116, $128, and $113 million for 2008, 2007, and 2006, respectively. In early 2009, we suspended the company matching contributions to the primary employee defined contribution plan.

Contributions are also made to defined contribution money purchase plans under certain collective bargaining agreements. Amounts charged to expense were $78, $72, and $62 million for 2008, 2007, and 2006, respectively.

NOTE 6. 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, 2006 balance	$ —	$ 290	$ 2,243	$ 2,533
Acquired	—	—	2	2
Currency / Other	—	5	37	42
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

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 operating results of these acquired businesses are not material to the International Package segment. The currency / other balance includes the translation effect on goodwill from fluctuations in currency exchange rates, as well as escrow reimbursements and the resolution of certain tax contingencies from acquisitions completed previously.

We test our goodwill for impairment annually, as of October 1st, on a reporting unit basis in accordance with FAS 142. 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 has been 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 2007 or 2006.

The following is a summary of intangible assets at December 31, 2008 and 2007 (in millions):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted-Average Amortization Period (in years)
December 31, 2008:				
Trademarks, licenses, patents, and other	$ 47	$ (40)	$ 7	4.6
Customer lists	113	(48)	65	8.9
Franchise rights	110	(41)	69	20.0
Capitalized software	1,728	(1,358)	370	3.2
Total Intangible Assets, Net	$ 1,998	$ (1,487)	$ 511	4.5
December 31, 2007:				
Trademarks, licenses, patents, and other	$ 75	$ (54)	$ 21	
Customer lists	162	(40)	122	
Franchise rights	110	(35)	75	
Capitalized software	1,663	(1,253)	410	
Total Intangible Assets, Net	$ 2,010	$ (1,382)	$ 628	

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. In accordance with FAS 144, 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. 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 a 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 an 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.

Amortization of intangible assets was $202, $236, and $255 million during 2008, 2007 and 2006, respectively. Expected amortization of finite-lived intangible assets recorded as of December 31, 2008 for the next five years is as follows (in millions): 2009—$197; 2010—$138; 2011—$77; 2012—$20; 2013—$17. 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. BUSINESS ACQUISITIONS AND DISPOSITIONS

In December 2004, we agreed with Sinotrans Air Transportation Development Co., Ltd. ("Sinotrans") to acquire direct control of the international express operations in 23 cities within China, and to purchase Sintotrans' interest in our current joint venture in China. As of December 31, 2006, we had made all cash payments under the purchase agreement, a total of $114 million, and had taken direct control of operations in all 23 locations. The operations acquired are reported within our International Package reporting segment.

Pro forma results of operations have not been presented for this acquisition because the effects of this transaction were not material. The results of operations are included in our statements of consolidated income from the date of acquisition. The purchase price allocations of acquired companies can be modified up to one year after the date of acquisition. No purchase price adjustments were made during 2008.

NOTE 8. DEBT OBLIGATIONS AND COMMITMENTS

Debt obligations, as of December 31, consist of the following (in millions):

	2008	2007
8.38% debentures	$ 741	$ 761
4.50% senior notes	1,739	—
5.50% senior notes	745	—
6.20% senior notes	1,479	—
Commercial paper	2,922	7,366
Floating rate senior notes	438	441
Capital lease obligations	425	479
Facility notes and bonds	433	435
UPS Notes	198	513
Pound Sterling notes	730	989
Other debt	21	34
Total debt	9,871	11,018
Less current maturities	(2,074)	(3,512)
Long-term debt	$ 7,797	$ 7,506

8.38% 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 8.38% debentures due 2020 until April 1, 2020, and, thereafter, the interest rate will be 7.62% 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. The fixed obligations associated with the debentures were previously swapped to floating rates, based on six month LIBOR plus a spread. Including the effect of the swaps, the average interest rate paid on the debentures for 2007 was 7.99%. The swaps were subsequently terminated, and the average interest rate paid on the debt in 2008 was 8.38%.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

4.50%, 5.50%, and 6.25% 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.

Commercial Paper:

The weighted average interest rate on the commercial paper outstanding as of December 31, 2008 and 2007, was 0.55% and 4.36%, respectively. As of December 31, 2008, we have 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. At December 31, 2007, we had classified $4.0 billion of our commercial paper balance as long-term debt, due to the issuance of fixed rate notes subsequent to December 31, 2007. The amount of commercial paper outstanding in 2009 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, 2008. 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, 2008.

Floating Rate Senior Notes:

The floating rate senior notes bear interest at one-month LIBOR less 45 basis points. The average interest rates for 2008 and 2007 were 2.48% and 4.85%, 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):

	2008	2007
Aircraft	$2,571	$2,573
Accumulated amortization	(491)	(416)
	$2,080	$2,157

These capital lease obligations have principal payments due at various dates from 2009 through 2021.

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, KY; Dallas, TX; Philadelphia, PA; and Dayton, OH. 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, KY. The bonds, which are due in January 2029, bear interest at a variable rate, and the average interest rates for 2008 and 2007 were 1.86% and 3.62%, respectively.
- Bonds with a principal balance of $43 million issued by the Louisville Regional Airport Authority associated with our air freight facility in Louisville, KY. 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 2008 and 2007 were 2.11% and 3.62%, respectively.
- Bonds with a principal balance of $29 million issued by the Dallas / Forth Worth International Airport Facility Improvement Corporation associated with our Dallas, TX 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, PA airport facilities. The bonds, which are due in December 2015, bear interest at a variable rate, and the average interest rates for 2008 and 2007 were 1.75% and 3.54%, respectively.
- Bonds with a principal balance of $108 million issued by the city of Dayton, OH associated with our Dayton airport facility, $62 million of which is due in 2009 and the remaining $46 million is due in 2018. The balance due in 2018 became callable beginning in 2008. The bond principal due in 2018 bears interest at a fixed rate of 5.63%, while the bond principal due in 2009 bears interest at fixed rates ranging from 6.05% to 6.20%.

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, 2008, 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 2009 to 2027. Substantially all of the fixed obligations associated with the notes were swapped to floating rates, based on different LIBOR indices plus or minus a spread. The average interest rate payable on the swaps for 2008 and 2007 was 2.48% and 4.83%, respectively.

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 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 accounted for the exchange in accordance with EITF 96-19 “Debtor’s Accounting for a Modification or Exchange of Debt Instruments”, and as such, no gain or loss was recognized upon the completion of this transaction.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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%.

Other Information

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 $10.287 and $11.238 billion as of December 31, 2008 and 2007, respectively.

We lease certain aircraft, facilities, 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 $834, $896, and $912 million for 2008, 2007, and 2006, 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
2009	$ 83	$ 344	$ 2,007	$ 708
2010	121	288	18	658
2011	29	217	5	667
2012	30	147	22	406
2013	31	109	1,768	—
After 2013	246	423	5,658	—
Total	540	$ 1,528	$ 9,478	$ 2,439
Less: imputed interest	(115)			
Present value of minimum capitalized lease payments	425			
Less: current portion	(65)			
Long-term capitalized lease obligations	$ 360			

As of December 31, 2008, we had outstanding letters of credit totaling approximately $2.132 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, 2008, we had $262 million of surety bonds written.

We maintain two credit agreements with a consortium of banks. One of these agreements provides revolving credit facilities of $4.5 billion, and expires on April 16, 2009. The second agreement provides revolving credit facilities of $1.0 billion, and expires on April 19, 2012. Interest on any amounts we borrow under these facilities would be charged at 90-day LIBOR plus 15 basis points. At December 31, 2008, there were no outstanding borrowings under these facilities.

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. These covenants limit the amount of secured indebtedness that may be incurred by the company, and limit the amount of sale-leaseback transactions that the company may engage in, to 10% of net tangible assets each. As of December 31, 2008 and for all prior periods, we have satisfied these financial covenants. As of December 31, 2008, 10% of net tangible assets is equivalent to $2.156 billion, however we have no qualifying sale-leaseback transactions or secured indebtedness outstanding. We do not expect these covenants to have a material impact on financial condition or liquidity.

NOTE 9. 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 June 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 plaintiff 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 April 29, 2008. 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 the Company's Petition to hear the appeal of the trial court's certification order. Oral argument took place in November 2008. The appeal will likely take one year. 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 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. 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.

UPS Freight, along with several other companies involved in the LTL freight business, is a defendant in a Multi-District Litigation pending in the United States District Court for the Northern District of Georgia. The lawsuits allege that the defendants conspired to fix fuel surcharge rates, and they seek injunctive relief, treble damages and attorneys' fees. We have denied any liability with respect to these claims and intend to vigorously defend ourselves in these cases, and defendants' motion to dismiss is pending for decision by the Court. These cases are at a preliminary stage and 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, 2008, we had approximately 260,000 employees employed under a national master agreement and various supplemental agreements with local unions affiliated with the Teamsters. In September 2007, we reached a new national master agreement with the Teamsters, which was ratified in December 2007. The new agreement provides for wage increases as well as contributions to healthcare and pension plans, and most economic provisions of the new five year agreement took effect on August 1, 2008, with the exception of our withdrawal from the Central States Pension Fund which occurred in 2007. We have approximately 2,900 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 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 (approximately 3,000). These agreements run through July 31, 2009.

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.

NOTE 10. 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, 2008, 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, with no par value, authorized to be issued; as of December 31, 2008, no preferred shares had been issued.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	2008		2007		2006	
	Shares	Dollars	Shares	Dollars	Shares	Dollars
Class A Common Stock						
Balance at beginning of year	349	$ 3	401	$ 4	454	$ 5
Common stock purchases	(11)	—	(18)	(1)	(17)	—
Stock award plans	6	—	3	—	3	—
Common stock issuances	3	—	3	—	2	—
Conversions of Class A to Class B common stock	(33)	—	(40)	—	(41)	(1)
Class A shares issued at end of year	314	$ 3	349	$ 3	401	$ 4
Class B Common Stock						
Balance at beginning of year	694	$ 7	672	$ 7	646	$ 6
Common stock purchases	(43)	—	(18)	—	(15)	—
Conversions of Class A to Class B common stock	33	—	40	—	41	1
Class B shares issued at end of year	684	$ 7	694	$ 7	672	$ 7
Additional Paid-In Capital						
Balance at beginning of year		$ —		$ —		$ —
Stock award plans		497		462		371
Common stock purchases		(694)		(627)		(539)
Common stock issuances		197		165		168
Balance at end of year		$ —		$ —		$ —
Retained Earnings						
Balance at beginning of year		$ 14,186		$ 17,676		$ 17,037
Net income		3,003		382		4,202
Cumulative adjustment for accounting changes		(60)		(104)		—
Dividends ($1.80, $1.68, and $1.52 per share)		(1,853)		(1,778)		(1,647)
Common stock purchases		(2,864)		(1,990)		(1,916)
Balance at end of year		$ 12,412		$ 14,186		$ 17,676

On January 1, 2007, we adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109", which resulted in a reduction to retained earnings of $104 million (discussed further in Note 13). On January 1, 2008, we recognized a $44 million reduction to retained earnings as a result of changing our measurement date under FAS 158, which is discussed further in Note 5. Also on January 1, 2008, we recognized a $16 million reduction to retained earnings as a result of adopting FAS 159, which is discussed further in Note 16.

For the years ended December 31, 2008, 2007 and 2006, we repurchased a total of 53.6, 35.9, and 32.6 million shares of Class A and Class B common stock for $3.558, $2.618, and $2.455 billion, respectively. In January 2008, our Board of Directors authorized an increase in our share 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.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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):

	2008	2007	2006
Foreign currency translation gain (loss):			
Balance at beginning of year	$ 81	$ (109)	$ (163)
Aggregate adjustment for the year	(119)	190	54
Balance at end of year	(38)	81	(109)
Unrealized gain (loss) on marketable securities, net of tax:			
Balance at beginning of year	9	12	11
Current period changes in fair value (net of tax effect of $(33), $4, and $(3))	(78)	6	(4)
Reclassification to earnings (net of tax effect of $5, $(5), and $3)	9	(9)	5
Balance at end of year	(60)	9	12
Unrealized gain (loss) on cash flow hedges, net of tax:			
Balance at beginning of year	(250)	68	83
Current period changes in fair value (net of tax effect of $(33), $(177), and $(4))	(54)	(294)	(7)
Reclassification to earnings (net of tax effect of $118, $(14), and $(5))	197	(24)	(8)
Balance at end of year	(107)	(250)	68
Unrecognized pension and postretirement benefit costs, net of tax:			
Balance at beginning of year	(1,853)	(2,176)	(95)
Reclassification to earnings (net of tax effect of $81, $73, and $0)	133	122	—
Net actuarial gain / loss and prior service cost resulting from remeasurements of plan assets and liabilities (net of tax effect of $(2,235), $111, and $11)	(3,717)	201	16
FAS 158 transition adjustment (net of tax effect $(1,258) in 2006)	—	—	(2,097)
Balance at end of year	(5,437)	(1,853)	(2,176)
Accumulated other comprehensive income (loss) at end of year	$ (5,642)	$ (2,013)	$ (2,205)

As discussed in Note 5, we adopted the recognition and disclosure provisions of FAS 158 on December 31, 2006. The adoption of FAS 158 required us to eliminate the previous minimum pension liability charge to AOCI, and to record a charge, net of tax, to AOCI representing the unrecognized pension and postretirement benefit costs as of December 31, 2006.

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, 2008, 2007, and 2006 is as follows (in millions):

	2008		2007		2006	
	Shares	Dollars	Shares	Dollars	Shares	Dollars
Deferred Compensation Obligations						
Balance at beginning of year		$ 137		$ 147		$ 161
Reinvested dividends		5		4		4
Benefit payments		(21)		(14)		(18)
Balance at end of year		$ 121		$ 137		$ 147
Treasury Stock						
Balance at beginning of year	(2)	$ (137)	(3)	$ (147)	(3)	$ (161)
Reinvested dividends	—	(5)	—	(4)	—	(4)
Benefit payments	—	21	1	14	—	18
Balance at end of year	(2)	$ (121)	(2)	$ (137)	(3)	$ (147)

NOTE 11. STOCK-BASED COMPENSATION

Incentive Compensation Plan

The UPS Incentive Compensation Plan permits the grant of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, performance shares, performance units, and management incentive awards to eligible employees. The number of shares reserved for issuance under the Incentive Compensation Plan is 112 million, with the number of shares reserved for issuance as restricted stock limited to 34 million. As of December 31, 2008, management incentive awards, stock options, restricted performance units, and restricted stock units had been granted under the Incentive Compensation Plan.

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 are 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, 2008, we had the following nonvested 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, 2008	9,982	$ 74.34		
Vested	(2,839)	74.06		
Granted	6,238	46.56		
Reinvested Dividends	314	N/A		
Forfeited / Expired	(255)	73.11		
Nonvested at December 31, 2008	13,440	61.77	2.23	$ 741
RSUs Expected to Vest	12,647	62.13	2.16	$ 698

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 2008, 2007, and 2006 was $46.56, $74.94, and $74.87, respectively. The total fair value of RSUs vested was $141, $145, and $82 million in 2008, 2007, and 2006, respectively. As of December 31, 2008, there was $633 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 7 months.

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 will be 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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, 2008	19,223	$ 66.23		
Exercised	(918)	57.37		
Granted	199	71.58		
Forfeited / Expired	(207)	73.32		
Outstanding at December 31, 2008	18,297	$ 66.65	5.12	$ 5
Exercisable at December 31, 2008	10,163	$ 61.13	3.59	$ 5
Options Expected to Vest	7,907	$ 73.54	6.98	$ —

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:

	2008	2007	2006
Expected dividend yield	2.39%	2.28%	1.80%
Risk-free interest rate	3.79%	4.65%	5.13%
Expected life in years	7.5	7.5	7.0
Expected volatility	22.24%	19.15%	18.42%
Weighted average fair value of options granted	$16.77	$16.85	$21.05

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.

We received cash of $46, $52, and $30 million during 2008, 2007, and 2006, respectively, from option holders resulting from the exercise of stock options. We received a tax benefit of $4, $9, and $12 million during 2008, 2007, and 2006, respectively, from the exercise of stock options. The adoption of FAS 123(R) required us to change the statement of cash flow classification of these tax benefits, and as a result, these tax benefits are reported as cash from financing activities rather than cash from operating activities.

The total intrinsic value of options exercised during 2008, 2007, and 2006 was $13, $31, and $45 million, respectively. As of December 31, 2008, there was $49 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 and 7 months.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2008:

	Options Outstanding			Options Exercisable	
Exercise Price Range	Shares (in thousands)	Average Life (in years)	Average Exercise Price	Shares (in thousands)	Average Exercise Price
\$30.00 - \$50.00	996	0.87	\$49.97	996	\$49.97
\$50.01 - \$60.00	2,300	2.21	56.97	2,300	56.97
\$60.01 - \$70.00	5,166	3.78	61.21	5,166	61.21
\$70.01 - \$80.00	7,568	6.82	71.23	1,385	71.26
\$80.01 - \$120.00	2,267	7.33	80.92	316	80.88
	18,297	5.12	\$66.65	10,163	\$61.13

Restricted Performance Units

We issue restricted performance units ("RPUs") 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, 2008, we had the following nonvested 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, 2008	4,417	\$ 71.50		
Vested	(1,519)	64.36		
Granted	2,287	71.06		
Reinvested Dividends	194	N/A		
Forfeited / Expired	(93)	72.00		
Nonvested at December 31, 2008	5,286	72.88	2.09	\$ 292
RPUs Expected to Vest	4,887	72.96	2.00	\$ 270

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 2008, 2007, and 2006 was \$71.06, \$70.90, and \$80.88, respectively. The total fair value of RPUs vested during 2008, 2007, and 2006 was \$83, \$19, and \$13 million, respectively. As of December 31, 2008, there was \$170 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 6 months.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Discounted Employee Stock Purchase Plan

We maintain an employee stock purchase plan for all eligible employees. Under the plan, shares of UPS class A common stock may be purchased at quarterly intervals at 90% of the lower of the NYSE closing price of UPS class B common stock on the first or the last day of each quarterly period. Employees purchased 1.9, 1.8, and 1.9 million shares at average prices of $55.27, $64.20, and $66.64 per share during 2008, 2007, and 2006, respectively. Compensation cost is measured for the fair value of employees' purchase rights under our discounted employee stock purchase plan using the Black-Scholes option pricing model. In 2009, we modified the employee stock purchase plan whereby shares of UPS class A common stock are now purchased at 95% of the NYSE closing price of UPS class B common stock on the last day of each quarterly period. Under the provisions of FAS 123(R), no compensation cost will be measured for the modified employees' purchase rights.

The weighted average assumptions used and the calculated weighted average fair value of employees' purchase rights granted, are as follows:

	2008	2007	2006
Expected dividend yield	2.59%	2.13%	1.79%
Risk-free interest rate	1.76%	4.60%	4.59%
Expected life in years	0.25	0.25	0.25
Expected volatility	16.81%	16.26%	15.92%
Weighted average fair value of purchase rights*	$ 8.85	$ 9.80	$10.30

* Includes the 10% discount from the market price.

Expected volatilities are based on the historical price volatility on our publicly-traded class B shares. 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 on U.S. Treasury securities at the time of the option grant. The expected life represents the three month option period applicable to the purchase rights.

NOTE 12. 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.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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.

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, short-term investments, and certain real estate investments.

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

	2008	2007	2006
Revenue:			
U.S. Domestic Package	$31,278	$30,985	$ 30,456
International Package	11,293	10,281	9,089
Supply Chain & Freight	8,915	8,426	8,002
Consolidated	$51,486	$49,692	$ 47,547
Operating Profit (Loss):			
U.S. Domestic Package	$ 3,907	$ (1,531)	$ 4,923
International Package	1,580	1,831	1,710
Supply Chain & Freight	(105)	278	2
Consolidated	$ 5,382	$ 578	$ 6,635
Assets:			
U.S. Domestic Package	$18,796	$23,756	$ 19,274
International Package	5,723	5,994	5,496
Supply Chain & Freight	6,775	7,606	7,150
Unallocated	585	1,686	1,290
Consolidated	$31,879	$39,042	$ 33,210
Depreciation and Amortization Expense:			
U.S. Domestic Package	$ 1,031	$ 979	$ 989
International Package	588	546	547
Supply Chain & Freight	195	220	212
Consolidated	$ 1,814	$ 1,745	$ 1,748

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	2008	2007	2006
U.S. Domestic Package:			
Next Day Air	$ 6,559	$ 6,738	$ 6,778
Deferred	3,325	3,359	3,424
Ground	21,394	20,888	20,254
Total U.S. Domestic Package	31,278	30,985	30,456
International Package:			
Domestic	2,344	2,177	1,950
Export	8,294	7,488	6,554
Cargo	655	616	585
Total International Package	11,293	10,281	9,089
Supply Chain & Freight:			
Forwarding and Logistics	6,293	5,911	5,681
Freight	2,191	2,108	1,952
Other	431	407	369
Total Supply Chain & Freight	8,915	8,426	8,002
Consolidated	$ 51,486	$ 49,692	$ 47,547

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

	2008	2007	2006
United States:			
Revenue	$ 38,553	$ 37,741	$ 36,805
Long-lived assets	$ 17,422	$ 21,662	$ 18,659
International:			
Revenue	$ 12,933	$ 11,951	$ 10,742
Long-lived assets	$ 5,136	$ 5,189	$ 4,800
Consolidated:			
Revenue	$ 51,486	$ 49,692	$ 47,547
Long-lived assets	$ 22,558	$ 26,851	$ 23,459

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

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 13. INCOME TAXES

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

	2008	2007	2006
Current:			
U.S. Federal	$1,510	$ 35	$1,674
U.S. State and Local	173	67	217
Non-U.S.	155	107	129
Total Current	1,838	209	2,020
Deferred:			
U.S. Federal	115	(79)	291
U.S. State and Local	4	(36)	33
Non-U.S.	55	(45)	(36)
Total Deferred	174	(160)	288
Total	$2,012	$ 49	$2,308

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

	2008	2007	2006
United States	$4,547	$ (32)	$6,020
Non-U.S.	468	463	490
	$5,015	$431	$6,510

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:

	2008	2007	2006
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%
U.S. state and local income taxes (net of federal benefit)	2.5	0.5	2.2
Non-U.S. tax rate differential	1.0	(21.6)	(1.2)
Nondeductible/nontaxable items	5.1	3.1	1.4
U.S. federal tax credits	(3.0)	(22.0)	(2.0)
Other	(0.5)	16.4	0.1
Effective income tax rate	40.1%	11.4%	35.5%

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.

During the third quarter of 2006, we recognized a $52 million reduction of income tax expense related to favorable developments with certain U.S. federal tax contingency matters involving non-U.S. operations.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	2008	2007
Property, plant and equipment	$3,047	$2,864
Goodwill and intangible assets	694	636
Pension plans	—	693
Other	352	355
Gross deferred tax liabilities	4,093	4,548
Other postretirement benefits	944	890
Pension plans	1,425	—
Loss and credit carryforwards (non-U.S. and state)	264	189
Insurance reserves	617	606
Vacation pay accrual	192	185
Stock compensation	214	165
Other	534	574
Gross deferred tax assets	4,190	2,609
Deferred tax assets valuation allowance	(117)	(56)
Net deferred tax assets	4,073	2,553
Net deferred tax liability	$ 20	$1,995
Amounts recognized in the balance sheet:		
Current deferred tax asset	$ 494	$ 606
Non-current deferred tax asset	$ 74	$ 19
Non-current deferred tax liabilities	$ 588	$2,620

The valuation allowance changed by $(61), $(13), and $11 million during the years ended December 31, 2008, 2007 and 2006, respectively.

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

	2008	2007
U.S. state and local operating loss carryforwards	$ 1,320	$ 1,773
U.S. state and local credit carryforwards	$ 74	$ 68

The operating loss carryforwards expire at varying dates through 2028. 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 $605 million as of December 31, 2008, 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 $1.842 billion at December 31, 2008. 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 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.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 requires 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 FIN 48 on January 1, 2007. The cumulative effect of adopting this standard was to recognize a $104 million decrease in the January 1, 2007 balance of retained earnings.

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

	Tax	Interest	Penalties
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	$355	$ 75	$ 6
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	$388	$ 97	$ 10

The total amount of gross unrecognized tax benefits as of December 31, 2008 and 2007 that, if recognized, would affect the effective tax rate was $206 million and $189 million, respectively. We also had gross recognized tax benefits of $583 million and $567 million recorded as of December 31, 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 $135 million and $116 million for the recognized tax benefits associated with outstanding refund claims as of December 31, 2008 and December 31, 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. As of December 31, 2008, we had substantially resolved all U.S. federal income tax matters for tax years prior to 1999. In February and July 2008, the Internal Revenue Service ("IRS") completed its audit of the tax years 1999 through 2002 and tax years 2003 through 2004, respectively, with only a limited number of issues that will be considered by the IRS Appeals Office by the end of 2009. In late 2008, the IRS began the initial planning phase of the income tax audit for tax years 2005 through 2007. Along with this audit for tax years 2005 through 2007, the IRS is currently examining non-income based taxes, including employment and excise taxes on transportation of property by air and fuel purchases, 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; however, we do not believe that the resolution of this matter would have a material adverse effect on our financial condition, results of operations, or liquidity. With few exceptions, we are no longer subject to U.S. state and local and non-U.S. income tax examinations by tax authorities for tax years prior to 1999, but certain U.S. state and local matters are subject to ongoing 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 14. EARNINGS PER SHARE

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

	2008	2007	2006
Numerator:			
Net income	$3,003	$ 382	$4,202
Denominator:			
Weighted average shares	1,014	1,055	1,082
Deferred compensation obligations	2	2	3
Denominator for basic earnings per share	1,016	1,057	1,085
Effect of dilutive securities:			
Restricted performance units	2	2	1
Restricted stock units	3	2	1
Stock options	1	2	2
Denominator for diluted earnings per share	1,022	1,063	1,089
Basic earnings per share	$ 2.96	$ 0.36	$ 3.87
Diluted earnings per share	$ 2.94	$ 0.36	$ 3.86

Diluted earnings per share for the years ended December 31, 2008, 2007, and 2006 exclude the effect of 11.7, 8.9, and 6.3 million shares, respectively, of common stock that may be issued upon the exercise of employee stock options because such effect would be antidilutive.

NOTE 15. DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT

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 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.

Commodity Price Risk Management

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 use a combination of options contracts to provide partial protection from changing fuel and energy prices. The net fair value of such contracts subject to price risk, excluding the underlying exposures, as of December 31, 2008 and 2007 was an asset (liability) of $0 and $(179) million, respectively. We have designated and account for these contracts as cash flow hedges, and to the extent the hedges remain effective, the resulting gains and losses from these hedges are recognized in the income statement when the underlying fuel or energy product being hedged is consumed.

In the fourth quarter of 2008, we terminated several energy derivatives and received $87 million in cash. Additionally, in the second quarter of 2006, we terminated several energy derivatives and received $229 million in cash. These transactions are 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. The hedges that were terminated in the fourth quarter of 2008 will be recognized in the income statement through the first quarter of 2009.

Foreign Currency Exchange Risk Management

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 currency cash flow exposures. As of December 31, 2008 and 2007, the net fair value of the hedging instruments described above was an asset (liability) of $241 and $(42) million, respectively. 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 occur.

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. These swaps are entered into concurrently with the issuance of the debt that they are intended to modify, and 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.

We have designated and account for these contracts as either hedges of the fair value of the associated debt instruments, or as hedges of the variability in expected future interest payments. Any periodic settlement payments are accrued monthly, as either a charge or credit to interest expense, and are not material to net income. The net fair value of our interest rate swaps at December 31, 2008 and 2007 was a liability of $388 and $94 million, respectively.

Concurrent with the issuance of $4.0 billion in long-term fixed rate notes in January 2008, as discussed further in Note 8, we settled certain derivatives that were designated as hedges of the borrowing costs of the notes offering, resulting in a cash outflow of $84 million (which is reported in “other financing activities” on the cash flow statement). This amount is amortized into expense as an adjustment to the effective yield over the life of the individual bonds that were hedged.

Credit Risk Management

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.

Income Effects of Derivatives

In the context of hedging relationships, “effectiveness” refers to the degree to which fair value changes in the hedging instrument offset corresponding changes in the hedged item. Certain elements of hedge positions cannot qualify for hedge accounting under FAS 133 whether effective or not, and must therefore be marked to market through income. Both the effective and ineffective portions of gains and losses on hedges are reported in the income statement category related to the hedged exposure. Ineffectiveness included in the income statement was a loss of $12 million for 2007, and was immaterial for 2008 and 2006. The elements excluded from the measure of effectiveness were immaterial for 2008, 2007 and 2006.

As of December 31, 2008, $191 million in 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 ending December 31, 2009. 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. No amounts were reclassified to income during 2008 in connection with forecasted transactions that were no longer considered probable of occurring.

At December 31, 2008, the maximum term of derivative instruments that hedge forecasted transactions was 18 months.

NOTE 16. FAIR VALUE DISCLOSURES

Effective January 1, 2008, we adopted Statement No. 157 “Fair Value Measurements” (“FAS 157”), which requires disclosures about our assets and liabilities that are measured at fair value. Further information about such assets and liabilities is presented below. We have not applied the provisions of FAS 157 to non-financial assets, such as our property and equipment, goodwill and certain other assets, which are measured at fair value for impairment assessment, nor to any business combinations or asset retirement obligations. We began to apply the provisions of FAS 157 to these assets and liabilities beginning January 1, 2009, in accordance with FASB Staff Position No. 157-2, “Effective Date of FASB Statement No. 157”.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In February 2007, the FASB issued Statement No. 159 “The Fair Value Option for Financial Assets and Financial Liabilities” (“FAS 159”), which 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, FAS 159 allows for a one-time election for existing positions upon adoption, with the transition adjustment recorded to beginning retained earnings. We adopted FAS 159 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, representing the cumulative effect adjustment of adopting FAS 159. These investments are reported in “other non-current assets” on the consolidated balance sheet.

Our assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with FAS 157. 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.

The following is a general description of the valuation methodologies used for financial assets and liabilities measured at fair value, including the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Marketable Securities – 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. These valuations may be revised in future periods as market conditions evolve. These securities were valued as of December 31, 2008 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.

Derivative Contracts – 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.

Other Investments—Financial assets and liabilities utilizing Level 3 inputs include our holdings in certain investment partnerships. 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 assets and liabilities measured at fair value on a recurring basis as of December 31, 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, 2008
Assets				
Marketable securities	$ 133	$ 437	$ 216	$ 786
Derivative contracts	—	242	—	242
Other investments	—	—	331	331
Total	$ 133	$ 679	$ 547	$ 1,359
Liabilities				
Derivative contracts	$ —	$ 389	$ —	$ 389
Total	$ —	$ 389	$ —	$ 389

The following table presents the changes in Level 3 instruments measured on a recurring basis for the year ended December 31, 2008 (in millions).

	Marketable Securities	Other Investments	Total
Balance on January 1, 2008	$ 10	$ 363	$373
Transfers into (out of) Level 3	347	—	347
Net realized and unrealized gains (losses):			
Included in earnings (in investment income)	(20)	(32)	(52)
Included in accumulated other comprehensive income (pre-tax)	(71)	—	(71)
Purchases, issuances, and settlements	(50)	—	(50)
Balance on December 31, 2008	$ 216	$ 331	$547

NOTE 17. RESTRUCTURING COSTS AND RELATED EXPENSES

In connection with recent acquisitions and integration initiatives, we have incurred restructuring costs associated with the termination of employees, facility consolidations and other costs directly related to the restructuring initiatives implemented. These costs have resulted from the integration of our Menlo Worldwide Forwarding and Lynx acquisitions as well as restructuring activities associated with our Supply Chain Solutions operations. For specific restructuring costs recognized in conjunction with the cost from acquisitions, we have accounted for these costs in accordance with EITF 95-3, "Recognition of Liabilities Assumed in Connection with a Purchase Business Combination." All other restructuring costs have been accounted for in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

Lynx Express Ltd.

In conjunction with our integration of the Lynx business, in 2006 we implemented a series of initiatives to reduce operating costs and maximize the efficiencies of the UPS network in the United Kingdom. These initiatives included closing existing hubs and constructing a consolidated sorting facility as well as establishing a

European shared service center in Poland. As a result of these initiatives, we accrued certain costs related to employee severance, lease terminations and other facility costs, and recorded a reduction in the fair value of certain assets acquired. The restructuring costs that impacted the acquired Lynx business resulted in an adjustment to goodwill of $7 million in 2006. The remaining integration costs for this restructuring program, including facility costs associated with capacity expansion, were recognized as expense when incurred. We completed this integration program in 2008, at which time certain hubs were closed and the new consolidated sorting facility became fully operational.

Supply Chain Solutions

In an effort to rationalize our cost structure and focus on profitable revenue growth, we initiated a restructuring plan for our Supply Chain Solutions forwarding & logistics operations in the fourth quarter of 2006. This restructuring involved a reduction of non-operating expenses by approximately 20%, including a reduction in non-operating staff of approximately 1,400 people. During 2006, $12 million in costs were accrued related to employee severance.

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 included a voluntary termination phase followed by an involuntary termination phase. The employment reduction program was ratified by our company's trade union representatives in France in July 2007 and communicated to employees immediately following the ratification. Employees participating in this program are entitled to severance benefits, including certain bonuses for employees participating in the voluntary termination phase. These severance benefits are formula-driven and are in accordance with French statutory laws as well as the applicable collective bargaining agreements. The employment reduction program resulted in 103 employees accepting the 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 approximately 640 employees who work 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 $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.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 18. QUARTERLY INFORMATION (unaudited)

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2008	2007	2008	2007	2008	2007	2008	2007
Revenue:								
U.S. Domestic Package	$ 7,735	$ 7,552	$ 7,714	$ 7,579	$ 7,841	$ 7,545	$ 7,988	$ 8,309
International Package	2,759	2,385	2,948	2,500	2,949	2,529	2,637	2,867
Supply Chain & Freight	2,181	1,969	2,339	2,110	2,323	2,131	2,072	2,216
Total revenue	12,675	11,906	13,001	12,189	13,113	12,205	12,697	13,392
Operating profit (loss):								
U.S. Domestic Package	959	941	899	1,192	1,117	1,228	932	(4,892)
International Package	421	371	407	475	386	428	366	557
Supply Chain & Freight	113	46	148	98	129	52	(495)	82
Total operating profit (loss)	1,493	1,358	1,454	1,765	1,632	1,708	803	(4,253)
Net income (loss)	$ 906	$ 843	$ 873	$ 1,104	$ 970	$ 1,076	$ 254	$ (2,641)
Earnings (loss) per share:								
Basic	$ 0.87	$ 0.79	$ 0.86	$ 1.04	$ 0.96	$ 1.02	$ 0.25	$ (2.52)
Diluted	$ 0.87	$ 0.78	$ 0.85	$ 1.04	$ 0.96	$ 1.02	$ 0.25	$ (2.52)

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.

First quarter 2007 operating profit includes the aircraft impairment charge of $221 million as discussed in Note 4 ($159 million U.S. Domestic Package and $62 million International Package), and the SVSO charge of $68 million as discussed in Note 17 ($53 million U.S. Domestic Package, $7 million International Package, and $8 million Supply Chain & Freight). The after-tax impact of these two charges reduced first quarter 2007 net income by $184 million, which reduced basic earnings per share by $0.17, and diluted earnings per share by $0.18.

Third quarter 2007 operating profit includes the $46 million charge related to the restructuring of our France forwarding and logistics operations within our Supply Chain & Freight reporting segment, as discussed in Note 17. The after-tax impact of this charge reduced third quarter 2007 net income by $31 million, which reduced basic and diluted earnings per share by $0.03.

Fourth quarter 2007 operating profit includes the $6.100 billion charge in the U.S. Domestic Package segment related to the withdrawal from the Central States Pension Fund, as discussed in Note 5. The after-tax impact of this charge reduced fourth quarter 2007 net income by $3.772 billion, which reduced basic earnings per share by $3.60 and diluted earnings per share by $3.59.

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

None.

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, 2008 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, 2008. 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, 2008 and the related consolidated statements of income, comprehensive income and cash flows for the year ended December 31, 2008, has issued an attestation report on the Company's internal control over financial reporting, which is included herein.

United Parcel Service, Inc.
February 27, 2009

Item 9B. ***Other Information***

None.

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance***

Executive Officers of the Registrant

Name and Office	Age	Principal Occupation and Employment For the Last Five Years
David P. Abney Senior Vice President and Chief Operating Officer	53	Senior Vice President and Chief Operating Officer (2007 – present), President, UPS Airlines (2007 – 2008), Senior Vice President and President, UPS International (2003 – 2007), UPS/Fritz Companies Integration Manager (2001 – 2002).
David A. Barnes Senior Vice President and Chief Information Officer	53	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	52	Senior Vice President and President, UPS International (2008 – present), President, Global Freight Forwarding (2006-2007), Corporate Controller (2004 – 2006), Vice President (1997 – 2004).
D. Scott Davis Chairman and Chief Executive Officer	57	Chairman and Chief Executive Officer (2008 – present), Vice Chairman (2006 – 2007), Senior Vice President (2001-2007), Chief Financial Officer and Treasurer (2001 – 2007), Director (2006 – present).
Alan Gershenhorn Senior Vice President	50	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	51	Senior Vice President, U.S. Operations (2009 – present), Vice President, Americas Region (2008 – 2009), Vice President, North Central Region (2004-2008), Vice President, Southwest Region (2002-2004).
Allen E. Hill Senior Vice President	53	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), Corporate Legal Department Manager (1995 – 2004).
Kurt P. Kuehn Senior Vice President, Chief Financial Officer and Treasurer	54	Senior Vice President, Chief Financial Officer and Treasurer (2008 – present), Senior Vice President, Worldwide Sales and Marketing (2004 – 2007), Vice President, Investor Relations (1999 – 2003).
Teri P. McClure Senior Vice President, General Counsel and Corporate Secretary	45	Senior Vice President, General Counsel and Corporate Secretary (2006 – present), Corporate Legal Department Manager (2005 – 2006), Compliance Department Manager (2004 – 2005), District Manager (2003 – 2005), and Vice President (1999 – 2003).

Name and Office	Age	Principal Occupation and Employment For the Last Five Years
John J. McDevitt Senior Vice President	50	Senior Vice President, Global Transportation Services and Labor Relations (2005 – present), Senior Vice President, Strategic Integration (2003 – 2005), Air Region Manager (2000 – 2002).
Christine M. Owens Senior Vice President	53	Senior Vice President, Communications and Brand Management (2005 – present), Corporate Transportation Group Manager (2004 – 2005), Region Manager (1997 – 2004).
Robert E. Stoffel Senior Vice President	53	Senior Vice President, Engineering, Strategy and Supply Chain Distribution (2007 – present), Senior Vice President of Supply Chain Group (2004 – 2007), President, UPS Supply Chain Solutions, Inc. (2002 – 2003), Vice President, UPS Logistics Group, Inc. (2000 – 2002).

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 7, 2009 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 7, 2009 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 7, 2009 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 7, 2009 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 7, 2009 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 7, 2009 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 7, 2009 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 7, 2009 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 7, 2009 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.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, United Parcel Service, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITED PARCEL SERVICE, INC.
(REGISTRANT)

By: /S/ D. SCOTT DAVIS
D. Scott Davis
Chairman and
Chief Executive Officer

Date: February 27, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/S/ F. DUANE ACKERMAN **F. Duane Ackerman**	Director	February 25, 2009
/S/ MICHAEL J. BURNS **Michael J. Burns**	Director	February 25, 2009
/S/ D. SCOTT DAVIS **D. Scott Davis**	Chairman, Chief Executive Officer and Director (Principal Executive Officer)	February 27, 2009
/S/ STUART E. EIZENSTAT **Stuart E. Eizenstat**	Director	February 25, 2009
/S/ MICHAEL L. ESKEW **Michael L. Eskew**	Director	February 25, 2009
William R. Johnson	Director	
/S/ KURT P. KUEHN **Kurt P. Kuehn**	Chief Financial Officer (Principal Financial and Accounting Officer)	February 27, 2009
/S/ ANN M. LIVERMORE **Ann M. Livermore**	Director	February 24, 2009
/S/ RUDY MARKHAM **Rudy Markham**	Director	February 26, 2009
/S/ JOHN W. THOMPSON **John W. Thompson**	Director	February 24, 2009
/S/ CAROL B. TOMÉ **Carol B. Tomé**	Director	February 24, 2009
/S/ BEN VERWAAYEN **Ben Verwaayen**	Director	February 24, 2009

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EXHIBIT INDEX

Exhibit No.		Description
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 the 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	—	Bylaws of United Parcel Service, Inc. (incorporated by reference to Exhibit 3.1 to the 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).

Exhibit No.		Description
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).
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).
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 37 (incorporated by reference to Exhibit 10.2 to 2007 Annual Report on Form 10-K).
†10.3	—	UPS Savings Plan, as Amended and Restated.
10.4	—	Credit Agreement (364-Day Facility) dated April 17, 2008 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, 2008).
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.
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).
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. 1 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.19(1) to 1999 Annual Report on Form 10-K).
		(2) Amendment No. 2 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.19(2) to 1999 Annual Report on Form 10-K).

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Exhibit No.		Description
		(3) Amendment No. 3 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.19(3) to 1999 Annual Report on Form 10-K).
		(4) Amendment No. 4 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.19(4) to 2000 Annual Report on Form 10-K).
		(5) Amendment No. 5 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.8(5) to 2001 Annual Report on Form 10-K).
		(6) Amendment No. 6 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.8(6) to 2001 Annual Report on Form 10-K).
		(7) Amendment No. 7 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.8(7) to 2002 Annual Report on Form 10-K).
		(8) Amendment No. 8 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.10(8) to 2003 Annual Report on Form 10-K).
		(9) Amendment No. 9 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.10(9) to 2003 Annual Report on Form 10-K).
		(10) Amendment No. 10 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.5 to Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2005).
		(11) Amendment No. 11 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.9(11) to 2007 Annual Report on Form 10-K).
		(12) Amendment No. 12 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.9(12) to 2007 Annual Report on Form 10-K).
		(13) Amendment No. 13 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.9(13) to 2007 Annual Report on Form 10-K).
		(14) Amendment No. 14 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.9(14) to 2007 Annual Report on Form 10-K).
		(15) Amendment No. 15 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.9(15) to 2007 Annual Report on Form 10-K).
		(16) Amendment No. 16 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.9(16) to 2007 Annual Report on Form 10-K).
		†(17)Amendment No. 17 to the UPS Qualified Stock Ownership Plan and Trust Agreement.
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).

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Exhibit No.		Description
		(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).
†10.10	—	UPS Deferred Compensation Plan, as amended and restated.
10.11	—	United Parcel Service, Inc. Nonqualified Employee Stock Purchase Plan (incorporated by reference to the registration statement on Form S-8 (No. 333-34054), filed on April 5, 2000.
10.12	—	Form of United Parcel Service, Inc. Discounted Employee Stock Purchase Plan (incorporated by reference to Appendix B to Definitive Proxy Statement for 2001 Annual Meeting of Shareowners).
		(1) Amendment to the Discounted Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.12(1) to the 2005 Annual Report on Form 10-K).
11	—	Statement regarding Computation of per Share Earnings (incorporated by reference to Note 14 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.
†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.

† Filed herewith.

Exhibit 10.3

EXECUTION COPY

UPS SAVINGS PLAN

AMENDMENT AND RESTATEMENT

EFFECTIVE AS OF DECEMBER 31, 2008

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UPS SAVINGS PLAN
EFFECTIVE AS OF DECEMBER 31, 2008

PURPOSE

This UPS Savings Plan ("Plan") was originally established effective as of July 1, 1988 to permit individuals not covered by a collective bargaining agreement who are employed by United Parcel Service of America, Inc. or another Employer Company to put money aside for retirement, on a pre-tax or after-tax basis, to supplement that which they will receive from Social Security and other pension or retirement plans in which they participate.

This amendment and restatement of the Plan ("Amendment and Restatement") is generally effective as of December 31, 2008 except where otherwise provided. This Amendment and Restatement has been undertaken to merge the UPS Qualified Stock Ownership Plan with and into this Plan, amend the Plan to provide for employer matching contributions, amend for final Code § 415 regulations and other general plan revisions.

ARTICLE I. DEFINITIONS

The following words and phrases have the following meanings:

Section 1.1 Account - means the aggregate of a Participant's Pre-Tax Contribution Account; After-Tax Contribution Account; Rollover Contribution Account; Savings*PLUS* Account (first effective November 23, 1998); Roth Contribution Account (first effective July 30, 2007, Top Heavy Account; and, Merged Account (first effective July 1, 2001); established, respectively, under Articles III, IV and Appendix 14.3.

Section 1.2 Accounting Period - means the period beginning on the first day of each calendar quarter and ending on the last day of such quarter.

Section 1.3 Actual Contribution Percentage ("ACP") - means for each Participant who is eligible to make Pre-Tax Contributions at any time during the Plan Year, the ratio (expressed as a percentage) of (a) the sum of the After-Tax Contributions and the Savings*PLUS* Contributions, if any, credited to his or her Account for such Plan Year to (b) his or her Compensation for the Plan Year.

Section 1.4 ACP Test - means the Code § 401(m) nondiscrimination test as described in Section 5.5.

Section 1.5 Actual Deferral Percentage ("ADP") - means for each Participant who is eligible to make Pre-Tax Contributions at any time during the Plan Year, the ratio (expressed as a percentage) of (a) the Pre-Tax Contributions with the meaning of Section 5.4(b) credited to his or her Account for such Plan Year to (b) his or her Compensation for the Plan Year.

Section 1.6 ADP Test - means the Code § 401(k) nondiscrimination test described in Section 5.4.

Section 1.7 Affiliate - means the Employer and any trade or business, whether or not incorporated, that is considered to be a single employer with the Employer under Code § 414(b), (c), (m) or (o). However, in applying Code § 414 solely for purposes of Section 5.2, the phrase “more than 50%” is substituted for the phrase “at least 80%” each place it appears in Code § 1563(a)(1).

Section 1.8 After-Tax Contribution - means a contribution to the Plan at the election of a Participant in accordance with Section 3.2 through payroll deduction that is includible in his or her gross income for federal income tax purposes.

Section 1.9 After-Tax Contribution Account - means the subaccount maintained as a part of a Participant’s Account to show his or her interest attributable to the Participant’s After-Tax Contributions and amounts attributable to after-tax contributions under another qualified plan transferred pursuant to a merger or other event described in Section 14.3 to the extent described in Appendix 14.3.

Section 1.10 Beneficiary - means the person or persons so designated in accordance with Section 9.6 by a Participant or by operation of this Plan to receive any Plan benefits payable on account of the death of such Participant.

Section 1.11 Board - means the Board of Directors and/or the Executive Committee of United Parcel Service of America, Inc.

Section 1.12 Break in Service - means:

(a) Effective as of May 1, 2000, an Eligibility Computation Period during which an individual does not complete more than 500 Hours of Service.

(b) Effective before May 1, 2000, a Period of Separation of at least 12 consecutive months; provided, for each individual whose Employment Commencement Date or Reemployment Commencement Date is on or after May 1, 2000 and before July 1, 2001, Break in Service means the period of time described in this Section 1.12(a) or (b), whichever is most favorable to the individual.

Section 1.13 Catch-Up Contributions - means an additional contribution to the Plan in accordance with Code § 414(v) and Section 3.1(c) or, for Puerto Rico Employees, Section 3.1(d). Effective July 30, 2007, “Catch-Up Contributions” may include Roth Contributions.

Section 1.14 Code - means the Internal Revenue Code of 1986, as amended, or any successor statute.

Section 1.15 Collectively Bargained Plan - means any plan (other than a multiemployer plan) that incorporates a cash or deferred arrangement as described in Code § 401(k) and is sponsored by the Employer pursuant to a collective bargaining agreement in effect between the Employer and any union, local or lodge of any union or any bargaining agent for any union which such union, local, lodge or bargaining agent and the Employer have provided that some or all of the employees in the bargaining unit shall be covered by such plan.

Section 1.16 Committee - means the administrative committee described in ARTICLE XIII.

Section 1.17 Compensation - is defined in Appendix 1.17.

Section 1.18 Disability - means a medically determinable physical or mental impairment as a result of which the Participant is disabled and qualified for disability benefits under (a) the United States Social Security Act, (b) a long term disability plan to which an Employer Company contributes for the Participant or (c) workers compensation laws.

Section 1.19 Eligible Compensation - means for each Participant who is an Eligible Employee all compensation or wages payable to him or her for the Plan Year by reason of his or her employment by an Employer Company before any payroll deductions, but excluding:

(a) bonuses (other than any half-month bonus);

(b) amounts allocated or benefits paid under any employee benefit plan or program, whether or not the plan or program is subject to ERISA or the benefit paid thereunder is taxable (other than paid time off or discretionary days, Pre-Tax Contributions and salary reduction contributions made on behalf of an Employee to the UPS Flexible Benefits Plan or other plan described in Code § 125 and, amounts allocated under the UPS Deferred Compensation Plan, as amended from time to time, and/or the UPS Deferred Compensation Plan 2000);

(c) amounts payable under any incentive compensation plan or program (other than commissions and sales incentives);

(d) MIP awards (other than the portion payable solely in the form of cash);

(e) stock options;

(f) foreign service differentials;

(g) severance pay;

(h) expense reimbursements;

(i) grievance awards (other than back pay);

(j) fringe benefits;

(k) all compensation classified as “miscellaneous”; and

(l) tool allowance.

The annual Eligible Compensation of each Participant taken into account under the Plan shall not exceed $200,000 for Plan Years beginning on or after January 1, 2002, as adjusted for cost-of-living increases in accordance with Code § 401(a)(17)(B). For Plan Years beginning before January 1, 2002, the annual Eligible Compensation of each Participant taken into account under the Plan shall not exceed $150,000 for Plan Years, as adjusted for cost-of-living increases in accordance with Code § 401(a)(17). The cost-of-living adjustment in effect for a calendar year applies to any Plan Year beginning in such calendar year. If a Plan Year consists of fewer than 12 months, the annual compensation limit will be multiplied by a fraction, the numerator of which is the number of months in the short Plan Year, and the denominator of which is 12. The annual compensation limit does not apply for purposes of Section 5.2.

Section 1.20 Eligible Employee - means any Employee other than an Employee:

(a) whose terms and conditions of employment are governed by a collective bargaining agreement to which an Employer Company is a party, unless the collective bargaining agreement expressly provides for coverage under this Plan;

(b) who is a nonresident alien receiving no earned income from an Employer Company from sources within the United States (as described more fully in Code § 410(b)(3)(C)); or

(c) who is eligible to participate in a Collectively Bargained Plan or any other Code § 401(k) cash or deferred arrangement maintained by an Employer Company (other than the Plan).

Members of the Board as such shall not be considered as Eligible Employees unless they also qualify as such pursuant to the preceding sentence. Under no circumstances will an individual who performs services for an Employer Company, but who is not classified on the payroll as an employee of an Employer Company, for example, an individual performing services for an Employer Company under a leasing arrangement, be treated as an Eligible Employee even if such individual is treated as an “employee” of an 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 an Employer Company is retroactively reclassified as an employee of an Employer Company for any reason (whether pursuant to court order, settlement negotiation, arbitration, mediation, government agency (e.g. IRS) reclassification or otherwise), 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 an Employer Company determines that retroactive reclassification is necessary to correct a payroll classification error.

Section 1.21 Employee - means a person who is classified on the payroll of an Employer Company as an employee of that Employer Company.

Section 1.22 Employer - means United Parcel Service of America, Inc.

Section 1.23 Employer Company - means the Employer, each corporation listed in Appendix 1.23 and any of the following corporations that adopts the Plan with the approval of the Board of Directors:

(a) any domestic corporation at least 90% of whose voting stock is owned (directly or indirectly) by United Parcel Service, Inc.; and

(b) any domestic corporation at least 90% of whose voting stock is owned by any corporation described in (a) above.

Section 1.24 Eligibility Computation Period - means the 12 consecutive month period beginning on an individual's Employment Commencement Date or Reemployment Commencement Date (or any anniversary of either such date) and ending on the date immediately preceding the anniversary of such date (or next succeeding anniversary of such date).

Section 1.25 Employment Commencement Date - means the date on which an individual first performs an hour of service, within the meaning of Labor Regulation Section 2530.200b-2, with an Employer Company.

Section 1.26 Entry Date - means the first Saturday of each calendar month.

Section 1.27 ERISA - means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

Section 1.28 Excess Aggregate Contributions - means for any Plan Year the excess of:

(a) the After-Tax Contributions and Savings*PLUS* Contributions made by or on behalf of Highly Compensated Employees for a Plan Year over

(b) the maximum permissible amount of such contributions for such Plan Year under Code § 401(m) as described in Section 5.5.

Section 1.29 Excess Contributions - means for any Plan Year the excess of:

(a) the Pre-Tax Contributions made by or on behalf of Highly Compensated Employees for a Plan Year and which were taken into account in computing his or her Actual Deferral Percentage for such Plan Year over

(b) the maximum permissible amount of such contributions permitted for such Plan Year under Code § 401(k) as described in Section 5.4.

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) 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.

Section 1.31 Highly Compensated Employee -

(a) General. The term "Highly Compensated Employee" means each Participant who is an Eligible Employee performing services for an Affiliate during the Plan Year and

(1) who at any time during the Plan Year or the preceding Plan Year was a 5% owner of an Affiliate (as defined in Code § 416(i)(1)(B)(I)), or

(2) who for the preceding Plan Year received Compensation in excess of $80,000 (indexed in accordance with Code § 415(d)).

(b) Additional Rules.

(1) The determination of which Eligible Employees are Highly Compensated Employees is subject to Code § 414(q) and any regulations, rulings, notices or procedures under that Section.

(2) Employers aggregated under Code § 414(b), (c), (m) or (o) will be treated as a single employer for purposes of this Section 1.31.

Notwithstanding the foregoing, only for the purposes of Puerto Rican law and solely to comply therewith, a “Highly Compensated Employee” shall mean any Participant who is an Eligible Employee employed in Puerto Rico who is among the top one-third (1/3) of all Eligible Employees receiving the highest aggregate compensation from an Employer Company.

Section 1.32 Hour of Service -

(a) General. The term “Hour of Service” means each hour for which an individual:

(1) is paid, or entitled to payment, for the performance of duties for an Affiliate;

(2) is paid, or entitled to payment (directly or indirectly) 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 an Affiliate or to which an Affiliate 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);

(3) is paid by an Affiliate for any reason an amount as “back pay,” irrespective of mitigation of damages; or

(4) is on an unpaid leave of absence, including (i) by reason of the pregnancy of the individual, (ii) by reason of the birth of a child of the individual, (iii) by reason of the placement of a child with the individual in connection with the adoption of such child by the individual or (iv) for purposes of caring for such child for a period beginning immediately following such birth or placement.

(b) Additional Rules. Notwithstanding the foregoing,

(1) An individual will earn Hours of Service credit without regard to whether such individual is treated as an “employee” of an Affiliate as a result of the application of common law principles or by operation of Code § 414(n).

(2) An individual will be credited with 190 Hours of Service for the performance of duties with respect to each regularly-scheduled calendar work month in which such individual would, under the rules described herein, have earned at least one Hour of Service and if an individual has a Period of Separation of less than 12 months, he or she will be credited with 190 Hours of Service for each calendar month during that Period of Separation.

Section 1.33 Investment Options - means the investment alternatives selected by the Committee pursuant to Section 7.1.

Section 1.34 Investment Manager - means a person (a) who is registered as an investment advisor under the Investment Advisers Act of 1940 (the “Act”), a bank, as defined in the Act, or an insurance company that, within the meaning of ERISA § 3(38), is qualified to manage, acquire and dispose of the assets of an employee benefit plan under the laws of more than one state, and (b) who is appointed as an investment manager.

Section 1.35 Merged Account - means the subaccount maintained as a part of a Participant’s Account to show his or her interest attributable to amounts that have been transferred from another qualified plan pursuant to a merger or other transaction described in Section 14.3 and which are not allocated to his or her Pre-Tax Contribution Account, After-Tax Contribution Account, Savings*PLUS* Contribution Account, Roth Contribution Account or Rollover Contribution Account.

Section 1.36 Nonhighly Compensated Employee - means for each Plan Year each Participant who is an Eligible Employee performing services for an Affiliate during the Plan Year and who is not a Highly Compensated Employee.

Section 1.37 Participant - means (a) each Eligible Employee who satisfied the requirements for participation set forth in Section 2.1 and (b) each other person (other than an alternate payee as defined in Code § 414(p)(8) or a Beneficiary) for whom an Account is maintained as a result of contributions made under this Plan or amounts transferred to this Plan.

Section 1.38 Period of Separation - means for those Employees who first become Participants before July 1, 2001, a continuous period of time during which an individual does not perform an Hour of Service. Such a Period of Separation begins on the date the individual has a Severance from Employment.

Section 1.39 Period of Service - means the period of time beginning on an individual’s Employment Commencement Date or Reemployment Commencement Date, whichever is applicable, and ending on the date a Break in Service begins. A Period of Service of 12 months is equal to one full year of service.

Section 1.40 Plan - means this UPS Savings Plan as set forth in this document and all subsequent amendments to this document.

Section 1.41 Plan Year - means the calendar year.

Section 1.42 Pre-Tax Contribution - means a contribution to the Plan at the election, or deemed election, of a Participant in accordance with Section 3.1, Pre-Tax Contributions and Section 3.3, Roth Contributions. However, the term “Pre-Tax Contributions” shall not include Roth Contributions for purposes of Sections 1.43, Pre-Tax Contribution Account; 3.1, Pre-Tax Contributions; or 9.8(c), Hardship Withdrawals.

Section 1.43 Pre-Tax Contribution Account - means the subaccount maintained as part of a Participant's Account to show his or her interest attributable to Pre-Tax Contributions and amounts attributable to pre-tax contributions under another qualified plan transferred pursuant to a merger or other transaction described in Section 14.3 to the extent provided in Appendix 14.3.

Section 1.44 Puerto Rico Eligible Compensation - means for each Participant, his or her Eligible Compensation excluding the Participant's half month bonus and discretionary days pay off.

Section 1.45 QSOP - means the UPS Qualified Stock Ownership Plan as effective on or before December 31, 2008, the effective time of its merger into this Plan.

Section 1.46 Reemployment Commencement Date - means for an individual who has a Break in Service, an adjusted employment commencement date, which is the first date on which that individual performs an Hour of Service following the Break in Service.

Section 1.47 Regular Eligible Compensation - means Eligible Compensation excluding half month, discretionary days pay off and the portion of the MIP award paid solely in cash.

Section 1.48 Rollover Contribution - means a contribution described in Section 3.7.

Section 1.49 Rollover Contribution Account - means the subaccount maintained as part of a person's Account to show his or her interest attributable to Rollover Contributions, and amounts attributable to rollover contributions under another qualified plan transferred pursuant to a merger or other transaction described in Section 14.3 to the extent provided in Appendix 14.3.

Section 1.50 Roth Contribution - means a contribution described in Section 3.3.

Section 1.51 Roth Contribution Account - means the subaccount maintained as part of a Participant's Account to show his or her interest attributable to Roth Contributions (including investment gains and losses on such contributions) and amounts attributable to Roth Contributions under another qualified plan transferred pursuant to a merger or other transaction described in Section 14.3 to the extent provided in Appendix 14.3.

Section 1.52 Savings*PLUS* Contribution - means the Savings*PLUS* Contribution in respect of a Participant's Pre-Tax Contributions, which was made under the QSOP prior to January 1, 2009.

Section 1.53 Savings*PLUS* Account - means the subaccount maintained as a part of a Participant's Account to show his or her interest attributable to Savings*PLUS* Contributions and amounts attributable to matching contributions under another qualified plan transferred pursuant to a merger or other transaction described in Section 14.3 to the extent provided in Appendix 14.3.

Section 1.54 Self-Managed Account - means an Investment Option that allows a Participant to invest directly in stocks, bonds or mutual funds of his or her choice subject to such rules as are established from time to time by the Committee.

Section 1.55 Severance from Employment - means:

(a) Effective as of January 1, 2002, the date on which an individual terminates employment with all Affiliates by reason of a voluntary quit, retirement, death, period of Disability of more than 52 weeks, discharge, failure to return from layoff or authorized leave of absence, or for any other reason (unless a grievance is pending) provided such separation constitutes a "severance from employment" within the meaning of Code § 401(k) and further provided that a Severance from Employment shall not occur with respect to any Participant as a result of a transaction if his or her new employer following the transaction agrees to assume this Plan or agrees to assume assets and liabilities of this Plan attributable to such Participant. A discharge will not be treated as a Severance from Employment while a grievance is pending but, if the discharge is upheld, will be treated as a Severance from Employment as of the date of the discharge.

(b) Effective before January 1, 2002 but on or after May 1, 2000, the date on which an individual terminates employment with all Affiliates by reason of a voluntarily quit, retirement, death, the end of a period of disability of more than 52 weeks at which time a physician certifies that the individual is currently disabled and unable to return to work for an Affiliate, discharge, failure to return from layoff or authorized leave of absence, or for any other reason (unless a grievance is pending) provided for periods before January 1, 2002, such separation constitutes a "Severance from Employment" within the meaning of Code § 401(k).

(c) Effective before May 1, 2000, the earlier of the date under Section 1.55(a) or the date on which a 12-consecutive month period ends during which the individual did not perform an Hour of Service.

(d) A transfer from one Affiliate to another will not result in a Severance from Employment.

(e) A discharge will not result in a Severance from Employment for any purpose while a grievance is pending but, if the discharge is upheld, the Severance from Employment will be the date of the discharge.

Notwithstanding the foregoing, and solely for the purpose of determining the length of a Period of Service before May 1, 2000, in the case of an Employee who ceases active employment (i) by reason of the pregnancy of the Employee, (ii) by reason of the birth of a child of the Employee, (iii) by reason of the placement of a child with the Employee in connection with the adoption of such child by the Employee or (iv) for purposes of caring for such child for a period beginning immediately following such birth or placement, "Severance from Employment" shall mean the second anniversary of said cessation of active employment.

Section 1.56 Top-Heavy Account - means the subaccount maintained as a part of a person's Account to show his or her interest attributable to Top-Heavy Contributions.

Section 1.57 Top-Heavy Contributions - means the contribution described in Section 4.2.

Section 1.58 Trust Fund - means the assets held by the Trustee under this Plan.

Section 1.59 Trustee or Trustees - means the banks, trust companies or other financial institutions with trust powers acting from time to time as trustees for the Trust Funds pursuant to ARTICLE XI.

Section 1.60 UPS Stock - means the Class A common stock of United Parcel Service, Inc.

Section 1.61 UPS Stock Fund - means the Investment Option invested primarily in UPS Stock.

Section 1.62 VRU - means the automated voice response unit or any other voice or electronic medium maintained for the purpose of effecting communications under the Plan.

ARTICLE II. PARTICIPATION

Section 2.1 General. Each Eligible Employee will become a Participant on the Entry Date coinciding with or immediately following his or her completion of an Hour of Service as an Eligible Employee.

Section 2.2 Application to Participate. Each Participant who is an Eligible Employee may enroll in the Plan by making an affirmative election to make a Pre-Tax Contribution, After-Tax Contribution, Catch-Up Contribution, Roth Contribution or a Rollover Contribution via VRU or in accordance with such other procedures prescribed by the Committee or its designee or by being deemed to have elected a Pre-Tax Contribution under Section 3.1(b). The Committee or its designee shall promptly process the Participant's enrollment and confirm the enrollment of such Participant and his or her elections to make contributions.

Section 2.3 Transfers.

(a) Transfer to Position Not Covered by Plan. If a Participant loses his or her status as an Eligible Employee because he or she is transferred to an Affiliate that is not an Employer Company or because he or she is transferred to a position with an

Employer Company that is not an Eligible Employee position, he or she shall cease to be eligible to make any contributions under this Plan pursuant to Article III, but his or her Account shall continue to be maintained under this Plan until he or she receives a distribution of his or her entire Account or such Account is transferred to another qualified plan.

(b) Transfer of Account from Another Employer Company Plan. This Section 2.3(b) will be effective on and after the date it is activated by the Committee. To the extent provided in Appendix 2.3 (which will be written and amended by or at the direction of the Committee), the Committee may permit the contribution of funds to a Participant's Account which represent the transfer of his or her account from any other § 401(k) cash or deferred arrangement maintained by an Employer Company. Such funds shall be transferred in accordance with procedures established by the Committee and shall be held in the appropriate subaccount.

Section 2.4 Correction. If the Committee discovers that an individual it determined to be a Participant is in fact not a Participant, the Committee will as soon as practicable after such discovery make such corrections or refunds as it deems appropriate. If the Committee discovers that a Participant was not treated as covered under the Plan, the Committee as soon as practicable will take such action as it deems appropriate and proper under the circumstances.

Section 2.5 Reemployment. If a Participant has a Severance from Employment, he or she will again become eligible to make contributions under this Plan pursuant to Article 2.1.

Section 2.6 Not a Contract of Employment. This Plan is intended only to encourage Eligible Employees to save for their retirement. This Plan is not a contract of employment. Thus, participation in this Plan will not give any person either the right to be retained as an employee or, upon such person's termination of employment, the right to any interest in the Trust Funds other than his or her interest as expressly set forth in this Plan.

ARTICLE III. EMPLOYEE CONTRIBUTIONS, ROLLOVER CONTRIBUTIONS AND TRANSFERS

Section 3.1 Pre-Tax Contributions.

(a) Voluntary Elections. Subject to the rules and limitations in this Section 3.1 and in Article 5, each Participant who is an Eligible Employee (other than an Eligible Employee employed in Puerto Rico) may elect to make Pre-Tax Contributions through authorizing the pre-tax payroll deduction of:

(1) from 1% to 35%, in 1% increments, of his or her Regular Eligible Compensation for each pay period;

(2) from 1% to 100%, in 1% increments, of his or her Eligible Compensation attributable to his or her half month bonus;

(3) from 1% to 100%, in 1% increments, of his or her Eligible Compensation attributable to his or her discretionary days pay off; and

(4) from 1% to 100%, in 1% increments, of the portion of his or her Eligible Compensation attributable to his or her MIP award paid solely in the form of cash (less amounts withheld for FICA and Medicare taxes).

Roth Contributions and Pre-Tax Contributions combined may not exceed 35% of his or her Regular Eligible Compensation for any pay period.

(b) Deemed Election. Subject to the rules and limitations in this Section 3.1 and in Article V, each Participant who is an Eligible Employee (including Eligible Employees transferred from ineligible to Eligible Employee status) with 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 deemed to have made an election to have his or her Employer Company make Pre-Tax Contributions on his or her behalf in an amount equal to 3% of Eligible Compensation per payroll period. Notwithstanding the forgoing, a Participant shall not be deemed to have made a 3% Pre-Tax Contribution election if such Participant makes an Affirmative Election on or after January 1, 2008 and before the Automatic Enrollment Deadline.

The deemed Pre-Tax Contribution payroll deduction election will be effective as soon as administratively practicable following the Automatic Enrollment Deadline and will continue while he or she remains an Eligible Employee unless and until he or she (i) makes an Affirmative Election, (ii) has the maximum amount of Pre-Tax Contributions for such Plan Year (taking into account the maximum Catch-Up Contributions for such Participant, if applicable) deducted, (iii) becomes ineligible to participate in the Plan or (iv) has a deemed annual increase in Pre-Tax Contributions pursuant to Section 3.1(b)(1).

(1) Deemed Election Annual Increase. A Participant who is deemed to have made a Pre-Tax Contribution deferral election pursuant to Section 3.1(b), has not made an Affirmative Election and remains an Eligible Employee, shall also be deemed to have elected to increase his or her Pre-Tax Contributions in 1% increments in each Plan Year following the Plan Year of automatic enrollment (described in 3.1(a)) up to a maximum deferral rate of 6% of Eligible Compensation. The automatic annual increase will be effective in each Plan Year following the Plan Year of automatic enrollment on the first Friday in March for Eligible Employees who are considered for a merit increase in March and on the first Friday in June for all other Eligible Employees.

(2) Notice of Deemed Election. Within a reasonable period following an Eligible Employee's Employment Commencement Date, Reemployment Commencement Date or transfer from ineligible to Eligible Employee status and before the Automatic Enrollment Deadline, the Committee shall provide each Eligible Employee with a notice informing him or her of the following: (1) his or her right to make an Affirmative Election to change the deemed percentage (including 0%), (2) how the Pre-Tax Contributions will be invested in the absence of an Affirmative Election and his or her right to change such election, and (3) the procedures for making any such elections. The Committee shall provide each Participant who has not made an Affirmative Election with a similar notice within a reasonable period prior to each subsequent Plan Year.

(3) Definitions. For purposes of this Section 3.1(b), the following phrases have the following meanings:

Affirmative Election means an election by a Participant (i) through the regular or pinless enrollment system for the Plan to make, or not make, Pre-Tax Contributions, After-Tax Contributions, Catch-Up Contributions or Roth Contributions or (ii) for an Affirmative Investment Election as defined in Section 7.2(b).

Automatic Enrollment Deadline means the Friday immediately following the 90th day following the later of his or her (i) Employment Commencement Date, (ii) Reemployment Commencement Date, or (iii) date of transfer into Eligible Employee status.

(c) Catch-Up Contributions. Effective as of August 1, 2002, subject to the rules and limitations in this Section 3.1 and in Article 5 except as otherwise provided, each Participant who is an Eligible Employee (other than an Eligible Employee employed in Puerto Rico) who will attain age 50 or older before the close of the Plan Year shall be eligible to make Catch-Up Contributions effective August 1, 2002, in 1% increments from 1% to 20% and, effective January 1, 2003, in 1% increments from 1% to 10% of his or her Regular Eligible Compensation and in accordance with, and subject to the limitations of, Code § 414(v). Effective September 1, 2005, each Participant who is an Eligible Employee (other than an Eligible Employee employed in Puerto Rico) who will attain age 50 before the close of the Plan Year shall be eligible to make Catch-Up Contributions in 1% increments from 1% to 100% of the portion of his or her MIP award payable solely in the form of cash (less amounts withheld for FICA and Medicare taxes). Such Catch-Up Contributions shall not be taken into account for purposes of the provisions of the Plan implementing the required limitations of Code §§ 402(g) and 415. The Plan shall not be treated as failing to satisfy the provisions of the Plan implementing the requirements of Code §§ 401(k)(3), 410(b), or 416, as applicable, by reason of the making of such Catch-Up Contributions. 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 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.

(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 10% (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 foregoing, a Puerto Rico Participant may not contribute total Pre-Tax Contributions under this Section 3.1(c)(1) in excess of 10% of his or her Eligible Compensation.

(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.

(e) Accounts. The Pre-Tax Contributions elected by a Participant under Sections 3.1 will be credited to such Participant's Pre-Tax Contribution Account.

Section 3.2 After-Tax Contributions.

(a) General. Subject to the rules and limitations in this Section 3.2 and in Article 5, each Participant who is an Eligible Employee may make After-Tax Contributions through authorizing the after-tax payroll deduction of 1% to 5% (in 1% increments) of his or her Regular Eligible Compensation for each pay period.

Such election 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 After-Tax Contributions on any business day that coincides with or follows the date he or she becomes a Participant. A Participant's initial 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 After-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 5.5.

(b) Accounts. The After-Tax Contributions elected by a Participant under Section 3.2(a) will be credited to such Participant's After-Tax Contribution Account.

Section 3.3 Roth Contributions. Effective as of July 30, 2007, subject to the rules and limitations in this Section 3.3 and in Article 5 except as otherwise provided, each Participant who is an Eligible Employee (other than an Eligible Employee employed in Puerto Rico) shall be eligible to make Roth Contributions in 1% increments of his or her Regular Eligible Compensation for each pay period and in accordance with and subject to the limitations of Code Section 402A. Roth Contributions and Pre-Tax Contributions combined may not exceed 35% of Eligible Compensation for any pay period. The portion of an Eligible Employee's MIP award payable solely in the form of cash shall not be eligible for deferral into a Participant's Roth Contributions Account until Plan Year 2008 and thereafter when an Eligible Employee (other than an Eligible Employee employed in Puerto Rico) shall be eligible to make Roth Contributions in 1% increments from 1% to 100% of the portion of his or her MIP award payable solely in the form of cash (less amounts withheld for FICA and Medicare taxes). Roth Contributions shall be credited to a Participant's Roth Contributions Account.

Section 3.4 Changes. A Participant who is an Eligible Employee may make an election to change the type or rate of his or her contributions on any business day via VRU or in accordance with such other procedures prescribed by the Committee or its designee. Such change in the rate or type of contributions will be effective for the first pay period beginning after his or her election is processed.

Section 3.5 Suspension of Contributions.

(a) Voluntary Suspension. A Participant may suspend his or her contributions made pursuant to this Article III at any time via VRU or in accordance with such other procedures prescribed for such purpose by the Committee or its designee. A Participant's suspension will be effective for the first pay period beginning after his or her election is processed. Thereafter, the Participant who is an Eligible Employee may make an election to resume contributions in accordance with Sections 3.1, 3.2 or 3.3.

(b) Change in Eligibility Status. A Participant's contributions shall automatically stop when he or she ceases to be an Eligible Employee. If a Participant's status thereafter changes to an Eligible Employee (whether by reemployment or otherwise), he or she may make a new election (and will not be deeded to have made an election) to make contributions in accordance with Sections 3.1, 3.2 or 3.3.

(c) Hardship Withdrawal. A Participant will be treated as if he or she had elected to completely suspend all contributions for the 6-month period following a hardship withdrawal in accordance with Section 9.8(c), and a Participant who was not making any contributions at the time of the withdrawal will not be allowed to resume making contributions for the 6-month period following a hardship withdrawal. Following the suspension, a Participant may elect to resume making contributions (and will not be deemed to have made an election) in accordance with Section 3.1, 3.2 or 3.3.

(d) Leave of Absence. A Participant's contributions will continue to be deducted during any period of paid leave of absence, provided he or she continues to be classified as an Eligible Employee during the leave and continues to be paid through an Employer Company payroll. However, a Participant's contributions will be suspended during any period of leave of absence if the Eligible Employee is not paid through an Employer Company payroll. Payroll deductions automatically will resume as soon as administratively practicable after the Participant's resumption of active employment as an Eligible Employee in accordance with the Participant's election (or deemed election) in effect immediately prior to his or her unpaid leave unless the Participant files an election (1) to suspend contributions in accordance with Section 3.5(a), or (2) to change his or her rate of contributions in accordance with Section 3.4.

Section 3.6 Payment of Contributions to Trustee. All Participant contributions under this Article III will be paid to the Trustee as soon as practicable after the related payroll deductions are made and, in any event, by the deadlines, if any, established for making those payments under ERISA or the Code.

Section 3.7 Rollovers from Qualified Plans or Conduit IRAs.

(a) An Eligible Employee may contribute to the Plan an amount consisting of an "eligible rollover distribution" (as defined below) from another qualified retirement plan, or "a transfer from a conduit IRA," (as defined below) (each, a "Rollover Contribution") provided that the contribution shall not jeopardize the qualification of the Plan or the tax-exempt status of the Trust Funds or create adverse tax consequences for the Employer. A Participant who has incurred a Severance from Employment may make a Rollover Contribution to the Trust Funds in accordance with this Section 3.7(a), provided that the Participant has not otherwise received a distribution of his or her Account pursuant to Section 9.2 and the Participant's Account balance exceeds one thousand dollars ($1,000).

(b) Any such Rollover Contribution shall at all times be fully vested and nonforfeitable. Such contribution shall be held in a subaccount under the Participant's Account (the "Rollover Contribution Account").

(c) For purposes of this Section 3.7, an "eligible rollover distribution" means:

(1) an eligible rollover distribution, within the meaning of Code § 402, which is transferred to this Plan by the participant no later than sixty (60) days following the date on which the Participant received the distribution from another qualified retirement plan or

(2) an eligible rollover distribution, within the meaning of Code § 402, which is transferred to this Plan directly by another qualified retirement plan at the Participant's direction pursuant to Code § 401(a)(31).

In the case of an eligible rollover distribution described in § 3.7(c)(1) above, the Participant may contribute an amount equal to the gross amount of the distribution, notwithstanding that a portion of the distribution may have been subject to mandatory income tax withholding.

(d) For purposes of this Section 3.7, "a transfer from a conduit IRA" means: an amount transferred to this Plan within sixty (60) days of the Participant's receipt of distribution thereof, from an individual retirement account or annuity ("IRA") to which no contributions have been made from any source other than amounts which were previously distributed to the Participant as an eligible rollover distribution from another qualified retirement plan subject to Code § 401(a), and which were deposited in such IRA within sixty (60) days of such prior distribution.

(e) After-tax employee contributions and loans distributed from a qualified retirement plan, annuity contract or IRA may not be contributed to the Plan under this Section 3.7.

(f) Notwithstanding anything in this Plan to the contrary, in no event shall an "eligible rollover distribution" include any amounts distributed from a designated Roth account (as defined in Treasury regulation Section 1.402A-1, Q&A-1) or a Roth IRA (as defined in Treasury Regulation 1.408A-8, Q&A-1).

ARTICLE IV. EMPLOYER CONTRIBUTIONS

Section 4.1 Savings*PLUS* Contribution.

(a) Subject to the rules and limitations set forth in this Section 4.1 and in Article 5, an Employer Company shall make the following Savings*PLUS* Contribution, if any, for each Accounting Period on behalf of each Participant who was employed as an Eligible Employee by such Employer Company on the last day of the Accounting Period and each Participant whose last employment as an Eligible Employee was with such Employer Company during the Accounting Period.

The Savings*PLUS* Contribution made on behalf of each Participant described in this Section 4.1(a) shall be equal to

A minus B where:

(1) A equals

(i) For each Employer Company listed in Appendix 4.1(a)(1)(A), zero;

(ii) For each Employer Company listed in Appendix 4.1(a)(1)(B), 50% of his or her Pre-Tax Contributions that do not exceed 6% of his or her Eligible Compensation for such Plan Year;

(iii) For each Employer Company listed in Appendix 4.1(a)(1)(C), 100% of his or her Pre-Tax Contributions that do not exceed 3% of his or her Eligible Compensation for such Plan Year;

(iv) For each Employer Company listed in Appendix 4.1(a)(1)(D), the sum of 100% of his or her Pre-Tax Contributions that do not exceed 3% of his or her Eligible Compensation for such Plan Year and 50% of his or her Pre-Tax Contributions in excess of 3% but not in excess of 6% of his or her Eligible Compensation for such Plan Year; or

(v) For each Employer Company listed in Appendix 4.1(a)(1)(E), 50% of his or her Pre-Tax Contributions that do not exceed 7% of his or her Eligible Compensation for such Plan Year.

(2) B equals the Savings*PLUS* Contribution and the matching contribution (within the meaning of Code § 401(m)) under a Merged Plan previously made by any Employer Company with respect to him or her during such Plan Year.

Effective August 1, 2002, no Savings*PLUS* Contributions will be made with respect to any Catch-Up Contributions (unless such contributions are reclassified as Pre-Tax Contributions).

(b) Application of Suspense Account and Forfeitures. Excess amounts that are transferred to a Code § 415 suspense account for a Plan Year prior to 2008 pursuant to Section 5.2, if any, and any amounts treated as forfeitures under the Plan will be applied to reduce the Savings*PLUS* Contributions for the next Plan Year (and succeeding Plan Years, if necessary).

(c) No Savings*PLUS* Contributions on Refunds. No Savings*PLUS* Contributions will be made with respect to any Pre-Tax Contributions that are refunded by the Plan or a Collectively Bargained Plan to satisfy Code § 401(k), § 402(g) or § 415. If it is determined that any portion of the Savings*PLUS* Contributions credited to a Participant's Savings*PLUS* Account is attributable to refunded Pre-Tax Contributions, an amount equal to the value of the Savings*PLUS* Contribution attributable to refunded Pre-Tax Contributions automatically will be deducted from the Participant's Savings*PLUS* Account and will be (i) transferred to a Code § 415 suspense account (if the refund of Pre-Tax Contributions was for purposes of Code § 415) and the refund was made in limitation years beginning before July 1, 2007 or (ii) treated as a forfeiture.

(d) Allocation. The Savings*PLUS* Contribution, if any, made on behalf of each Participant will be credited to his or her Savings*PLUS* Account as of the last day of each Accounting Period.

Section 4.2 Top Heavy Contribution. As of the last day of each Plan Year, a determination will be made on whether this Plan is top-heavy as described in Section 15.9 and, if this Plan is top-heavy, the Employer Companies will contribute such amounts, if any, as are necessary to satisfy minimum top-heavy allocation requirements. Any such contributions will be credited as of the last day of such Plan Year to the affected Participants' Top Heavy Account.

Section 4.3 Form and Time of Savings*PLUS* Contribution. The Savings*PLUS* Contribution may be made in cash or UPS Stock or in any combination of cash and UPS Stock, as determined by the Employer. An Employer Company may make Savings*PLUS* Contributions for any Accounting Period in installments at any time during the Accounting Period and may make the Employer contributions called for under this Article IV at any time during the Plan Year or in the following year before the due date (after taking any extensions into account) for filing the Employer Company's federal income tax return for such Plan Year.

Section 4.4 Responsibility to Make Employer Contributions. The Employer in its absolute discretion may choose to make the employer contributions called for under this ARTICLE IV on behalf of all of the Employer Companies and to charge each Employer Company with its allocable portion of the contributions in accordance with those procedures the Employer in its absolute discretion deems appropriate.

ARTICLE V. LIMITATIONS ON CONTRIBUTIONS AND ALLOCATIONS

Section 5.1 Order. The allocation of contributions made under this Plan (other than Rollover Contributions) will be subject to the limitations of this Section 5.1, as applied, in the following order:

(a) the Code § 415 limitations under Section 5.2,

(b) the Code § 402(g) limitations under Section 5.3,

(c) the Code § 401(k) limitations for Highly Compensated Employees under Section 5.4,

(d) the Code § 401(m) limitations for Highly Compensated Employees under Section 5.5.

Section 5.2 Code § 415 Limitations.

(a) General Rule. For limitation years beginning on or after July 1, 2007, refer to Appendix 5.2. For limitation years ending after December 31, 2002 and before July 1, 2007, this Section 5.2 shall apply. The term "limitation year" as defined in Code § 415 and the corresponding regulations means the calendar year. Except to the extent permitted under Section 3.1(c) (Catch-Up Contributions), the total annual additions (as described in Section 5.2(b)) allocated to a Participant's Account for any limitation year when added to the contributions that are treated as made on behalf of such Participant for such limitation year under the coordination rules in Section 5.2(d) will not exceed the lesser of:

(1) 100% (25% for limitation years before January 1, 2002) of the Participant's Compensation for the limitation year,

(2) $40,000 ($30,000 for limitation years beginning after December 31, 1994 but before January 1, 2002) as adjusted for cost-of-living increases in accordance with Code § 415(d)), or

(3) such lesser amount as the Committee deems necessary or appropriate to satisfy the requirements of Code § 415 in light of Section 5.2(c) and the benefits, if any, accrued and the contributions, if any, made for such Participant under any other employee benefit plan maintained by an Affiliate.

If a short limitation year (less than 12 months) is created because of an amendment, the limitation described in (2) above will be prorated.

(b) Annual Additions. The term "annual additions" means, for each Plan Year, the total contributions allocated to a Participant's Account for that Plan Year as Pre-Tax Contributions or After-Tax Contributions. Any corrective allocations made under this Plan will be treated as annual additions in the limitation year to which such allocations relate.

For the purpose of this Section 5.2, contributions allocated to an "individual medical benefit account" described in Code § 415(l) and contributions credited under a welfare benefit fund maintained by an Affiliate for any year to a reserve for post-retirement medical benefits for a Participant who is a "key employee" within the meaning of Code § 416(i) will be treated as a contribution made on his or her behalf under this Plan when, and to the extent, required under Code § 415 or § 419A(d).

(c) Corrections in this Plan. If as the result of the allocation of forfeitures, the failure to estimate a Participant's compensation, the failure to estimate a Participant's Pre-Tax Contributions or pre-tax contributions under other plans of an Affiliate or under such other facts and circumstances which the Commissioner of the Internal Revenue finds so justify, the limitations imposed by Code § 415(c) are exceeded for any Participant in a limitation year, the Participant's Account shall be reduced to the extent required to comply with such limitations. Such reductions shall be made in the following order:

(1) by refunding After-Tax Contributions for such limitation year (and any investment gain attributable to those refunded contributions);

(2) by refunding unmatched Pre-Tax Contributions for such limitation year (and any investment gain attributable to those refunded contributions); and

(3) by refunding matched Pre-Tax Contributions for such limitation year (and any investment gain attributable to those attributable to those refunded contributions) and transferring the related Savings*PLUS* Contributions to a Code § 415 suspense account.

(d) Coordination Rules.

(1) For limitation years beginning on or after January 1, 2000 and prior to July1, 2007. If any adjustment is required under Code § 415 as a result of a Participant's participation in any other defined contribution plans, the adjustment will be made in the following steps: (1) from unmatched employee contributions in this Plan or any other defined contribution plan with a cash or deferred arrangement intended to satisfy Code § 401(k); (2) from unmatched elective deferrals in this Plan or any other defined contribution plan with a cash or deferred arrangement intended to satisfy Code § 401(k); (3) from matched employee contributions in this Plan or any other defined contribution plan with a cash or deferred arrangement intended to satisfy Code § 401(k) and the related Savings*PLUS* Contributions under the QSOP, or matching contribution under any other defined contribution plan in which the individual is a participant (4) from matched elective deferrals in this Plan or any other defined contribution plan with a cash or deferred arrangement intended to satisfy Code § 401(k) and the related Savings*PLUS* Contributions under the QSOP, or matching contribution under any other defined contribution plan in which the individual is a participant; (5) from other contributions made to the QSOP and (6) from other contributions to any other defined contribution plans in which the individual is a participant.

(e) Coordination with Code § 401(k) and Code § 402(g). Any Pre-Tax Contributions refunded under this Section 5.2 will be disregarded for the purposes of Code § 402(g) limitations under Section 5.3 and the Code § 401(k) limitations under Section 5.4.

Section 5.3 Code § 402(g) Limitations.

(a) A Participant's total Pre-Tax Contributions under this Plan and "elective deferrals" within the meaning of Code § 402(g) under all other qualified plans, contracts and arrangements maintained by an Affiliate during any calendar year (other than amounts refunded to reduce a Code § 415 excess under Section 5.2 or other plans) will not exceed the annual dollar limit under Code § 402(g) (or, with respect to Participants in Puerto Rico, such lower limit as may be prescribed under Puerto Rican law). A Participant whose Pre-Tax Contributions together with other elective deferrals under a plan of an Affiliate exceed the applicable limitation, shall be deemed to have made a request for a refund under Section 5.3(b) and the excess will be refunded in accordance with such Section.

(b) If a Participant's Pre-Tax Contributions for a calendar year, when added to the "elective deferrals" within the meaning of Code § 402(g) made for a calendar year on behalf of such Participant under plans, contracts or arrangements of an employer that is not an Affiliate (for example, another unrelated employer's Code § 401(k) plan or tax sheltered annuity) for that calendar year, exceed the Code § 402(g) dollar limit, he or she may request a refund of that excess (or, if less, the Participant's Pre-Tax Contributions deducted during such calendar year under this Plan) by filing an election no later than March 1 of the following calendar year. A Participant's election under this Section 5.3(b) will specify the dollar amount of the excess and include a written statement that absent the refund, the Pre-Tax Contributions made under this Plan plus the other contributions described in this Section 5.3 will exceed the Code § 402(g) limit for that calendar year.

(1) Any refund timely requested or deemed requested under this Section 5.3(b) (adjusted for investment gain or loss) will be made no later than the April 15 that immediately follows the date the refund is requested or deemed requested.

(2) Any Pre-Tax Contributions (other than Pre-Tax Contributions described in the second sentence of this Section 5.3(b)(2)) that exceed the limit set forth in Code § 402(g) will be taken into account for purposes of the ADP Test under Section 5.4 regardless of whether the Pre-Tax Contributions are refunded to a Participant in accordance with this Section 5.3(b). Notwithstanding the foregoing, excess Pre-Tax Contributions of a Nonhighly Compensated Employee will not be taken into account for purposes of the ADP Test to the extent the excess arises solely from Pre-Tax Contributions under this Plan and pre-tax contributions under all other qualified plans, contracts and arrangements maintained by the Affiliates to the extent prohibited under Code § 401(a)(30). Excess Pre-Tax Contributions that are refunded under this Section 5.3(b) will not be taken into account for purposes of the Code § 415 limitations under Section 5.2.

(3) Refunds of excess Pre-Tax Contributions will be adjusted for investment gain or loss for the Plan Year for which the deferrals were made in accordance with the regulations under Code § 402(g).

Section 5.4 Code § 401(k) Limitations for Highly Compensated Employees.

(a) ADP Test. The average of the Highly Compensated Employees' ADPs for a Plan Year, when compared to the average of the Nonhighly Compensated Employees' ADPs for the preceding Plan Year will satisfy either of the following tests:

(1) the average of the ADPs for all Highly Compensated Employees is not more than 125% of the average of the ADPs for all Nonhighly Compensated Employees, or

(2) the average of the ADPs for all Highly Compensated Employees is not more than two times the average of the ADPs for all Nonhighly Compensated Employees, and the excess of the average of the ADPs for all Highly Compensated Employees over the average of the ADPs for all Nonhighly Compensated Employees is not more than two percentage points.

In performing the ADP Test for a Plan Year, the applicable averages will be calculated taking into account each Participant who was eligible to make Pre-Tax Contributions at any time during that Plan Year.

(b) Aggregation with Other Plans or Arrangements. The ADP for any Highly Compensated Employee will be determined as if all contributions made on behalf of such Highly Compensated Employee during the same Plan Year under one, or more than one, other plan described in Code § 401(k) maintained by an Affiliate had been made under this Plan or, at the option of the Committee, the Plan may be permissively aggregated with such other plans if they have the same Plan Year and use the same ADP testing method. If this Plan satisfies the coverage requirements of Code § 410(b) only if aggregated with one or more other plans, or if one or more other plans satisfy the coverage requirements of Code § 410(b) only if aggregated with this Plan, this Section 5.4 will be applied by determining the ADPs of all Participants as if all those plans were a single plan.

(c) Other Requirements and Elections. The determination and treatment of the Pre-Tax Contributions and ADP of any Participant will satisfy any other requirements prescribed by the Secretary of the Treasury including any subsequent Internal Revenue Service guidance issued under Code § 401(k), and, in performing the ADP Test, the Committee may use any alternatives and elections authorized under the applicable regulations, rulings or revenue procedures. If the Plan applies Code § 410(b)(4)(B) (exclusion of employees less than age 21 or without one year of service) for Code § 410(b) testing purposes the

Plan will perform the ADP Test using the ADP of each eligible Highly Compensated Employee for the Plan Year and the ADP of each eligible Nonhighly Compensated Employee for the preceding Plan Year, disregarding each eligible Nonhighly Compensated Employee who was not age 21 or had not completed one year of service by the end of the preceding Plan Year.

(d) Action to Satisfy ADP Test.

(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 thereafter from his or her Pre-Tax Contributions that are matched. 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.

(2) Determination of Investment Gain or Loss. Excess Contributions will be adjusted for investment gain or loss for the Plan Year for which the contributions were made in accordance with the regulations under Code § 401(k) but will not be adjusted for investment gain or loss for the period between the end of the Plan Year and the date the Excess Contributions are distributed. Notwithstanding the previous sentence, effective only for the 2006 Plan Year investment gain or loss for the period after the close of the Plan Year and prior to distribution of Excess Contributions, (the “gap period”), shall be distributed and shall be determined using the safe harbor method for allocating gap period income described in Treasury Regulation 1.401(k)-2(b)(2)(iv)(D).

Section 5.5 Code § 401(m) Limitations For Highly Compensated Employees.

(a) ACP Test. The average of the Highly Compensated Employees’ ACPs for a Plan Year, when compared to the average of the Nonhighly Compensated Employees’ ACPs for the preceding Plan Year will satisfy either of the following tests:

(1) the average of the ACPs for all Highly Compensated Employees does not exceed 125% of the average of the ACPs for all Nonhighly Compensated Employees, or

(2) the average of the ACPs for all Highly Compensated Employees is not more than two times the average of the ACPs for all Nonhighly Compensated Employees, and the excess of the average of the ACPs for all Highly Compensated Employees over the average of the ACPs for all Nonhighly Compensated Employees is not more than two percentage points.

In performing the ACP Test for a Plan Year, the applicable averages will be calculated taking into account each Participant who was eligible to make Pre-Tax Contributions at any time during that Plan Year.

(b) Aggregation with Other Plans or Arrangements.

(1) The ACP for any Highly Compensated Employee will be determined as if any "employee contributions" (within the meaning of Code § 401(m)) and any "matching contributions" (within the meaning of Code § 401(m)(4)) allocated to his or her account during the same Plan Year under one, or more than one, other plan described in Code § 401(a) or § 401(k) maintained by an Affiliate had been made under this Plan or, at the option of the Committee, the Plan may be permissively aggregated with such other plans. If this Plan satisfies the coverage requirements of Code § 410(b) only if aggregated with one or more other plans, or if one or more other plans satisfy the coverage requirements of Code § 410(b) only if aggregated with this Plan, then this Section 5.5 will be applied by determining the ACPs of all Participants as if all the plans were a single plan.

(c) Multiple Use Limitation.

(1) For Plan Years beginning 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.

(2) For Plan Years beginning before January 1, 2002, the ACPs of all Highly Compensated Employees will be reduced (beginning with the highest of such percentages) to the extent required under Code § 401(m) and the regulations issued under that section to prevent multiple use of the alternative test described in Code § 401(k)(3)(A)(ii)(II) and in Code § 401(m)(2)(A)(ii) in the same Plan Year. The reduction will be treated as an Excess Aggregate Contribution.

(d) Action to Satisfy ACP Test.

(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 Savings*PLUS* Contributions.

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 Savings*PLUS* Contributions actually contributed to the Plan for the Plan Year.

(2) Determination of Investment Gain or Loss. Excess Aggregate Contributions will be adjusted for investment gain or loss for the Plan Year for which such contributions were made in accordance with the regulations under Code § 401(m) but will not be adjusted for investment gain or loss for the period between the end of the Plan Year and the date the Excess Aggregate Contributions are distributed. Notwithstanding the previous sentence, effective only for the 2006 Plan Year investment gain or loss for the period after the close of the Plan Year and prior to distribution of Excess Aggregate Contributions (the "gap period"), shall be distributed and shall be determined using the safe harbor method of allocating gap period income outlined in Treasury Regulation 1.401(m)-2(b)(2)(iv)(D).

Section 5.6 Roth Contributions Roth Contributions shall be treated as Pre-Tax Contributions under this Article V and if Pre-Tax Contributions are required to be distributed to satisfy any such limitation, such distribution shall be made first from the affected Participant's Roth Contribution Account and if there is an insufficient amount in that account, the remainder of the distribution shall be made from the Participant's Pre-Tax Contribution Account.

ARTICLE VI. VALUATION AND ACCOUNT DEBITS AND CREDITS

Section 6.1 Accounts. The Committee will establish and maintain an Account (composed of such subaccounts as the Committee deems appropriate) in the name of each Participant to which will be credited such sums of cash or other property from time to time contributed or transferred to this Plan together with the earnings, profits and appreciation on those assets and to which will be charged the losses and depreciation on those assets and the Participant's share of the expenses of this Plan and the Trust Funds unless the Employer Companies pay for such expenses.

Section 6.2 Corrections. If an error or omission is discovered in any Account, an appropriate adjustment will be made to such Account and to such other Accounts as deemed appropriate and proper under the circumstances by or at the direction of the Committee in order to remedy such error or omission.

ARTICLE VII. INVESTMENTS

Section 7.1 Investment of Trust Funds.

(a) The Committee shall select Investment Options; provided, however, that one of the Investment Options shall be a fund invested primarily in UPS Stock. It is intended that the Plan satisfy the conditions for the participant-directed investment of Plan accounts contained in ERISA § 404(c) and the regulations thereunder (Labor Regulation Section 2550.404c-1), so as to afford to each Participant the opportunity to exercise control over the assets in his or her Account and to choose, from a broad range of investment alternatives, the manner in which said assets are invested. In accordance with Sections 7.2 through 7.4, each Participant shall have the opportunity to choose, in accordance with such procedures as the Committee or its designee may prescribe, among the Investment Options. The allocation of the Participant's Account among Investment Options must be made in one percent (1%) increments.

(b) In order to provide Participants the opportunity to obtain sufficient information to make informed decisions with regard to Investment Options:

(1) The Committee or its designee shall provide each Participant, by means of the summary plan description or by separate written communication, with the following information:

(i) An explanation that the Plan is intended to constitute a plan described in ERISA § 404(c) and the regulations thereunder, and that the fiduciaries of the Plan may be relieved of liability for any losses which are the direct and necessary result of investment instructions by the Participant.

(ii) With respect to each Investment Option, a general description of the investment objectives and risk and return characteristics of such Investment Option, including information relating to the type and diversification of assets comprising the portfolio of the Investment Option.

(iii) Identification of the investment manager, if any, with respect to each Investment Option.

(iv) An explanation of the circumstances under which Participants may give investment instructions and any limitations or restrictions on such instructions, including any restrictions with respect to transfers to or between Investment Options, and, if voting, tender or similar rights with respect to investments held in an Investment Option are passed through to Participants, any restrictions on such rights.

(v) A description of any transaction fees and expenses that affect the Participant's Account balance in connection with the purchase or sale of interests in the several Investment Options (e.g., commissions, sales loads, deferred sales charges, redemption or exchange fees).

(vi) The name, address and telephone number of the Plan fiduciary (or its designee) that is responsible for the provision of information upon request as described in paragraph (2) below.

(vii) Such other information as may be required to be disclosed to Participants, with respect to an Investment Option, in accordance with Labor Regulation Section 2550.404c-1(b)(2)(B)(1).

(2) The Committee or its designee shall provide each Participant with the following information upon request, based on the latest information available to the Plan:

(i) A description of the annual operating expenses of each Investment Option (e.g., investment management or administrative fees, transaction costs) that reduce the Investment Option's rate of return to Participants and beneficiaries, and the aggregate amount of such expenses expressed as a percentage of the average net assets of the Investment Option.

(ii) Copies of prospectuses, financial statements and reports relating to the Investment Options, to the extent such information is provided to the Plan.

(iii) A list of the assets comprising the portfolio of each Investment Option that constitutes plan assets within the meaning of Labor Regulation Section 2510.3-101, the value of each such asset (or the proportion of the Investment Option of the investment which it comprises), and, with respect to each such asset that is a fixed rate investment contract issued by a bank, savings and loan association or insurance company, the name of the issuer of the contract, the term of the contract and the rate of return on the contract.

(iv) Information concerning the value of shares or units in each Investment Option under the Plan, as well as the past and current investment performance of such Investment Option, determined, net of expenses, on a reasonable and consistent basis.

(v) Such other information as may be required to be disclosed upon request to Participants, with respect to an Investment Option, in accordance with Labor Regulation Section 2550.404c-1(b)(2)(B)(2).

(3) With respect to Participants whose Accounts are invested in the UPS Stock Fund,

(i) The Trustee of the UPS Stock Fund shall provide such Participant with the same information provided to other shareholders of UPS Stock;

(ii) All voting, tender and similar rights with respect to UPS Stock shall be passed through to such Participants as described in Section 7.10; and

(iii) Information relating to the purchase, holding, and sale of UPS Stock, and the exercise of voting, tender and similar rights with respect to UPS Stock shall be maintained in accordance with procedures that are designed to safeguard the confidentiality of such information, except to the extent necessary to comply with Federal laws or state laws not preempted by ERISA.

Section 7.2 Investment of Accounts.

(a) Investment Election. The Trustees shall invest and reinvest each Participant's Account among the Investment Options in accordance with the instructions provided by such Participant, which shall remain in force until altered in accordance with Sections 7.3 and 7.4.

Notwithstanding the foregoing, (a) a Participant may, on a form provided by the Committee, make a separate written election to have his or her Rollover Contribution invested in a manner independent of his or her other subaccounts, so long as such written election is transmitted to the Trustees at the same time as the Rollover Contribution is made to the Plan; (b) a Participant must provide separate investment elections for his or her Roth Contribution Account and (c) a Participant may not invest the Roth Contribution Account in a Self-Managed Account. Such investment directions must be in increments of one percent (1%). Such investment directions must result in the investment of one hundred percent (100%) of the directed amount. Authorizations that do not result in an allocation of one hundred percent (100%) or are incorrect in any other respect will not be processed and the prior investment allocation shall continue in effect. Notwithstanding the foregoing, the Trustees may refuse to follow any investment instructions that the Trustees or the Committee reasonably believes could result in a transaction prohibited under ERISA § 406 or Code § 4975 and for which there is no exemption, could generate income that would be taxable to the Plan, would not be in accordance with the Plan or with ERISA, could cause the Trustee to maintain indicia of ownership of Plan assets outside of the United States, could jeopardize the Plan's tax exempt status or could result in a loss to the Plan in excess of the Participant's Account.

(b) Deemed Investment Elections. If a Participant is deemed to have made a Pre-Tax Contribution election pursuant to Section 3.1(b), and he or she does not make an Affirmative Investment Election, his or her Pre-Tax Contributions will be invested as follows, based on the Participant's date of birth as reflected in the records of the plan administrator at the time of the contribution to the Trust Funds:

Investment Option	Participants Date of Birth
Bright Horizon Income Fund	1900 - 1947
Bright Horizon 2010 Fund	1948 - 1952
Bright Horizon 2015 Fund	1953 - 1957
Bright Horizon 2020 Fund	1958 - 1962
Bright Horizon 2025 Fund	1963 - 1967
Bright Horizon 2030 Fund	1968 - 1972
Bright Horizon 2035 Fund	1973 - 1977
Bright Horizon 2040 Fund	1978 - 1982
Bright Horizon 2045 Fund	1983 - 1987
Bright Horizon 2050 Fund	1988 - 1992

If, for any reason, the plan administrator's records as to the Participant's date of birth are not correct, (a) the plan administrator will correct the incorrect data as soon as administratively practicable after it is notified, in writing, of the error and (b) the Pre-Tax Contributions made to the Plan prior to such correction will remain invested in the Investment Options designated by the date of birth on the plan administrator's records at the time the Pre-Tax Contribution was made to the Plan, until such time as the Participant makes an Affirmative Investment Election. The Trustee shall invest and reinvest each Participant's Account among the Investment Options in accordance with the deemed investment elections provided by this Section 7.2(b), which shall remain in force until altered in accordance with Sections 7.2(a), 7.3 and 7.4. For purposes of this Section 7.2 and Section 3.1(b), an Affirmative Investment Election means a Participant's election to direct his or her Account in accordance with Section 7.2(a).

Section 7.3 Investment Allocation of Future Contributions. Each Participant may elect to change the investment allocation of future Pre-Tax Contributions or After-Tax Contributions at any time. Each election to change a Participant's investment allocation among Investment Options shall be made via the VRU or in accordance with such other procedures as are prescribed by the Committee or its designee from time to time, and shall be effective as soon as practicable following the receipt thereof. Such election shall apply uniformly to all future Pre-Tax Contributions and After-Tax Contributions made by or on behalf of the Participant. Changes must be in increments of one percent (1%). Changes must result in a total investment of one hundred percent (100%) of the Participant's contributions under the Plan. Authorizations that do not result in an allocation of one hundred percent (100%) of the Participant's future contributions or are incorrect in any other respect will not be processed and the prior investment allocation shall continue in effect.

Section 7.4 Transfer of Account Balances Between Investment Options. Each Participant may elect to transfer the balances in his or her Account among the Investment Options at any time. Transfers pursuant to this Section 7.4 shall apply uniformly to all amounts allocated to each subaccount within the Participant's Account at the time of such election. 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. Such transfers must be in increments of one percent (1%). Such transfers must result in the investment of one hundred percent (100%) of the Participant's Account. 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.

Section 7.5 Ownership Status of Funds. The assets of each Investment Option shall be owned by one of the Trustees. The applicable Trustee or a recordkeeper designated by the Committee shall maintain or have maintained records for each Investment Option allocating a portion of the investment representing such Investment Option to each Participant who has elected that his or her Account be invested in such Investment Option. The records shall reflect the U.S. dollar value of each Participant's portion of each Investment Option.

Section 7.6 Statements. The Committee or its designee shall furnish to each Participant, at least annually, a statement of his or her Account.

Section 7.7 Transition Period to Implement Plan Changes. In connection with a change in record keepers, trustees, or other service providers for the Plan, a change in the methodology for valuing accounts, a change in investment options, a plan merger or other circumstances, a temporary interruption in the normal operations of the Plan may be required in order to properly implement such change or merger or take action in light of such circumstances. In such event or under such circumstances, the Committee, may take such action as it deems appropriate under the circumstances to implement such change or merger or in light of such circumstances, including authorizing a temporary interruption in a Participant's ability to obtain information about his or her Account, to take distributions from such Account and to make changes in the investment of that Account, provided the Committee will take appropriate action as to give Participants as much advance notice of the interruption as possible and to minimize the scope and length of the interruption in normal Plan operations. In addition, when changing Investment Options, the Committee will take such action as it deems appropriate under the circumstances to direct the investment of the funds pending completion by a Trustee of the administrative processes necessary to transfer investment authority to the Participants, including, but not limited to, mapping monies from old funds to new funds. Notwithstanding the foregoing, one Investment Option will be a fund designed to invest primarily in UPS Stock.

Section 7.8 Alternate Payees and Beneficiaries. Solely for purposes of this Article VII, an Alternate Payee or a Beneficiary who was the spouse of a Participant and who elects the installment distribution form in accordance with Section 9.5(b) will be treated as a Participant.

Section 7.9 Investment in UPS Stock. The Trustee of the UPS Stock Fund may purchase UPS Stock from any source, provided that the Trustee will pay no more than Fair Market Value for any share. The Trustee may purchase either outstanding shares, newly issued shares, or treasury shares. To the extent that the Trustee needs to obtain cash, the Trustee may sell UPS Stock to the Employer for no less than Fair Market Value. The Committee shall direct the Trustee as to its responsibilities to suspend purchases of UPS Stock when such suspension is necessary to comply with any applicable law or applicable stock exchange rule or regulation in which event purchases will be made or resumed when the Committee reasonably concludes that purchases are permitted under applicable law. The recordkeeper selected by the Committee will account for the cost or other basis of all UPS Stock held in the UPS Stock Fund in accordance with section 1.402(a)-1(b)(2)(ii) of the income tax regulations under the Code.

Section 7.10 Voting and Tender Rights of UPS Shares. The Employer has engaged a third party recordkeeper, which has the responsibility to maintain Participant records, including the names, addresses and number of shares of Participants and Beneficiaries holding UPS Stock. The recordkeeper's duties with regard to proxies is to provide the Trustee of the UPS Stock Fund with a list which includes the name, address and number of shares held for each Participant and Beneficiary as of the applicable date. That Trustee has the responsibility to furnish Participants and Beneficiaries with the information set forth in Section 7.1(b)(4), to reconcile the number of shares that are voted or tendered by Participants and Beneficiaries and to vote or tender the remaining shares pursuant to Sections 7.10(a) and 7.10(b).

(a) Voting of UPS Shares. Shares of UPS Stock will be voted by the Trustee of the UPS Stock Fund as directed by the Participants or Beneficiaries invested in the UPS Stock Fund. All shares of UPS Stock will be voted by the Trustee in the same proportion as voting instructions are timely received by the Trustee. When determining the percentage of shares to be voted in favor of or against a particular measure, the Trustee will disregard shares of UPS Stock for which the Trustee has not timely received voting instructions. For example, if Participants and Beneficiaries fail to timely provide voting instructions on 25% of the UPS Stock Fund, all shares of UPS Stock held in the UPS Stock Fund will be voted in accordance with the timely instructions received for 75% of the UPS Stock.

(b) Tender of UPS Shares. In the event of a tender offer for UPS Stock, shares of UPS Stock will be tendered or not tendered as directed by the Participants or Beneficiaries. The failure to give a timely direction to tender is deemed to be a direction not to tender.

(c) Communication. The Trustee will (in an appropriate and timely manner) furnish, or cause to be furnished, to Participants and Beneficiaries who are entitled to direct the Trustee whether to tender the shares of UPS Stock allocated to his or her Account with the same information and notices as are furnished to other shareholders who are entitled to vote or entitled to tender regarding the matters to be voted upon or the tender offer and will provide them with adequate opportunity to deliver their instructions to the Trustee. The Trustee in its discretion will determine the manner in which instructions with respect to the voting or tender of UPS Stock will be given and any such instructions will be confidential.

ARTICLE VIII. VESTING

Each Participant shall at all times have a fully vested nonforfeitable interest in the value of his or her Account.

ARTICLE IX. DISTRIBUTIONS, WITHDRAWALS AND TRANSFERS

Section 9.1 General. A Participant may request distribution of his or her Account when he or she has a Severance from Employment and a Participant may request a withdrawal from his or her Account before a Severance from Employment to the extent provided in Sections 9.8, 9.9 and 9.10.

Section 9.2 Severance from Employment. As a general rule, if a Participant has a Severance from Employment he or she may request a distribution of his or her Account and the Account will be paid to him or her as soon as practicable (but, generally, no earlier than thirty (30) days) after the Severance from Employment. However, no payment will be made without the Participant's consent before age seventy and one-half (70 $^1/_2$) if the value of the vested portion of his or her Account is equal to or exceeds one thousand dollars ($1,000). A lump sum payment will automatically be made to a Participant as soon as practicable, without his or her consent, if the value of his or her Account is less than $1,000.

Section 9.3 Deferral of Payment until 70 1/2. Unless a Participant consents to an earlier distribution or consent is not required under Section 9.2, the Participant 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 the date of such Participant's death or the date such Participant attains age seventy and one-half (70 1/2) or has a Severance from Employment, whichever is later, or for a Participant who is a five percent (5%) owner (as defined in Code § 416), the date that such Participant has a Severance from Employment.

If a Participant consents to payment or the Participant's consent is not required under 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.

Section 9.4 Required Beginning Date. Notwithstanding the foregoing, 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 (70 1/2) 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, the Plan will apply 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.

Section 9.5 Distribution Form.

(a) Normal Form. Distribution of each Participant's Account shall be made in a lump sum of the Participant's entire Account, unless the Participant elects a partial distribution, installments under Section 9.5(b) or another distribution option available under Appendix 14.3 as a result of a merged plan. A Participant who has a Severance from Employment may request a distribution of less than his or her entire Account balance. There is no minimum amount for such partial distributions and each partial distribution is subject to a service fee established by the Committee.

(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) for installments that begin before

January 1, 2007, he or she has 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, (2) 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, and (3) has an account established at a financial institution that can accept wire transfer 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) as of the last business day of the month prior to the date of payment divided by the number 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 to be paid in installments at a Participant's seventieth (70^{th}) birthday shall be paid out in a lump sum as soon as practicable thereafter.

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.

Section 9.6 Death.

(a) General. Subject to the provisions set forth in Appendix 14.3, if a Participant dies before his or her Account is paid to him or her in full, the remaining portion of the Account will be paid to his or her Beneficiary determined in accordance with (b) below.

(b) Determination of Beneficiary. A Participant's Beneficiary(ies) will be determined as follows:

(1) Except as otherwise provided below, a Participant's sole primary Beneficiary will be his or her surviving spouse, if the Participant is lawfully married on the date of his or her death.

(2) If the Participant was not lawfully married at death, if the Participant's surviving spouse consented in writing before a notary public to the designation of some other person or persons as the Participant's Beneficiary or if the Committee determines that spousal consent is not required under the Code or ERISA, then the Participant's Beneficiary will be the person or persons so designated in writing by the Participant on a form satisfactory to the Committee in accordance with (c) below.

(3) The Participant's Beneficiaries will be the surviving children of the Participant, in equal shares, if any of the following apply:

(i) The Participant did not have a spouse and failed to properly designate another Beneficiary;

(ii) Neither the Participant's spouse, if any, nor any other Beneficiaries survive the Participant; or

(iii) After following the procedures in Section 9.19 (Forfeiture in Case of Unlocatable Participant), the whereabouts of each person designated as a Beneficiary is unknown and no death benefit claim is submitted to the Committee prior to December 31 of the calendar year following the calendar year in which the Participant died.

(4) If a Beneficiary is not identified and located pursuant to Section 9.6 (b)(1), (2) or (3), the Participant's Account will be paid to the Participant's estate.

(c) Designation of Beneficiaries. A Participant may designate one or more Beneficiaries in a manner satisfactory to the Committee which may include among other things, the use of an approved form, an on-line method via the Plan administrator's website, or telephonically. A Participant may designate both primary Beneficiaries and contingent Beneficiaries. Unless clearly indicated otherwise by the Participant in his or her Beneficiary designation made in accordance with this Section 9.6(c): (1) if the Participant designates multiple primary Beneficiaries or multiple contingent Beneficiaries, each will share equally in the Account and (2) persons designated as contingent Beneficiaries will be treated as the Participant's Beneficiaries only if each of the Participant's primary Beneficiaries fail to survive the Participant or cannot be located at the time of the distribution of the Participant's Account. A Participant may change his or her designation of Beneficiary from time to time, provided, however, that if the Participant's spouse, if any, is not the sole primary Beneficiary of the Account, such spouse, if any, must consent to the designation of other Beneficiaries in writing before a notary public. No such designation or change will be effective unless and until it is received by the Committee prior to the Participant's death. Effective as of the merger of the QSOP into this Plan, the Beneficiary designations under this Plan will supersede and replace any and all Beneficiary designations made for the QSOP.

(d) Payment to Beneficiary. Subject to 9.5(b), a Beneficiary's interest in the Account of a deceased Participant will be paid to him or her in a single lump sum as soon as practicable after the Committee determines that the person has an interest in the Account. Distribution will be completed by December 31 of the calendar year containing the fifth anniversary of the date of the Participant's death.

(e) Information to the Committee. In its discretion, the Committee may require a copy of the Participant's death certificate and such other information as the Committee deems relevant to be submitted by the Beneficiary when making a request for death benefits under the Plan.

Section 9.7 Distribution Pursuant to a Qualified Domestic Relations Order. Any portion of a Participant's Account that is awarded to an alternate payee by reason of a qualified domestic relations order in accordance with Section 15.5(c) will, to the extent provided in such order, become available for distribution as soon as practicable following the determination by the Committee that the order meets the requirements of Code § 414(p). If the qualified domestic relations order so provides, an alternate payee may receive a lump sum distribution of less than the entire balance credited to that portion of the Participant's Account allocated to such alternate payee. There is no minimum amount for such partial distributions and each partial distribution is subject to a service fee established by the Committee.

Section 9.8 In-Service Withdrawals. A Participant may make a withdrawal from his or her Account, other than the Self-Managed Account, before his or her Severance from Employment in accordance with the rules of this Section 9.8 or, in the case of a Merged Account, in accordance with the rules of Section 9.10.

(a) After-Tax Contribution Account and Rollover Contribution Account. A Participant may withdraw all or a portion of his or her After-Tax Contribution Account or his or her Rollover Contribution Account at any time by making a request for withdrawal via VRU or in accordance with such other procedures prescribed by the Committee or its designee from time to time.

The Participant's After-Tax Contribution Account or Rollover Contribution Account shall both be considered a separate "contract" for purposes of Code § 72(d) and a withdrawal from those subaccounts will be allocated on a pro rata basis with respect to the pre-and post-tax monies held in such subaccount.

A Participant's subaccount for after-tax contributions under a Merged Account shall be treated as part of his or her After-Tax Contribution Account and a Participant's subaccount for rollover contributions under a Merged Account shall be treated as a part of his or her Rollover Contribution Account for purposes of this Section 9.8.

(b) Withdrawals After Age Fifty-Nine and One-Half (59 1/2). A Participant may withdraw all or a portion of his or her Pre-Tax Contribution Account, Roth Contribution Account or, if applicable, any subaccount for pre-tax contributions or roth contributions under a Merged Account after age fifty-nine and one-half (59 1/2), by submitting a request for withdrawal via VRU or in accordance with such other procedures prescribed by the Committee or its designee for this purpose.

(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)**.**

(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)), or

(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)

(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.

Finally, the hardship withdrawal rules in this Section 9.8(c) 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.

(d) Payment of Withdrawal. Payment of the amount requested under Section 9.8 if permitted will be made to the Participant in a single lump sum as soon as practicable after his or her election is processed.

Section 9.9 Disability. A Participant who has been absent for more than 52 weeks on account of Disability (but who has not experienced a Severance from Employment) and whose Disability continues through the date of withdrawal under this Section 9.9 may withdraw all or any portion of his or her Account, other than the Self-Managed Account, at any time by submitting a request for withdrawal in accordance with the procedures adopted by the Committee for this purpose. Such withdrawal shall be subject to any additional restrictions, uniformly applied with respect to Participants similarly situated, as are prescribed by the Committee regarding the, other than the Self-Managed Account, frequency and minimum amount of such withdrawal.

Section 9.10 Other In-Service Withdrawals. A Participant who was a participant in a Merged Plan may make an in-service withdrawal from his or her Merged Account, other than the Self-Managed Account, as described in Appendix 14.3.

Section 9.11 Redeposits Prohibited. No amount withdrawn pursuant to Sections 9.8, 9.9 or 9.10 may be redeposited in the Plan.

Section 9.12 Medium of Distribution.

All distributions shall be made in cash; provided, however that the portion of an Account that is invested in the UPS Stock Fund will be made (a) entirely in cash, or (b) as selected by the distributee in whole shares of UPS Stock and cash in lieu of any fractional share of UPS Stock. Hardship distributions made pursuant to § 9.8(c) will be made in cash only.

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 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 § 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), or to a qualified defined contribution plan described in Code § 401(a) or Code § 403(a) 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), 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 Section 9.4 shall apply for purposes of determining the amount of the distribution that may be transferred to the Inherited IRA.

Section 9.14 30-Day Waiver. A distribution may commence less than thirty (30) days after the notice required with respect to such distributions under Code § 411(a)(11) ("Notice") is given, provided that:

(a) the Notice informs the Participant that he or she has the right to a period of at least thirty (30) days after receiving the Notice to consider the decision of whether or not to elect a distribution (and, if applicable, a particular distribution option), and

(b) the Participant, after receiving the Notice, affirmatively elects a distribution within the thirty (30)-day period.

Section 9.15 Withholding Obligations. The amount of any payment from an Account will be reduced as necessary to satisfy any applicable tax withholding requirements with respect to such payment.

Section 9.16 Account Balance. A payment from an Account may be delayed pending the completion of allocations to the Account if necessary to avoid underpayment or overpayment.

Section 9.17 Reemployment. Except as provided in Section 9.4 or in connection with an in-service withdrawal, no payment will be made from an Account if a Participant is reemployed as an Employee before payment is made.

Section 9.18 Claims Procedure. All grievances, complaints or claims concerning any aspect of the operation or administration of the Plan or Trust Funds, including a claim for benefits hereunder (collectively, a "claim for benefits" or "claim") must be directed to the Committee or to a member of the Committee designated for that purpose. Each claim for benefits must be filed with the Committee, in writing, within 12 months of the date benefit payments were requested to begin or the date of the action, or inaction, causing the claim for benefits

Within ninety (90) days following receipt of a claim for benefits, the Committee will determine whether the claimant is entitled to benefits, or other administrative action, under the Plan, unless additional time is required for processing the claim. In this event, the Committee will, 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, and such decision will be made within one hundred eighty (180) days of the date the claim is filed.

A denial by the Committee of a claim for benefits will be stated in writing and delivered or mailed to the claimant. The notice will set forth the specific reasons for the denial, written in a manner calculated to be understood by the claimant. The notice will 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, the steps to be taken if the claimant wishes to submit his or her claim for review, a description of the Plan's review procedures, the time limits applicable to such procedures, and a statement of the claimant's right to bring a civil action under ERISA § 502(a) after all claims appeal procedures have been exhausted.

The Committee will 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 or her claim. Pursuant to this review, the claimant or his or her duly authorized representative may review any documents, records and other information which are pertinent to the denied claim and may submit issues and comments in writing. A claimant may also submit documents, records and other information relating to his or her claim, without regard to whether such information was submitted in connection with his or her original benefit claim.

A decision on the claimant's appeal of the denial of a claim for benefits shall ordinarily be made by the Committee at the next regularly scheduled meeting that immediately follows 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 decreeing 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 will be in writing and will 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, a statement that the claimant or his or her authorized personal representative may review any documents and records relevant to the claim determination, a statement describing any further voluntary appeals procedure, if any, and a statement of the claimant's right to bring a civil action under ERISA § 502(a).

Section 9.19 Forfeiture in Case of Unlocatable Participant. If the Committee is unable to pay any benefits under the Plan to any Participant or to a Beneficiary of any Participant who is entitled to benefits under this Plan because the location of such person cannot be ascertained, the Committee will proceed as follows:

(a) Within 90 days of the date any benefits are payable under this Plan, the Committee will send an appropriate notice to such individual, to the last address for such individual listed in the Committee's records.

(b) If this notice is returned as unclaimed or the individual cannot be located at the end of the ninety (90)-day period which follows the ninety (90)-day period referred to in Section 9.19(a), the Committee will send a notice to the last address listed in its records for the individual and will attempt to locate such individual through a commercial locator service.

(c) If such individual has not been located by the December 31 of the calendar year following the calendar year in which benefits become payable and in the case of a Beneficiary, there is no alternate Beneficiary identified under the procedures of Section 9.6, all amounts held for his or her benefit will be forfeited and all liability for payment of that benefit will terminate, unless some other procedure is permitted or required by law. In any such case, the funds released as a result of such forfeiture each Plan Year will be applied as provided in Section 9.19(d). However, if an individual subsequently makes what the Committee determines to be a valid and proper claim to the Committee for his or her benefit that was forfeited, the forfeited amount will be restored without interest and will be distributed in accordance with the terms of this Plan.

(d) Forfeitures shall be applied in the next following Plan Year and in subsequent Plan Years to the following items in the order set forth below until all the forfeitures have been so applied:

(i) to restore each previously forfeited benefit upon a valid and proper claim as described in Section 9.18;

(ii) to pay the reasonable and proper expenses of the Plan and Trust Funds as provided under Article XII; and

(iii) to offset future Savings*PLUS* Contributions.

To the extent forfeitures for any Plan Year exceed amounts described in (i) through (iii), such excess forfeitures shall be allocated to each Participant who is an Eligible Employee for such Plan Year on a per capita basis.

Section 9.20 Distribution/Transfer Processing Rules. All distributions, transfers and other transactions will be processed via VRU or in accordance with such other procedures as may be prescribed from time to time by the Committee or its designee, or the Trustee, including procedures regarding the use of reasonable blackout periods during which no transactions are processed.

ARTICLE X. LOANS

Section 10.1 Hardship Loans.

(a) Hardship Loans. 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 Saving*PLUS* Account or Roth Contributions Account or invested in a Self-Managed Account shall not be available for hardship loans. A Participant may apply for a second loan while a first loan is outstanding, provided that repayment on the first loan is being made in a timely manner. Subject to Section 10.2 and Section 10.3, no more than two loans may be outstanding at any one time, and any loan balance which is “rolled over” into a Participant’s Account or a loan from a Merged Plan shall be counted for the purpose of this limitation. Notwithstanding the immediately preceding sentence, subject to Section 10.2, Participants who are employees of Menlo Worldwide Forwarding, Inc may have up to three loans “rolled over” at the time of they become an Eligible Employee. Any loan application must satisfy spousal consent rules, if applicable. Application for a loan may be made only for the following purposes:

(1) the purchase of a principal residence.

(2) the payment of tuition and related educational fees, including room and board expenses, for the next twelve (12) months of post- secondary education for a Participant, his or her spouse or dependents (as defined in Code § 152, without regard to Code §§ 152(b)(1), 152(b)(2) and 152(d)(1)(B)).

(3) the payment of expenses for medical care (as described in Code § 213(d)) previously incurred by the Participant, his or her spouse or any dependents (as defined in Code § 152, without regard to Code §§ 152(b)(1), 152(b)(2) and 152(d)(1)(B)), or necessary for those persons to obtain medical care.

(4) the payment to prevent eviction from or foreclosure on a Participant’s principal residence.

(5) the payment of expenses in connection with the adoption of a child.

(6) the payment of unreimbursed funeral expenses for a family member of a Participant. For this purpose “family member” shall mean the spouse of a Participant, the child of a Participant or the Participant’s spouse, the parent or step-parent of a Participant or the Participant’s spouse, the brother or sister of a Participant or the Participant’s spouse, the grandparent of a Participant or the Participant’s spouse, or the grandchild of a Participant or the Participant’s spouse.

(7) 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.

(b) Administration. The Committee will be the named fiduciary responsible for the administration of the loan program under this Plan. The Committee will establish objective nondiscriminatory written procedures for that loan program in compliance with Labor Regulation Section 2550.408b-1. Those procedures and any amendments to those procedures, to the extent not inconsistent with the terms of this Plan, are incorporated by this reference as part of this Plan.

(c) Statutory Requirements.

(1) General. All loans made under this Plan will comply with the following requirements under ERISA § 408(b)(1):

(i) Each Participant or Beneficiary of a deceased Participant who is a "party-in-interest" (as defined in ERISA § 3(14)) may request a loan from the Plan.

(ii) Loans will be made available to Participants and Beneficiaries who are eligible for a loan on a reasonably equivalent basis.

(iii) Loans will not be made available to Highly Compensated Employees in an amount greater than the amount made available to other Employees.

(iv) Loans will be made in accordance with specific provisions regarding loans set forth in this Plan and the written loan procedures established by the Committee.

(v) Loans will bear a reasonable rate of interest as set by the Committee.

(vi) Loans will be adequately secured.

(2) Repayment Period.

(i) Principal and interest on the loan must be repaid in substantially level installments with payments not less frequently than quarterly over a period of five (5) years or less, or up to fifteen (15) years in the case of a residential loan.

(ii) The Committee may establish such rules as it deems necessary or appropriate for the repayment of loans, including a cure period for repayments. Effective as of July 31, 2000, the Committee may permit a Participant who is on a bona fide leave of absence either without pay or with pay that is at a rate that is less than the amount of the installment payments required under the terms of the loan to suspend repayment for the period of the absence (but not to exceed a year, except in the case of a Participant who is performing qualified military service within the meaning of Code § 414(u)(5)). If payments are suspended, the loan will be reamortized on the date that such Participant is no longer entitled to a suspension at the then outstanding principal and interest (including interest accrued during the absence) in substantially equal installments over the remaining loan term. The loan term for a Participant engaged in qualified military service within the meaning of Code § 414(u)(5) shall be extended by the period of such service. Except in the case of a Participant engaged in qualified military service within the meaning of Code § 414(u)(5), in no event shall any loan become due and payable later than the applicable period described in Section 10.1(c)(2)(i). In the case of a suspension of loan payments during a period of qualified military service within the meaning of Code § 414(u)(5), the loan must be paid in full (including interest that accrues during such period) by the end of the original term extended by the period of military service.

(iii) A loan made under this Section 10.1 shall become due and payable in full

(A) if a Participant's employment as an Employee terminates for any reason whatsoever unless such Participant remains a "party-in-interest" with respect to this Plan following his termination of employment,

(B) if the Committee or a Trustee conclude that the Participant or Beneficiary no longer is a good credit risk, or

(C) to the extent permissible under federal law, if a Participant's or Beneficiary's obligation to repay the loan has been discharged through a bankruptcy or any other legal process or action which did not actually result in payment in full.

(3) Limitations on Amounts. No loan will be available to a Participant or a Beneficiary under this Section 10.1 if the Committee determines he or she would be unable to repay such loan in a timely fashion. The principal amount of a loan made under this Plan to a Participant or Beneficiary, together with the outstanding principal amount of any loan made under any plan maintained by an Affiliate that satisfies the requirements of Code §§ 401 or 403, may not exceed the lesser of:

(i) Fifty percent (50%) of that person's vested portion of his or her Account (excluding any amounts in such person's SavingsPLUS Account, Roth Contribution Account and Self-Managed Account and subject to any special consent requirements under Appendix 14.3.) at the time the loan is made, or:

(ii) Fifty Thousand Dollars ($50,000), reduced by the excess (if any) of:

(A) the highest outstanding balance of any previous loans from this Plan and any other plan maintained by an Affiliate during the one-year period ending immediately before the date on which the current loan is made over

(B) the outstanding balance of the previous loans on the date on which the current loan is made.

(iii) Minimum Loan Amount. The minimum loan amount is one thousand dollars ($1,000).

(4) Interest Rate. The interest rate for a loan made under this Section 10.1 shall be one percent above the prime rate as published in the *Wall Street Journal* as of the last business day of the month preceding the month in which the loan application is made. The interest rate will remain fixed for the duration of the loan.

(5) Method of Repayment. Repayment of a loan made under this Section 10.1 shall be made through payroll withholding except that payment by check will be permitted under any circumstances where the Committee determines that payroll deduction would be impracticable or prohibitive. Further, a loan may be repaid in full at any time prior to the expiration of the installment period of such loan by a single sum payment to the Trustees of the outstanding principal balance then due plus any accrued but unpaid interest. All repayments made to an Affiliate shall be transferred to the Trustees as soon as practicable after such Affiliate deducts them or receives them.

(6) Security and Default.

(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 (i) the outstanding principal and interest due under such loan or (ii) fifty percent (50%) of his or her total vested interest in his or her Account (excluding any amounts in such person's SavingsPLUS Account, Roth Contribution Account and Self-Managed Account).

(ii) The events of default shall be set forth in the promissory note and security agreement which evidences the loan, and such events may include the following:

(A) failure to repay the loan before the end of the five (5) year maximum period or fifteen (15) year period in the case of a residential loan set forth in Section 10.1(c)(2).

(B) failure to repay the amount due and payable on the loan upon the occurrence of an event described in Section 10.1(c)(2)(iii).

(iii) Upon default of a loan the Trustees shall upon direction by the Committee foreclose on such loan and exercise the Plan's security interest in the Participant's or Beneficiary's Account by reducing the amount otherwise distributable to him or her under this Plan by the principal amount of the loan plus any accrued but unpaid interest then due at the time of default as determined without regard to whether the loan had been discharged through a bankruptcy or any other legal process or action which did not actually result in payment in full.

(iv) The Committee shall have the power to direct the Trustees to take such action as the Committee deems necessary or appropriate to stop the payment of an Account to or on behalf of a Participant or Beneficiary who fails to repay a loan (without regard to whether his or her obligation to repay such loan had been discharged through a bankruptcy or any other legal process or action) until his or her Account has been reduced by the principal plus accrued but unpaid interest due (without regard to such discharge) on such loan or to distribute the note which evidences such loan in full satisfaction of any interest in such Account which is attributable to the value of such note.

(7) Distribution and Default. The vested portion of an Account actually payable to an individual who has an outstanding loan will be determined by reducing the vested portion of an Account by the amount of the security interest in the Account. Notwithstanding anything to the contrary in this Plan or in the written loan procedures, in the event of default, foreclosure on the note and execution of the security interest in an Account will not occur until a distributable event occurs under this Plan.

(8) Other Conditions. Any loan made under this Plan shall be subject to such other terms, limitations and conditions as the Committee from time to time shall deem necessary or appropriate

(9) Accounting. A loan to a Participant shall be considered a separate investment of the Account of the Participant. The proceeds of the loan shall be withdrawn pro rata from each Investment Option in which the Participant's Account is invested at the time of the loan and repayments of principal and interest on the loan shall be invested in the Investment Options in effect at the time of repayment pursuant to the Participant's investment election under Article VII.

Section 10.2 Rollover of Loan Balances. An Eligible Employee who becomes an Eligible Employee as a result of an acquisition by the Employer or an Affiliate may elect to rollover one or more loans from another qualified retirement plan in connection with the rollover of the Participant's entire balance under such plan. Notwithstanding the foregoing, if a Participant rolls over more than two loans under this Section 10.2 such Participant may not apply for or take a new loan under Section 10.1(a) until he or she has repaid in full all but one loan, and after such repayment such Participant shall be subject to the limitation set forth in Section 10.1(a). Notwithstanding anything in this Plan to the contrary, in no event shall a loan rolled over from another qualified retirement plan include any amounts distributed from a designated Roth account (as defined in Treasury regulation Section 1.402A-1, Q&A-1).

Section 10.3 Loans from Merged Plans. Any outstanding loan under a Merged Plan shall continue to be repaid under this Plan following the merger in accordance with Appendix 14.3. Notwithstanding the foregoing, if a Participant had more than two loans under a Merged Plan such Participant may not apply for or take a new loan under Section 10.1(a) until he or she has repaid in full all but one loan, and after such repayment such Participant shall be subject to the limitation set forth in Section 10.1(a).

ARTICLE XI. TRUST FUND

Section 11.1 Trustee Responsibilities. The Trustees will hold in trust all assets of the Trust Funds and will manage, invest and administer the Trust Funds in accordance with the terms of the trust agreements between the Employer and the Trustees, as amended from time to time, and incorporated herein by reference and this Plan without distinction between principal and income and the Trustees will be responsible for valuing all assets other than UPS Stock.

ARTICLE XII. EXPENSES

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 amoung all of the Accounts on a pro rata 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.

ARTICLE XIII. ADMINISTRATIVE COMMITTEE

Section 13.1 Committee. The Plan will be administered by a Committee consisting of not less than three members appointed by the Board, each of whom is and shall be a "named fiduciary" with respect to the Plan. The Committee will be the "plan administrator" of the Plan as that term is used in ERISA and the agent for service of process on or with respect to the Plan.

Section 13.2 Vacancies on Committee. Committee members will serve at the pleasure of the Board, and all vacancies will be filled by the Board. Committee members may resign at any time, such resignation to be effective when accepted by the Board.

Section 13.3 Authority of Committee. The Committee will establish rules for the administration of the Plan, and will decide all questions arising in the administration of the Plan not specifically delegated or reserved to the Board, the Employer or the Trustees. Except as otherwise expressly provided in this Plan, the Committee will have the exclusive right and complete discretion and authority to control the operation, management and administration of this Plan, with all powers necessary to enable the Committee to properly carry out such responsibilities, including but not limited to, the power to interpret the Plan, to construe the Plan's terms, and to decide any matters arising in and with respect to the administration and operation of the Plan, and, subject to the claims procedure described in Section 9.18, any interpretations or decisions so made will be final and binding on all persons; provided, however that all such interpretations and decisions will be applied in a uniform manner to all similarly situated persons.

Section 13.4 Action by Committee. The Committee will act by a majority of the Committee members at that time in office. Such action may be taken either by a vote at a meeting or in writing without a meeting. The Committee may appoint subcommittees and also may authorize any one or more of the Committee members or any agent to execute any document or documents or to take any other action on behalf of the Committee, except that no member of the Committee will have the right to take any such action on any matter relating solely to himself or herself or to any of his or her rights or benefits under the Plan.

Section 13.5 Liability of the Committee. The Committee and its members, to the extent of the exercise of their authority, will discharge their duties with respect to the Plan in accordance with ERISA. No member will be responsible for the actions or omissions of another member or of any other party that is a fiduciary with respect to this Plan, other than himself or herself, which are not in conformity with the Plan or ERISA, unless (a) the member knowingly participates in or knowingly conceals such conduct which he or she knows to be in breach of this standard, (b) his or her own conduct has enabled the other member or other fiduciary to be in breach of this standard, or (c) he or she 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 13.6 Authority to Appoint Officers and Advisors. The Committee may appoint such officers as it may deem advisable and may adopt by-laws covering the transaction of its business. The Committee may appoint and employ an Investment Manager or Managers, counsel, agents and such other service providers, including clerical, accounting and advisory service providers, as it may require in carrying out the provisions of the Plan, and will be fully protected in relying upon any action taken in reliance upon advice given by such persons.

Section 13.7 Committee Meeting. The Committee will hold meetings at such place or places, and at such time or times as it may determine from time to time, but not less frequently than once each calendar quarter.

Section 13.8 Compensation and Expenses of Committee. The members of the Committee may receive reasonable compensation for their services as the Board from time to time may 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, will constitute expenses of the Trust Funds unless paid by the Employer Companies. Notwithstanding the foregoing, any Committee member who is employed on a full-time basis by an Employer Company will receive no compensation, but may be reimbursed for expenses incurred.

Section 13.9 Records. The Committee will keep or cause to be kept accurate and complete books and records.

Section 13.10 Fiduciary Responsibility Insurance, Bonding. If the Employer has not done so, the Committee may purchase 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 such insurance, to the extent purchased by the Plan, 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 will be borne by the Trust Funds, unless the insurance is paid for by the Employer. The Committee will also obtain a bond covering all of the Plan's fiduciaries, to be paid from the assets of the Trust Funds.

Section 13.11 Delegation of Specific Responsibilities. The members of the Committee may agree in writing signed by each member to allocate to any one of their number or to other persons (including corporations or other entities) any of the responsibilities with which they are charged pursuant hereto, including the appointment of a record keeper and one or more Investment Managers, provided any agreement allocating such duties will be in writing and kept with the records of the Plan and, in the case of the appointment of an Investment Manager, the person is a named fiduciary. If such delegation is made to a person who is not a member of the Committee, that person or, in the case of a corporation or other entity, its responsible officer, will acknowledge the acceptance and understanding of such duties and responsibilities.

Section 13.12 Allocation of Responsibility Among Fiduciaries for Plan and Trust Administration. The fiduciaries of this Plan, including the Trustees, the Employer, the Board and the Committee, will have only those specific powers, duties, responsibilities and obligations as are specifically given them under this Plan. Each fiduciary warrants that any directions given, information furnished, or action taken will be in accordance with the provisions of the Plan 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, and is not required under this Plan to inquire into the propriety of any such direction, information or action. It is intended that each fiduciary will be responsible for the proper exercise of its own powers, duties, responsibilities and obligations under this Plan and will not be responsible for any act or failure to act of another fiduciary. No fiduciary guarantees the Trust Funds in any manner against investment loss or depreciation in asset value.

Section 13.13 Indemnification. The Employer (to the extent permissible under the Employer's charter and by-laws and applicable law) will indemnify the officers and employees of the Employer and each Employer Company and the members of the Committee, and their heirs, successors and assigns from and against any liability, assessment, loss, expense or other cost of any kind or description whatsoever, including legal fees and expenses, actually incurred by him or her on account of any action or proceeding, actual or threatened, that arises as a result of his or her acting within the scope of his or her authority under this Plan, provided (a) such action or proceeding does not arise as a result of his or her own gross negligence, willful misconduct or lack of good faith and (b) such protection is not otherwise provided through insurance.

ARTICLE XIV. AMENDMENT, TERMINATION AND MERGER

Section 14.1 Amendment. The Board reserves the right at any time and from time to time to amend this Plan in any respect in writing, and the amendment will be binding upon a Trustee and all Employer Companies without further action; provided, that no amendment will be made that (unless otherwise permissible under applicable law) would (a) divert any of the assets of the Trust Funds to any purpose other than the exclusive benefit of Participants and Beneficiaries, (b) eliminate or reduce an optional form of benefit except to the extent permissible under Code § 411(d)(6) or (c) change the rights and duties of the Trustees without its consent. Notwithstanding the foregoing, this Plan may be amended retroactively to affect the Account maintained for any person if necessary to cause this Plan and the Trust Funds to be exempt from income taxes under the Code.

Section 14.2 Termination. The Employer expects this Plan to be continued indefinitely but, of necessity, reserves the right to terminate or to partially terminate this Plan or to discontinue its contributions at any time by action of the Board. The Employer also reserves the right to terminate or to partially terminate the participation in this Plan by an Employer Company by action of the Board. An Employer Company's participation in this Plan automatically will terminate if, and at such time as, it ceases to satisfy the requirements to be an Employer Company for any reason whatsoever (other than through a merger or consolidation into another

Employer Company), but termination of participation by an Employer Company will not be deemed to be a termination or partial termination of the Plan except to the extent required under the Code.

If there is a termination or partial termination of this Plan or a declaration of a discontinuance of contributions to this Plan, the Accounts of all affected Participants who are employees as of the effective date of the termination, partial termination or declaration will become fully vested. The Committee will cause all unallocated amounts to be allocated to the appropriate Accounts of the affected Participants and Beneficiaries. Upon direction of the Committee, the Trustees will distribute Accounts to Participants and Beneficiaries in accordance with uniform rules established by the Committee consistent with Code § 401(a) and Code § 401(k).

Section 14.3 Merger, Consolidation or Transfer of Plan Assets. No merger or consolidation of this Plan with, or transfer of assets or liabilities of this Plan to, any other plan will occur unless each Participant in the Plan would (if the Plan then terminated) receive a benefit immediately after the merger, consolidation, or transfer that is equal to or greater than the benefit he or she would have been entitled to receive immediately before the merger, consolidation or transfer (if the Plan had then terminated).

The Committee may authorize the Trustees to accept a transfer of assets from or to transfer Trust Fund assets to the trustee, custodian or insurance company holding assets of any other plan that satisfies the requirements of Code § 401(a) in connection with a merger or consolidation with or other transfer of assets and liabilities to or from any such plan, provided that the transfer will not affect the qualification of this Plan under Code § 401(a).

Any special provisions that apply to amounts transferred under this Section 14.3 shall be set forth in Appendix 14.3.

ARTICLE XV. MISCELLANEOUS

Section 15.1 Headings. The headings and subheadings in this Plan have been inserted for convenience of reference only and are to be ignored in the construction of the provisions of this Plan. All references to Articles, Sections and to paragraphs will be to sections and to subsections of this Plan unless otherwise indicated.

Section 15.2 Construction. In the construction of this Plan, the singular will include the plural in all cases where that meaning would be appropriate. This Plan will be construed in accordance with the laws of the State of Georgia, to the extent that those laws are not preempted by federal law. This Plan will not be construed to grant, nor will grant, any rights or interests to Participants or Beneficiaries in addition to those minimum rights and interests required under ERISA. Further, the Trust Fund is intended to be tax exempt under the Code.

Any reference to a statute will also include a reference to any successor statute and if any amendment renumbers a section of a statute referenced in this Plan, any such reference to such section automatically will become a reference to that section as renumbered.

Section 15.3 Counterparts. This Plan may be executed by the Employer and the Trustees in two or more counterparts, each of which shall be deemed to be an original but all of which taken together shall be deemed to be one document.

Section 15.4 Prohibition Against Attachment.

(a) None of the benefits payable hereunder will be subject to the claims of any creditor of any Participant or Beneficiary other than this Plan nor will those benefits be subject to attachment, garnishment or other legal or equitable process by any creditor of a Participant or Beneficiary other than this Plan, nor will 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 Trustees to hold or apply the same or any part thereof to or for the benefit of such Participant or Beneficiary, his or her spouse, children, or other dependants, or any of them, in such manner and in such proportion as the Committee may deem proper.

(c) The restrictions of subsections (a) and (b) of this Section will not be violated by either (1) the creation of a right to payments from this Plan by reason of a qualified domestic relations order (as defined in Code § 414(p)) or (2) the making of such payments. In accordance with uniform and nondiscriminatory procedures established by the Committee from time to time, the Committee upon the receipt of a domestic relations order that seeks to require the distribution of a Participant's Account in whole or in part to an alternate payee (as the term is defined in Code § 414(p)(8)) will:

(1) promptly notify the Participant and such alternate payee of the receipt of such order and of the procedure that the Committee will follow to determine whether such order constitutes a qualified domestic relations order within the meaning of Code § 414(p),

(2) determine whether such order constitutes a qualified domestic relations order, notify the Participant and the alternate payee of the results of such determination and, if the Committee determines that such order does constitute a qualified domestic relations order,

(3) transfer such amounts, if any, from the Participant's Account to a separate bookkeeping account for such alternate payee as the Committee determines necessary to satisfy the requirements of the order and Code § 414(p); and

(4) make such distribution to such alternate payee as the Committee deems called for under the terms of such order in accordance with Code § 414(p) without regard to whether a distribution would be permissible at such time to the Participant under the terms of this Plan.

An alternate payee will be treated the same as a Beneficiary of a deceased Participant pending the distribution of such alternate payee's entire interest under this Plan. Further, an alternate payee who is the spouse or former spouse of the Participant may elect that any distribution that qualifies as an eligible rollover distribution (within the meaning of Code § 401(a)(31)) be transferred directly to an eligible retirement plan in accordance with Section 9.13.

Section 15.5 Benefits Supported Only by the Trust Funds. Any person having any claim for any benefit under this Plan must look solely to the assets of the Trust Funds for satisfaction. In no event will the Trustees, the Employer, an Employer Company, the Committee or any of their officers, directors or agents be liable in their individual capacities to any person whomsoever for the payment of benefits under the provisions of this Plan.

Section 15.6 Satisfaction of Claims. Any payment to a Participant or Beneficiary, or to the legal representative or heirs-at-law of either, made in accordance with the provisions of this Plan will to the extent of such payment be in full satisfaction of all claims under this Plan against the Trustees, the Employer, any Employer Company and the Committee, any of whom may require that person, his or her legal representative or heirs-at-law, as a condition precedent to such payment, to execute a receipt and release in a form acceptable to the Committee.

Section 15.7 Nonreversion. No part of the Trust Funds will ever be used for or be diverted to purposes other than for the exclusive benefit of Participants and Beneficiaries except that, upon direction of the Committee, the Trustees will return contributions to the Employer Companies in the following circumstances, to the extent permitted by the Code and ERISA:

(a) a contribution that is made by a mistake of fact will be returned, provided the return is made within one year after the payment of such contribution; and

(b) a contribution may be returned to the extent that the Internal Revenue Service denies an income tax deduction of such contribution, provided such return is made within one year after such denial, all such contributions being made expressly on the condition that such contributions are deductible in full for federal income tax purposes.

Section 15.8 Top-Heavy Plan.

(a) Determination. The Committee as of the last day of each Plan Year (the "determination date") will determine the sum of the present value of the accrued benefits of "key employees" (as defined in Code § 416(i)(1)) and the sum of the present value of the accrued benefits of all other Employees in accordance with the rules set forth in Code § 416(g), or will take such other action as the Committee deems appropriate to conclude that no such determination is necessary under the circumstances. If the sum of the present value of the accrued benefits of such key employees exceeds sixty percent (60%) of the sum of the present value of the accrued benefits of all employees as of the determination date, this Plan will be "top-heavy" for the immediately following Plan Year. For purposes of this Section, the present value of the accrued benefit of each employee will be equal to the sum of:

(1) the balance of the employee's Account under this Plan (determined for this purpose as of the last day of each Plan Year, which is the "valuation date" for this Plan);

(2) the present value of the employee's accrued benefit, if any, (determined as of the most recent valuation date occurring within a twelve (12)-month period ending on the determination date) under:

(i) each qualified plan (as described in Code § 401(a)) maintained by an Affiliate (A) in which a key employee is a participant or (B) that enables any plan described in subclause (ii) to meet the requirements of Code § 401(a)(4) or § 410 (the "required aggregation group"), and

(ii) each other qualified plan maintained by an Affiliate (other than a plan described in clause (i) that may be aggregated with this Plan and the plans described in clause (i), provided such aggregation group (including a plan described in this clause (ii) continues to meet the requirements of Code § 401(a)(4) and § 410 (the "permissive aggregation group"); and

(3)

(i) for Plan Years beginning on or after January 1, 2002, the value of any withdrawals and distributions made from this Plan and the plans described in (2) above during the 1- year period ending on such determination date and the value of any contributions due under this Plan and the defined contribution plans described in (2) above but as yet unpaid as of such determination date. The preceding sentence shall also apply to distributions under a terminated plan which, had it not been terminated, would have been required to be aggregated with the Plan under Code § 416(g)(2)(A)(i). In the case of a distribution made for a reason other than Severance from Employment, death or disability, this provision shall be applied by substituting "5-year period" for "1-year period."

(ii) for Plan Years beginning before January 1, 2002, the value of any withdrawals and distributions made from this Plan and the plans described in (2) above during the 5 year period ending on such determination date and the value of any contributions due under this Plan and the defined contribution plans described in (2) above but as yet unpaid as of such determination date;

provided, however, effective for Plan Year beginning on or after January 1, 2002, the accrued benefit of any employee will be disregarded if such employee has not performed any services for any Affiliate at any time during the one (1) year period ending on the date as of which such determination is made and, effective for Plan Years beginning before January 1, 2002, the accrued benefit of any employee will be disregarded if such employee has not performed any services for any Affiliate at any time during the five (5) year period ending on the date as of which such determination is made.

(b) Special Top-Heavy Contribution. If the Committee determines that this Plan is "top-heavy" for any Plan Year, the following special rules will apply notwithstanding any other rules to the contrary set forth elsewhere in this Plan.

(1) A contribution will be made for each Participant who is an Eligible Employee on the last day of such Plan Year that, when added to the employer contribution and forfeitures otherwise allocated on behalf of such individual for such Plan Year under this Plan and any other defined contribution plan maintained by an Affiliate, is equal to:

(i) for each such Eligible Employee who is not a participant in a top-heavy defined benefit plan maintained by the Employer or an Affiliate, the lesser of (a) three percent (3%) of such Eligible Employee's Compensation for such year or (b) the percentage at which contributions are made (or are required to be made) for such year to the key employee for whom such percentage is the highest; or

(ii) for each such Eligible Employee who also participates in a top-heavy defined benefit plan maintained by the Employer or an Affiliate, five percent (5%) of such Eligible Employee's Compensation for such year;

provided, however, that no such contribution will be made under this Section for any Eligible Employee to the extent such Eligible Employee receives the top-heavy minimum contributions (as described in Code § 416(c)) under another defined contribution plan maintained by the Employer or an Affiliate for such Plan Year.

Effective for Plan Years beginning after January 1, 2002, Savings*PLUS* Contributions shall be taken into account for purposes of satisfying the minimum contribution requirements of Code § 416(c)(2) and the Plan. The preceding sentence shall apply with respect to Savings*PLUS* Contributions or, if the minimum contribution requirement is met in another defined contribution plan, such other plan. Savings*PLUS* Contributions that are used to satisfy the minimum contribution requirements shall be treated as employer matching contributions for purposes of the actual contribution percentage test and the other requirements of Code § 401(m).

(2) For Plan Years beginning before January 1, 2000, if the sum of the present value of the accrued benefits of key employees (computed as described in Section 15.9(a)) exceeds ninety percent (90%) of the sum of the present value of the accrued benefits of all employees (computed as described in Section 15.9(a)) as of the determination date this Plan will be "super top-heavy" for the immediately following Plan Year. With respect to "limitation years" (within the meaning of Section 5.2) which begin prior to January 1, 2000, in computing the denominators of the defined benefit and defined contribution fractions described in Code § 415(e), (i) a factor of 1.0 will be used instead of 1.25 while the Plan is super top-heavy and (ii) if the Plan is top-heavy, but not super top-heavy and the Plan uses a factor of 1.25, the minimum contribution described in Section 15.9(b)(1)(ii) is increased to 7 1/2% of Compensation. The Committee will take such other action as necessary to satisfy the requirements of Code § 415(e) and § 416(h) if the Committee determines that this Plan fails to meet the requirements set forth in Code § 416(h)(2)(B).

Section 15.9 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). Additionally, to the extent required under Code § 414(u), a Participant eligible to make contributions to this Plan with respect to a period of military leave from an employer that sponsored a merged plan (as listed in Appendix 15.9) and which leave occurred (all or in part) prior to the merger of such merged plan into this Plan, and the amount of such contributions for the portion of the leave that occurred prior to the merger shall be determined under the terms of the merged Plan as in effect during the period of the applicable leave.

Section 15.10 Family and Medical Leave Act. Notwithstanding any other provision, this Plan shall be interpreted and administered in all respects so that it complies with the Family and Medical Leave Act of 1993, as may be amended from time to time.

Section 15.11 No Estoppel of Plan. 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 this 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. Thus, if a benefit is paid to a person under this Plan and it is thereafter determined by the Committee that such benefit should not have been paid (whether or not attributable to an error by such person, the Committee or any other person), then the Committee may take such action as the Committee deems necessary or appropriate to remedy such situation, including without limitation by (1) deducting the amount of any overpayment theretofore made to or on behalf of such person from any succeeding payments to or on behalf of such person under this Plan or from any amounts due or owing to such person by the Employer or any Affiliate or under any other plan, program or arrangement benefiting the employees or former employees of the Employer or any Affiliate, or (2) otherwise recovering such overpayment from whoever has benefited from it.

If the Committee determines that an underpayment of benefits has been made, the Committee will take such action as it deems necessary or appropriate to remedy such situation. However, in no event will interest be paid on the amount of any underpayment other than the investment gains (or losses) credited to the Participant's Account pending payment.

IN WITNESS WHEREOF, the undersigned certify that United Parcel Service of America, Inc., based upon action by its Board of Directors on December 19, 2008, has caused this Amendment and Restatement to be adopted.

ATTEST:	UNITED PARCEL SERVICE OF AMERICA, INC.
/s/ Teri P. McClure	/s/ D. Scott Davis
Teri P. McClure Secretary	D. Scott Davis Chairman

UPS SAVINGS PLAN
Appendix 1.17
Definition of Compensation prior to July 1, 2007
for purposes of Code Section 415

Compensation - means for each Participant:

(1) his or her wages within the meaning of Code § 3401(a) and all other compensation paid by the Affiliates to, or on behalf of, such Participant for the Plan Year that is reportable as “wages, tips and other compensation” on Form W-2 or such other form as the Affiliates are required to provide the Participant under Code §§ 3401(a), 6041(d), 6051(a)(3) and 6052; and

(2) his or her Pre-Tax Contributions, any elective deferrals under any other Code § 401(k) plan maintained by an Affiliate that are excludible from income under Code § 402(e)(3), any contributions made to a cafeteria plan of an Affiliate that are excludible under Code § 125 and any other contributions or deferrals excludible under Code §§ 132(f)(4) (for Plan Years beginning on or after January 1, 2001), 402(h), 403(b), 414(h)(2) or 457(b).

The annual Compensation of each Participant taken into account under the Plan shall not exceed $200,000 for Plan Years beginning on or after January 1, 2002, as adjusted for cost-of-living increases in accordance with Code § 401(a)(17)(B). For Plan Years beginning before January 1, 2002, the annual Compensation of each Participant taken into account under the Plan shall not exceed $150,000 for Plan Years, as adjusted for cost-of-living increases in accordance with Code § 401(a)(17). The cost-of-living adjustment in effect for a calendar year applies to any Plan Year beginning in such calendar year. If a Plan Year consists of fewer than 12 months, the annual compensation limit will be multiplied by a fraction, the numerator of which is the number of months in the short Plan Year, and the denominator of which is 12.

UPS SAVINGS PLAN
Appendix 1.23
Employer Companies

Business Unit/Group	Savings Plan Adoption Date
UPS	
United Parcel Service of America, Inc.	January 1, 1998
United Parcel Service Co.	January 1, 1998
UPS General Services Co.	January 1, 1998
UPS Aviation Services, Inc.	January 1, 1998
UPS International General Services Co.	January 1, 1998
UPS Procurement Services Corporation	January 1, 1998
UPS Worldwide Forwarding, Inc.	January 1, 1998
United Parcel Service, Inc. (New York)	January 1, 1998
United Parcel Service, Inc. (Ohio)	January 1, 1998
Trailer Conditioners, Inc.	January 1, 1998
UPS Latin America, Inc.	January 1, 1998
BT Realty Holdings, Inc.	May 18, 1999
BT Realty Holdings II, Inc.	May 18, 1999
UPS Capital Corporation	
UPS Capital Corporation, Inc.	May 28, 1998
UPS Capital Insurance Agency, Inc. (Formerly Glenlake Insurance Agency, Inc.)	July 29, 1998
UPS Capital Insurance Agency, Inc. of California (Formerly Glenlake Insurance Agency, Inc. of California)	August 10, 1999
UPS Capital Business Credit (Formerly First International Bank)	September 1, 2001
UPS Capital Business Credit of New Jersey, Inc. (Formerly First International Capital Corporation of New Jersey)	September 1, 2001
UPS Logistics Group	
UPS Logistics Group, Inc.	January 1, 1998
UPS Supply Chain Solutions, Inc. (includes Diversified Trimodal, Inc. d/b/a Martrac, UPS Supply Chain Management Nevada, Inc., UPS Supply Chain Management Tristate, Inc., UPS Logistics Group Americas, Inc. which were all merged through a series of mergers 12/31/02)	January 1, 1998 (July 1, 2001 for UPS Supply Chain Management Tristate, Inc., UPS Logistics Group Americas, Inc. and UPS Supply Chain Management Nevada, Inc.)
UPS Logistics Technologies, Inc.	January 1, 1998
Worldwide Dedicated Services, Inc.	January 1, 1998
UPS Global Forwarding Services, Inc. (including Livingston Healthcare Services, Inc. merged 12/31/01)	July 1, 2001
UPS Service Parts Logistics, Inc. (Dissolved 12/31/04)	July 1, 2001
UPSLG Puerto Rico, Inc. (Dissolved 12/31/04)	July 1, 2001
UPS Aviation Technologies, Inc.	January 1, 1998
UPS Customhouse Brokerage, Inc.	January 1, 1998
UPS Full Service Brokerage, Inc.	June 6, 2000
UPS Telecommunications, Inc. (UPS Teleservices)	July 1, 2001
UPS Mail Innovations, Inc. (Formerly UPS Messaging Inc.) UPS Mail Technologies, Inc. (Formerly Mail2000, Inc. Sold to DST Output of California, Inc. 5/29/03)	February 1, 2001
UPS Mail Boxes Etc., Inc.	April 30, 2001

UPS Consulting, Inc. (Dissolved 8/20/07)	February 8, 2001
Fritz Companies Fritz Companies, Inc. (including UPS Full Service Brokerage, Inc. merged 7/1/02)	July 1, 2001
New Neon Company, Inc.	November 1, 2001
iShip, Inc.	December 1, 2001
UPS Supply Chain Solutions, Inc.	January 1, 2002
Overnite Corporation	January 1, 2006
UPS Ground Freight d/b/a UPS Freight (Formerly Overnite Transportation Company)	January 1, 2006
Motor Cargo Industries, Inc. (includes Motor Cargo which was merged 5/1/06)	January 1, 2006
Overnite Transportation Company (includes Motor Cargo Distribution Services, Inc. which was merged 5/1/06)	January 1, 2006

UPS SAVINGS PLAN

Appendix 2.3

[This Appendix is intentionally blank]

UPS SAVINGS PLAN
APPENDIX 4.1(a)(1)(A)
Savings*PLUS* Contribution Level = Zero

[This Appendix is intentionally blank]

UPS SAVINGS PLAN
APPENDIX 4.1(a)(1)(B)
Savings*PLUS* Contribution Level = 50% of Pre-Tax Contributions
that do not exceed 6% of Eligible Compensation

[This Appendix is intentionally blank]

Savings*PLUS* Contribution Level = 100% of Pre-Tax Contributions
that do not exceed 3% of Eligible Compensation

UPS
United Parcel Service of America, Inc.
United Parcel Service Co.
UPS General Services Co.
UPS Aviation Services, Inc.
UPS International General Services Co.
UPS Procurement Services Corporation
UPS Worldwide Forwarding, Inc.
United Parcel Service, Inc. (New York)
United Parcel Service, Inc. (Ohio)
Trailer Conditioners, Inc.
UPS Latin America, Inc.
BT Realty Holdings, Inc.
BT Realty Holdings II, Inc.

UPS Capital Corporation
UPS Capital Corporation, Inc.
Glenlake Insurance Agency, Inc.
Glenlake Insurance Agency, Inc. of California
[Effective September 1, 2001]
First International Bank
[Effective September 1, 2001]
First International Capital Corporation of New Jersey

UPS Logistics Group
UPS Logistics Group, Inc.
Diversified Trimodal, Inc. (Martrac)
UPS Logistics Technologies, Inc.
UPS Supply Chain Management, Inc.
Worldwide Dedicated Services, Inc.
UPS Supply Chain Management Nevada, Inc.
UPS Supply Chain Management Tristate, Inc.
Livingston Healthcare Services, Inc.
UPS Logistics Group Americas, Inc.
UPS Service Parts Logistics, Inc.
UPSLG Puerto Rico, Inc.

UPS Aviation Technologies, Inc.

UPS Customhouse Brokerage, Inc.
UPS Full Service Brokerage, Inc.

UPS Telecommunications, Inc.
(UPS Teleservices)

UPS Messaging
Mail2000, Inc.

UPS Mail Boxes Etc., Inc.

UPS Consulting, Inc.

[Effective December 1, 2001]
iShip, Inc.

[Effective December 1, 2001]
UPS Supply Chain Solutions, Inc.

[Effective January 1, 2004]
ConnectShip, Inc.

UPS SAVINGS PLAN
APPENDIX 4.1(a)(1)(D)
Savings*PLUS* Contribution Level = 100% of Pre-Tax Contributions
up to 3% of Eligible Compensation Plus 50% of
Pre-Tax Contributions in excess of 3% of Eligible Compensation
but not in excess of 6% of Eligible Compensation

[This Appendix is intentionally blank]

UPS SAVINGS PLAN
APPENDIX 4.1(a)(1)(E)
Savings*PLUS* Contribution Level = 50% of Pre-Tax Contributions
up to 7% of Eligible Compensation

Overnite Corporation
Overnite Transportation Company
Motor Cargo
Motor Cargo Distribution Services, Inc.

Appendix 5.2

MAXIMUM BENEFITS

The limitations of this Appendix shall apply in Limitation Years beginning on or after July 1, 2007, except as otherwise provided herein. Capitalized terms are defined in Section 3 hereof or, if not defined in Section 3, in the main body of the Plan. All Section references are to Sections of this Appendix 5.2, except as otherwise provided.

Section 1.1. If the Participant does not participate in, and has never participated in another qualified plan maintained by the Employer or a welfare benefit fund, as defined in Internal Revenue Code ("Code") § 419(e) maintained by the Employer, or an individual medical account, as defined in Code § 415(1)(2), maintained by the Employer, or a simplified employee pension, as defined in Code § 408(k), maintained by the Employer, which provides an annual addition as defined in Section 3.1, the amount of Annual Additions which may be credited to the Participant's Account for any Limitation Year will not exceed the lesser of the Maximum Permissible Amount or any other limitation contained in this Plan. If the Employer contribution that would otherwise be contributed or allocated to the Participant's Account would cause the Annual Additions for the Limitation Year to exceed the Maximum Permissible Amount, the amount contributed or allocated will be reduced so that the Annual Additions for the Limitation Year will equal the Maximum Permissible Amount.

Section 2.1. This Section applies if, in addition to this Plan, the Participant is covered under another qualified defined contribution plan maintained by the Employer, a welfare benefit fund maintained by the Employer, an individual medical account maintained by the Employer, or a simplified employee pension maintained by the Employer (collectively "Qualified Plans"), that provides an Annual Addition during any Limitation Year. The Annual Additions which may be credited to a Participant's Account under this Plan for any such Limitation Year will not exceed the Maximum Permissible Amount reduced by the Annual Additions credited to a Participant's Account under the other Qualified Plans for the same Limitation Year. If the Annual Additions with respect to the Participant under other Qualified Plans maintained by the Employer are less than the Maximum Permissible Amount and the Employer contribution that would otherwise be contributed or allocated to the Participant's Account under this Plan would cause the Annual Additions for the Limitation Year to exceed this limitation, the amount contributed or allocated will be reduced so that the Annual Additions under all such plans and funds for the Limitation Year will equal the Maximum Permissible Amount. If the Annual Additions with respect to the Participant under such other Qualified Plans, in the aggregate are equal to the Maximum Permissible Amount, no amount will be contributed or allocated to the Participant's Account under this Plan for the Limitation Year.

Section 3. Definitions.

Section 3.1. - Annual Additions: The sum of the following amounts credited to a Participant's Account for the Limitation Year:

(a) employer contributions;

(b) employee contributions;

(c) forfeitures;

(d) amounts allocated to an individual medical account, as defined in Code § 415(1)(2), which is part of a pension or annuity plan maintained by the Employer are treated as Annual Additions to a defined contribution plan. Also amounts derived from contributions paid or accrued which are attributable to post-retirement medical benefits, allocated to the separate account of a key employee, as defined in Code § 419A(d)(3), under a welfare benefit fund, as defined in Code § 419(e), maintained by the Employer are treated as Annual Additions to a defined contribution plan; and

(e) allocations under a simplified employee pension.

Section 3.2. Compensation: For purposes of § 415 of the Internal Revenue Code, Compensation is defined as wages, within the meaning of § 3401(a) of the Internal Revenue Code, 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 §§ 6041(d), 6051(a)(3), and 6052 of the Internal Revenue Code (i.e., wages, tips and other compensation as reported on Form W-2). Compensation shall be determined without regard to any rules under § 3401(a) of the Internal Revenue Code 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 § 3401(s)(2) of the Internal Revenue Code).

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 2½ 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 2½ 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 § 414(u)(1) of the Internal Revenue Code) 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 § 1.415(c)-2(g)(8) of the Internal Revenue Code, 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 § 125(a), §402(e)(3), § 402(h)(1)(B), § 402(k), or § 457(b) of the Internal Revenue Code. 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 § 132(f)(4) of the Internal Revenue Code. 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 § 106 of the Internal Revenue Code 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 or she 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 3.3. Defined Contribution Dollar Limitation: $40,000, as adjusted under Code § 415(d).

Section 3.4. Employer: Employer means United Parcel Service of America, Inc. and Affiliates.

Section 3.5. Limitation Year is 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 3.6. Maximum Permissible Amount

Except for catch up contributions described in Code § 414(v), the Maximum Permissible Amount for any Limitation Year shall not exceed the lesser of:

(a) $40,000, as adjusted for increases in the cost-of-living under Code § 415(d), or

(b) 100 percent of the Participant's Compensation for the Limitation Year.

The compensation limit referred to in (b) shall not apply to any contribution for medical benefits after separation from service (within the meaning of Code §§ 401(h) or 419A(f)(2)) which is otherwise treated as an Annual Addition.

If a short Limitation Year is created because of an amendment changing the Limitation Year to a different 12-consecutive month period, the Maximum Permissible Amount will not exceed the Defined Contribution Dollar Limitation multiplied by the following fraction:

$$\frac{\text{Number of months in the short Limitation Year}}{12}$$

APPENDIX 9.4

MINIMUM DISTRIBUTION REQUIREMENTS.

Section 1. General Rules

1.1. Effective Date. The provisions of this Appendix 9.4 will apply for purposes of determining required minimum distributions for calendar years beginning with the 2003 calendar year.

1.2. Precedence. The requirements of this article will take precedence over any inconsistent provisions of the Plan. However, the only benefit payment options available from the Plan are contained in Section 9.5 of the Plan. This Appendix 9.4 does not provide any benefit payment option that is not provided in such Section.

1.3. Requirements of Treasury Regulations Incorporated. All distributions required under this Appendix 9.4 will be determined and made in accordance with the Code § 401(a)(9) Treasury Regulations.

Section 2. Time and Manner of Distribution.

2.1. Required Beginning Date. The Participant's entire interest will be distributed, or begin to be distributed, to the Participant no later than the Participant's required beginning date.

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 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 distributions to the designated Beneficiary will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(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 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 4, 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 purchased from an insurance company irrevocably 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 all benefit payments from the Plan will be made in accordance with sections 3 and 4 of this Appendix. If the Participant's interest is distributed in a benefit payment option other than a single sum, such payments will be made in accordance with the requirements of Code § 401(a)(9) and the Treasury Regulations thereunder.

Section 3. Required Minimum Distributions During Participant's Lifetime.

3.1. Amount of Required Minimum Distribution For Each Distribution Calendar Year. During the Participant's lifetime, the minimum amount that will be distributed for each distribution calendar year is the lesser of:

(a) the quotient obtained by dividing the Participant's Account balance by the distribution period in the Uniform Lifetime Table set forth in Treasury Regulation 1.401(a)(9)-9, using the Participant's age as of the Participant's birthday in the distribution calendar year; or

(b) if the Participant's sole designated Beneficiary for the distribution calendar year is the Participant's spouse, the quotient obtained by dividing the Participant's Account balance by the number in the Joint and Last Survivor Table set forth in Treasury Regulation 1.401(a)(9)-9, using the Participant's and spouse's attained ages as of the Participant's and spouse's birthdays in the distribution calendar year.

3.2. Lifetime Required Minimum Distributions Continue Through Year of Participant's Death. Required minimum distributions will be determined under this Section 3 beginning with the first distribution calendar year and up to and including the distribution calendar year that includes the Participant's date of death.

Section 4. Required Minimum Distributions After Participant's Death.

4.1. Death On or After Date Distributions Begin.

(a) Participant Survived by Designated Beneficiary. If the Participant dies on or after the date distributions begin and there is a designated Beneficiary, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's Account balance by the longer of the remaining life expectancy of the Participant or the remaining life expectancy of the Participant's designated Beneficiary, determined as follows:

(1) The Participant's remaining life expectancy is calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

(2) If the Participant's surviving spouse is the Participant's sole designated Beneficiary, the remaining life expectancy of the surviving spouse is calculated for each distribution calendar year after the year of the Participant's death using the surviving spouse's age as of the spouse's birthday in that year. For distribution calendar years after the year of the surviving spouse's death, the remaining life expectancy of the surviving spouse is calculated using the age of the surviving spouse as of the spouse's birthday in the calendar year of the spouse's death, reduced by one for each subsequent calendar year.

(3) If the Participant's surviving spouse is not the Participant's sole designated Beneficiary, the designated Beneficiary's remaining life expectancy is calculated using the age of the designated Beneficiary in the year following the year of the Participant's death, reduced by one for each subsequent year.

(b) No Designated Beneficiary. If the Participant dies on or after the date distributions begin and there is no designated Beneficiary as of September 30 of the year after the year of the Participant's death, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's Account balance by the Participant's remaining life expectancy calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

4.2. Death Before Date Distributions Begin.

(a) Participant Survived by Designated Beneficiary. If the Participant dies before the date distributions begin and there is a designated Beneficiary, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's Account balance by the remaining life expectancy of the Participant's designated Beneficiary, determined as provided in section 4.1.

(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 Are Required to Begin. If the Participant dies before the date distributions begin, the Participant's surviving spouse is the Participant's sole designated Beneficiary, and the surviving spouse dies before distributions are required to begin to the surviving spouse under section 2.2(a), this section 4.2 will apply as if the surviving spouse were the Participant.

Section 5. Definitions. The following terms have the following meanings for purposes of this Appendix 9.4.

5.1. Designated Beneficiary. The individual who is designated as the Beneficiary under Section 9.6 of the Plan and is the designated Beneficiary under Code § 401(a)(9) and Treasury Regulation 1.401(a)(9)-4, Q&A-1.

5.2. 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 under section 2.2 of this Appendix. The required minimum distribution for the Participant's first distribution calendar year will be made on or before the Participant's required beginning date. The required minimum distribution for other distribution calendar years, including the required minimum distribution for the distribution calendar year in which the Participant's required beginning date occurs, will be made on or before December 31 of that distribution calendar year.

5.3. Life expectancy. Life expectancy as computed by use of the Single Life Table in Treasury Regulation 1.401(a)(9)-9.

5.4. Participant's Account balance. The Account balance as of the last valuation date in the calendar year immediately preceding the distribution calendar year (valuation calendar year) increased by the amount of any contributions made and allocated or forfeitures allocated to the Account balance as of dates in the valuation calendar year after the valuation date and decreased by distributions made in the valuation calendar year after the valuation date. The Account balance for the valuation calendar year includes any amounts rolled over or transferred to the Plan either in the valuation calendar year or in the distribution calendar year if distributed or transferred in the valuation calendar year.

5.5 Required beginning date. The date specified in § 9.4 of the Plan

5.6 Coordination with Code § 401(k) and Code § 402(g). Any Pre-Tax Contributions refunded under this Section 5.2 will be disregarded for the purposes of Code § 402(g) limitations under Section 5.3 and the Code § 401(k) limitations under Section 5.4.

UPS SAVINGS PLAN

Appendix 14.3

SPECIAL PROVISIONS RELATING TO MERGERS, ACQUISITIONS AND OTHER TRANSFERS

Section 14.3.1 General. This Section describes special rules applicable to individuals who were employed by an employer acquired by an Employer Company or who otherwise became Employees of an Employer Company as a result of a corporate transaction, or who participated in a qualified plan that was merged into the Plan or the assets of which were transferred to this Plan pursuant to Section 14.3.

Any assets transferred to this Plan shall be invested as directed by the Committee pending completion of any allocations or other steps necessary or advisable to properly transfer investment authority of Merged Plan assets to the Participants in accordance with Article 7 of the Plan. Any loans outstanding under a Merged Plan will become loans under this Plan and, if the Participant is an Employee, will be repaid by payroll deduction following the merger or transfer.

Section 14.3.2 UPS Global Forwarding Services, Inc.

(a) GFS Plan. For purposes of this Section 14.3.2, GFS Plan means the UPS Global Forwarding Services Company, Inc. Retirement/ Savings Plan, as in effect on June 30, 2001.

(b) Merger. The assets and liabilities of the GFS Plan as of the close of business on June 30, 2001 will be merged into this Plan and will be assets and liabilities of this Plan as of July 1, 2001.

(c) Accounts. An Account will be established under this Plan to reflect the interest of each former participant in the GFS Plan to the extent he or she does not already have an Account under this Plan. The portion of a Participant's account under the GFS Plan attributable to his or her "after-tax contributions", if any, will become a part of his or her After-Tax Contribution Account; the portion attributable to his or her "pre -tax contributions", if any, will become part of his or her Pre-Tax Contribution Account under this Plan; the portion attributable to his or her "rollover contributions", if any, will become part of his or her Rollover Contribution Account under this Plan; and the remaining portion of a Participant's account under the GFS Plan will become a part of his or her Merged Account.

Section 14.3.3 UPS Logistics Group.

(b) LG Plan. For purposes of this Section 14.3.3, LG Plan means the UPS Logistics Group Retirement Savings Plan, as in effect on June 30, 2001.

(d) Merger. The assets and liabilities of the LG Plan as of the close of business on June 30, 2001 will be merged into this Plan and will be assets and liabilities of this Plan as of July 1, 2001.

(e) Accounts. An Account will be established under this Plan to reflect the interest of each former participant in the LG Plan to the extent he or she does not already have an Account under this Plan. The portion of a Participant's account under the LG Plan attributable to his or her "after-tax contributions", if any, will become a part of his or her After-Tax Contribution Account; the portion attributable to his or her "pre -tax contributions", if any, will become part of his or her Pre-Tax Contribution Account under this Plan; the portion attributable to his or her "rollover contributions", if any, will become part of his or her Rollover Contribution Account under this Plan; and the remaining portion of a Participant's account under the LG Plan will become a part of his or her Merged Account.

Section 14.3.4 Sonic Air, Inc.

(a) SA Plan. For purposes of this Section 14.3.4, SA Plan means the Sonic Air, Inc. 401(k) Plan, as in effect on June 30, 2001.

(b) Merger. The assets and liabilities of the SA Plan as of the close of business on June 30, 2001 will be merged into this Plan and will be the assets and liabilities of this Plan as of July 1, 2001.

(c) Accounts. An Account will be established under this Plan to reflect the interest of each former participant in the SA Plan to the extent he or she does not already have an Account under this Plan. A Participant's interest in his or her Account attributable to his or her interest under the SA Plan will be separately accounted for in his or her Merged Account and separate subaccounts of his or her Merged Account shall be maintained for his or her interest under the SA Plan attributable to after-tax contributions, pre-tax contributions, rollover contributions, matching contributions and discretionary profit sharing contributions, if applicable, until the Amendment Effective Date described in Section 14.3.6. After the Amendment Effective Date, the portion of a Participant's Merged Account attributable to his or her "after-tax contributions", if any, will become a part of his or her After-Tax Contribution Account; the portion attributable to his or her "pre -tax contributions", if any, will become part of his or her Pre-Tax Contribution Account under this Plan; and the portion attributable to his or her "rollover contributions", if any, will become part of his or her Rollover Contribution Account under this Plan.

Section 14.3.5 Trans-Border Customs Services, Inc.

(a) TBCS. For purposes of this Section 14.3.5, TBCS Plan means the Trans-Border Customs Services Profit Sharing Plan, as in effect on June 30, 2001

(b) Merger. The assets and liabilities of the TCBS Plan as of the close of business on June 30, 2001 will be merged into this Plan and will be assets and liabilities of this Plan as of July 1, 2001.

(c) Accounts. An Account will be established under this Plan to reflect the interest of each former participant in the TCBS Plan to the extent he or she does not already have an Account under this Plan. A Participant's interest in his or her Account attributable to his or her interest under the TCBS Plan will be separately accounted for in his or her Merged Account and separate subaccounts of his or her Merged Account shall be maintained for his or her interest under the TCBS Plan attributable to after-tax contributions, pre-tax contributions, rollover contributions, matching contributions and discretionary profit sharing contributions, if applicable, until the Amendment Effective Date described in Section 14.3.6. After the Amendment Effective Date, the portion of a Participant's Merged Account attributable to his or her "after-tax contributions", if any, will become a part of his or her After-Tax Contribution Account; the portion attributable to his or her "pre -tax contributions", if any, will become part of his or her Pre-Tax Contribution Account under this Plan; and the portion attributable to his or her "rollover contributions", if any, will become part of his or her Rollover Contribution Account under this Plan.

Section 14.3.6 Overnite Corporation and Overnite Transportation Company

(a) Overnite Plan. For purposes of this Section 14.3.7, Overnite Plan means the Overnite Transportation Company Tax Reduction Investment Plan, as in effect immediately prior to the transfer of its assets and liabilities into this Plan effective on or about February 28, 2006.

(b) Merger. The assets and liabilities of the Overnite Plan will be merged with and into this Plan on or about February 28, 2006.

(c) Accounts. An Account will be established under this Plan to reflect the interest of each former participant in the Overnite Plan to the extent he or she does not already have an Account under this Plan. The portion of a Participant's account under the Overnite Plan attributable to his or her "salary deferrals" and "catch-up contributions", if any, will become part of his or her Pre-Tax Contribution Account under this Plan; the portion attributable to his or her "rollover contributions", if any, will become part of his or her Rollover Contribution Account under this Plan; and the remaining portion of a Participant's account under the Overnite Plan will become a part of his or her Merged Account under this Plan.

(d) In-Service Distribution. A Participant who has a Merged Account attributable to assets transferred from the Overnite Plan to this Plan on or about February 28, 2006 may withdraw all or any portion of this or her entire Account balance pursuant to Section 9.8(b) of the Plan (59 1/2 Withdrawal).

(e) 2006 Plan Year Non-Discrimination Testing. Effective January 1, 2006, Article V, Limitations of Contributions and Allocations, of this Plan shall apply to any elective contributions a Participant made to the Overnite Plan during the 2006 Plan Year.

Section 14.3.8 Motor Cargo

(a) Motor Cargo Plan. For purposes of this Section 14.3.8, Motor Cargo Plan means the Motor Cargo Profit Sharing Plan, as in effect immediately prior to the transfer of its assets and liabilities into this Plan effective on or about February 28, 2006.

(b) Merger. The assets and liabilities of the Motor Cargo Profit Sharing Plan attributable to (i) participants who are employees as of December 31, 2005 and whose terms and conditions of employment are not governed by a collective bargaining agreement and (ii) terminated vested participants whose terms and conditions of employment as of their most recent termination date were not governed by a collective bargaining agreement, will be merged with and into this Plan effective on or about February 28, 2006.

(c) Accounts. An Account will be established under this Plan to reflect the interest of each former participant who had an account balance transferred from the Motor Cargo Plan to the extent he or she does not already have an Account under this Plan. The portion of a Participant’s account under the Motor Cargo Plan attributable to his or her “deferral contributions” and “catch-up contributions”, if any, will become part of his or her Pre-Tax Contribution Account under this Plan; the portion attributable to his or her “rollover contributions”, if any, will become part of his or her Rollover Contribution Account under this Plan; and the remaining portion of a Participant’s account under the Motor Cargo Plan will become a part of his or her Merged Account.

(d) In-Service Distribution Amounts. A Participant who has a Merged Account attributable to assets transferred from the Motor Cargo Plan to this Plan on or about February 28, 2006 may withdraw all or any portion of that Merged Account balance pursuant to Section 9.8(b) of the Plan (59 $^{1}/_{2}$ Withdrawal). Additionally, a Participant who receives an in-service hardship distribution from the Motor Cargo Plan and who would be prevented from making contributions to the Motor Cargo Plan after December 31, 2005 as a result of such withdrawal, will to be subject to such contribution suspension under this Plan as if it were the Motor Cargo Plan.

(e) 2006 Plan Year Non-Discrimination Testing. Effective January 1, 2006, Article V, Limitations of Contributions and Allocations, of this Plan shall apply to any elective contributions a Participant made to the Motor Cargo Plan during the 2006 Plan Year.

UPS SAVINGS PLAN
Appendix 15.9

Merged Plans

NAME OF MERGED PLAN	EFFECTIVE DATE OF MERGER
UPS Logistics Group Retirement Savings Plan	July 1, 2001
SonicAir, Inc. 401(k) Plan	July 1, 2001
Trans-Border Customs Services, Inc. 401(k) and Profit Sharing Plan	July 1, 2001
UPS Global Forwarding Services, Inc. Retirement/Savings Plan	July 1, 2001
Overnite Transportation Company Tax Reduction Investment Plan	February 28, 2006
Motor Cargo Profit Sharing Plan	February 28, 2006

Exhibit 10.6

EXECUTION COPY

UPS

EXCESS COORDINATING BENEFIT PLAN

As Amended and Restated
January 1, 2009

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UPS

EXCESS COORDINATING BENEFIT PLAN

United Parcel Service of America, Inc. ("UPS") established this UPS Excess Coordinating Benefit 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. UPS hereby amends and restates this Plan effective as of January 1, 2009 to satisfy Section 409A of the Code. This Plan applies to any Participant whose benefits commence on or after January 1, 2009.

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) "Actuarial Equivalent" means "actuarial equivalent" as defined in the Retirement Plan.

(b) "Beneficiary" means the beneficiary designated by the Participant to receive a survivor annuity under the Joint and Survivor Annuity form of benefit or to receive guaranteed payments under the Single Life Annuity with 120-Month Guarantee. If the Participant selects a Single Life Annuity with 120-Month Guarantee and the designated beneficiary does not survive the Participant, the Participant's Beneficiary for purposes of receiving the guaranteed payment, if any, remaining under such option, will be the Participant's surviving Spouse or Domestic Partner at the time the Participant's benefit commenced or, if none survives the Participant, his or her estate.

(c) "Board of Directors" means the Board of Directors and/or Executive Committee of UPS.

(d) “Change in Control” means “change in control” as defined in the 2009 Incentive Compensation Plan, as amended, or any successor to that plan.

(e) “Code” means the Internal Revenue Code of 1986, as amended.

(f) “Committee” means the administrative committee of the Plan, the establishment and responsibilities of which are set forth in Article VII.

(g) “Coordinating Final Average Pay Benefit” means the benefit described in Section 3.1(a).

(h) Coordinating Survivor Benefit” means the benefit described in Section 4.1.

(i) “Domestic Partner” means the Participant’s “domestic partner” for purposes of the Retirement Plan.

(j) “Effective Date” means January 1, 2009.

(k) “Eligible Employee” means each full-time manager and supervisor of an Employer Company (as so designated on the payroll records for such Employer Company) who has reached age 55 and completed as least 10 “years of service” as described in the Retirement Plan.

(l) “Employer Company” means an Employer Company for purposes of the Retirement Plan.

(m) “ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

(n) “Joint and Survivor Annuity” means a reduced monthly benefit (compared to the Single Life Only Annuity) payable to the Participant for his or her lifetime, and after the Participant’s death, a monthly lifetime survivorship benefit payable to the Participant’s Beneficiary in an amount equal to 50%, 75% or 100%, as selected by the Participant, of the monthly amount which had been payable to the Participant. The Joint and Survivor Annuity shall be the Actuarial Equivalent of the Single Life Only Annuity. The last payment of the Joint and Survivor Annuity shall be made as of the first day of the calendar month in which the death of the last to die of the Participant and his or her 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 Section 1.401(a)(9)-2.

(o) "Normal Retirement Date" means the Participant's "normal retirement date" under the Retirement Plan.

(p) "Participant" means an Eligible Employee who becomes a participant in this Plan in accordance with Article II.

(q) "Plan" means the UPS Excess Coordinating Benefit Plan as set forth in this document and as hereafter amended by the Board of Directors from time to time.

(r) "Present Value" means "present value" as defined in the Retirement Plan from time to time.

(s) "Prior Plan" means the UPS Coordinating Benefit Plan, as established as of January 1, 1986 and as thereafter amended or this Plan, as established January 29, 1998 and as in effect before January 1, 2009.

(t) "Qualified Joint and Survivor Annuity" means a reduced monthly benefit (compared to the Single Life Only Annuity) payable to the Participant for his or her lifetime, and following his death, 50% of the monthly benefit paid to the Participant shall be payable to the person who was his or her Spouse as of the date benefit payments commenced, and to whom the Participant is married at his or her death provided such Spouse survives the Participant. The last payment of a Qualified Joint and Survivor Annuity 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 Single Life Only Annuity.

(u) "Retirement Plan" means the UPS Retirement Plan, as amended.

(v) "RPRO" means the Restoration Plan Rollover Option under which certain Participants in the Prior Plan made an irrevocable election in 1999 to exchange certain benefits earned under the Prior Plan for a split dollar life insurance benefit.

(w) "RPRO Lump Sum Target Amount" means the present value of the monthly benefit exchanged under the RPRO as calculated in 1999 for each Participant who participated in the RPRO.

(x) "RPRO Make-up Payment" means the payment described in Section 3.1(b).

(y) "RPRO Offset" means the amount of the monthly benefit that the Participant exchanged for a split dollar life insurance benefit under the RPRO as reflected in the records of the Plan and as actuarially adjusted to the RPRO Rollout Date using the interest rate specified in Exhibit A and the 1983 GAM Unisex mortality table.

(z) "RPRO Rollout Date" means for each split dollar policy purchased under the RPRO the date specified in Exhibit A.

(aa) "Section 409A" means Section 409A of the Code and any regulations or rulings thereunder.

(bb) "Separation from Service" means the termination of employment with, or termination of service as a director of, an Employer Company and all Affiliates for any reason, other than death, in such a manner as to constitute a "separation from service" within the meaning of Section 409A.

(cc) "Single Life 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.

(dd) "Single Life Annuity with 120-Month Guarantee" means a reduced monthly benefit (compared to the Single Life Only Annuity) payable to the Participant for his or her lifetime, with a guarantee of 120 monthly payments. If the Participant dies after the date as of which benefits commence, but before receiving 120 monthly payments, monthly payments shall be made to the Participant's Beneficiary, until the Participant and his or her Beneficiary have received a total of 120 monthly payments.

(ee) "Spouse" means the Participant's "spouse" for purposes of the Retirement Plan.

ARTICLE II - ELIGIBILITY AND PARTICIPATION

Section 2.1 Eligible Employees. The Committee shall designate those Eligible Employees who shall be entitled to participate in this Plan and each Eligible Employee so designated shall become a Participant upon the completion of such application or other procedures established by the Committee to commence participation.

Section 2.2 Prior Plan. Each Eligible Employee who was a Participant in this Plan immediately before January 1, 2009 but who did not commence receiving benefits before 2009 shall continue to participate in this Plan on and after January 1, 2009. Each Participant and each surviving Spouse or Domestic Partner who was receiving a benefit under a Prior Plan before January 1, 2009 shall continue to receive such benefit under the terms of the applicable Prior Plan under which benefits commenced.

Section 2.3 Change in Control. Each employee of an Employer Company who is employed as a full-time manager or supervisor at the time of a Change in Control (as designated on the payroll records for such Employer Company) whose benefit under the Retirement Plan is limited at any date on or after the Change in Control by Section 401(a)(17) or Section 415 of the Code automatically will become a participant in this Plan as of the latest to occur of the date his or her Retirement Plan benefit first becomes limited or the date of the Change in Control.

ARTICLE III - BENEFITS

Section 3.1 Retirement Plan Benefits.

(a) Coordinating Final Average Pay Benefit. The annual Coordinating Final Average Pay Benefit shall be equal to (1) minus (2), adjusted in accordance with (3), below, where:

(1) is the Participant's final average pay benefit from the Retirement Plan payable to the Participant as of his or her Normal Retirement Date in a Single Life Only Annuity taking into account any reduction applicable under the Retirement Plan for benefit payments under other qualified plans, but without taking into account the additional benefits described in Exhibit D of the Retirement Plan or the limitations of Sections 401(a)(17) and 415 of the Code.

(2) is the Participant's actual final average pay benefit that would be payable to him or her from the Retirement Plan as of his or her Normal Retirement Date in a Single Life Only Annuity.

(3) is any of the following adjustments, as applicable:

(i) If the benefit commences before Normal Retirement Date, the benefit shall be reduced prior to commencement by the early retirement reductions that would be applied to reduce final average pay benefit payable under the Retirement Plan before Normal Retirement Date;

(ii) the benefit shall be reduced or increased at least annually to reflect increases or reductions in the limitations of Section 415 of the Code applicable to the Participant's final average pay benefit under the Retirement Plan; and

(iii) if the Participant participated in the RPRO, the benefit shall be reduced prior to commencement by the RPRO Offset.

(b) RPRO Make-up Payment. A Participant who participated in the RPRO shall be eligible for a RPRO Make-up Payment equal to the shortfall, if any, of (i) the Participant's RPRO Lump Sum Target Amount less (ii) the sum of the net cash surrender value of the applicable life insurance policy purchased for such Participant under the RPRO as determined as of the later of the Participant's Rollout Date or Separation from Service.

Section 3.2 Timing. The Coordinating Final Average Pay Benefit shall commence on the first day of the seventh calendar month that begins after the later of the RPRO Rollout Date or the Participant's Separation from Service in the form described in Section 3.3. The RPRO Make-Up Payment shall be paid on the first day of the seventh calendar month that begins after the Participant's Separation from Service in the form described in Section 3.3.

Section 3.3 Form of Benefit.

(a) Coordinating Final Average Pay Benefit.

(1) 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 and in a Qualified Joint and

Survivor Annuity if the Participant is married 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.

(2) Lump Sum. Notwithstanding any other provisions of this Plan, if the dollar amount of the monthly annuity benefit of the Participant's Coordinating Final Average Pay Benefit (when aggregated with dollar amount of the monthly benefit attributable to the Participant's interest in each other deferred compensation arrangements required to be aggregated with the Coordinating Final Average Pay Benefit under Section 409A (collectively, the "Required Aggregation Group")) does not exceed the lesser of (i) $85.00 per month or (ii) that monthly benefit the Present Value of which would not exceed the dollar limitation under Code Section 402(g)(1)(B), then the Present Value of such benefit (and the Present Value of the Participant's benefits under each arrangement in the Required Aggregation Group) shall be paid to the Participant in a lump sum at the time described in Section 3.2.

(b) RPRO Make-up Payment. The RPRO Make-up Payment shall be paid in a lump sum.

ARTICLE IV - COORDINATING SURVIVOR BENEFIT.

Section 4.1 Coordinating Survivor Benefit.

(a) Coordinating Final Average Pay Survivor Benefit. Upon the death of a Participant (other than a Participant who was receiving a death benefit under the Prior Plan) before commencement of a Coordinating Final Average Pay Benefit, such Participant's surviving Spouse or Domestic Partner, if he or she is entitled to receive a Preretirement Survivor Annuity under the Retirement Plan, shall be entitled to receive an annual Coordinating Survivor Benefit from this Plan equal to the amount of the survivor benefit that would be payable to such Spouse or Domestic Partner if the Participant had Separated from Service on the earlier of his or her actual Separation from Service or the date of his or her death, elected to receive his or her benefit under Section 3.1(a) in the form of a 50% Joint and Survivor Annuity with his or her Spouse or Domestic Partner, and died immediately after beginning to receive such benefit. The Coordinating Final Average Pay Survivor Benefit will be adjusted for changes in limitations under Section 415 of the Code in a manner similar to Section 3.1(a)(3)(ii).

Section 4.2 Timing and Form. Except as provided below, the Coordinating Surviving Spouse Benefit shall commence on the first day of the seventh calendar month after the month in which the Participant dies. The Coordinating Final Average Pay Survivor Benefit shall be paid in a Single Life Only Annuity for the life of the surviving spouse or Domestic Partner; provided, however, if the Present Value of the Coordinating Final Average Pay Survivor Benefit (when aggregated with Spouse's or Domestic Partner's interest in other deferred compensation arrangements required to be aggregated with the Coordinating Final Average Pay Survivor Benefit under Section 409A (collectively, the "Required Aggregation Group")) does not exceed the lesser of (i) $85.00 or (2) the dollar limitation under Code Section 402(g)(1)(B), then the Present Value of such benefit (and the Present Value of the Spouse's or Domestic Partner's benefits under each arrangement in the Required Aggregation Group) shall be paid to the Spouse or Domestic Partner in a lump sum.

Section 4.3 RPRO Make-up Payment. If a Participant who participated in the RPRO dies after becoming entitled to a RPRO Make-up Payment but prior to receipt of that payment, the RPRO Make-up Payment will be paid to his or her Spouse or Domestic Partner, or if he or she does not have a surviving Spouse or Domestic Partner, to his or her estate at the same time and in the same form as the RPRO Make-up Payment would have been made to the deceased Participant.

ARTICLE V - FORFEITURE OF BENEFITS

Anything herein to the contrary notwithstanding, if a Participant who is receiving, or may be entitled to receive, a benefit hereunder engages in competition with UPS or any Employer Company (without prior written authorization given by the Board of Directors) or is discharged for cause, or performs acts of willful malfeasance or gross negligence in a matter of material importance to the Employer Company, payments thereafter payable hereunder to such Participant or such Participant's spouse or beneficiary will, at the sole discretion of the Board of Directors, be forfeited and neither UPS nor this Plan will have any further obligation hereunder to such Participant or his/her spouse or designated Beneficiary.

ARTICLE VI - COMMITTEE

Section 6.1 Establishment of Committee. Authority to control and manage the operation and administration of the plan shall be vested in the Committee consisting of not less than three (3) members, who shall be appointed by the Board of Directors. The Committee shall be the agent for service of process on or 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 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 may be counsel to UPS), agents, and such clerical, accounting and other services as they may require in carrying out the provisions of the Plan. 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.

Section 6.2 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 any of the responsibilities with which they are charged pursuant hereto, 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 6.3 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 6.4 Liability of the Committee. The Committee and members thereof, to the extent of the exercise of their authority, shall discharge their duties with respect to the Plan with care, skill, prudence and diligence; provided, however, that no Committee member shall be responsible for the actions or omissions of a member or any other person, other than himself or herself, which are not in conformity hereto, unless such member knowingly participates in or knowingly conceals such conduct which he or she knows to be in breach of this standard, his/her own conduct has enabled the other member or other person to be in breach of this standard, or he or she has knowledge of such breach by another member or other person and fails to make reasonable efforts under the circumstances to remedy such breach.

Section 6.5 Reliance by Committee. Board of Directors and Committee members shall be filly protected with respect to any action taken or suffered by them in good faith in reliance upon the advice or opinion of any insurance carrier, accountant, legal counsel or physician, and all action so taken or suffered shall be conclusive upon all Participants and any other person claiming under the Plan.

Section 6.6 Books and Records. The Committee shall keep appropriate books and records.

ARTICLE VII - AMENDMENT AND TERMINATION

Section 7.1 Right of Amendment. UPS reserves the right to make any amendment or amendments to this Plan by resolutions of its Board of Directors, provided, however, that no amendment shall reduce UPS's liability to provide any benefits earned to date of amendment hereunder to employees who axe Participants on the date of amendment, except as provided in Article V hereof.

Section 7.2 Right to Terminate. UPS, by action of its Board of Directors, may terminate this Plan at any time in whole or in pan. No termination of this Plan shall reduce UPS's liability to provide any benefits earned to date of termination hereunder to employees who are Participants on the date of termination based on the provisions of this Plan in effect immediately prior to the date of termination, or the amount of benefits payable to a Participant who has retired under the provisions of this Plan or the spouse or other

Beneficiary of any Participant receiving benefits under this Plan, except as provided in Article V hereof. Upon termination of this Plan, no additional employees may become Participants hereunder.

ARTICLE VIII - NO FUNDING OBLIGATION

The obligation of UPS to pay any benefits under this Plan shall be unfunded and unsecured; and any payments under this Plan shall be made from the general assets of UPS. Notwithstanding the foregoing, UPS may, in its discretion, establish an irrevocable grantor trust for the purpose of funding all or part of its obligations under this plan; provided however, that the terms of such trust require that the assets thereof remain subject to the claims of UPS's judgment creditors and are non-assignable and non-alienable by any Participant or Beneficiary prior to distribution thereof. Such grantor trust may provide for the trustee to make payment directly to a Participant; provided, however, that if a trustee ceases to make payments to a Participant or surviving Spouse or Domestic Partner, UPS or the Employer Company shall make such payments called for under this Plan unless the cessation of payments is permissible under Section 409A.

ARTICLE IX - MISCELLANEOUS

Section 9.1 Claims Procedure. Any claim for a benefit under this Plan shall be filed and resolved in accordance with the claims procedure provided under the Retirement Plan which is hereby incorporated in this Plan by reference, except that the Committee of this Plan shall be the entity with whom a claim for review should be filed under this Plan.

Section 9.2 No Guarantee of Employment. Nothing contained in this Plan shall be construed as a contract of employment between the Employer Company and any employee or Participant, as a right of any employee or Participant to be continued in the employment of the Employer Company, or as a limitation of the right of the Employer Company to discharge the employee or Participant with or without cause.

Section 9.3 Nonalienation of Benefits. No benefit or payment under this Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, levy or charge, and any attempt so to anticipate, alienate, sell, transfer, assign, pledge, encumber or levy upon or charge the same shall be void except that benefits may be paid to an alternate payee under a domestic relations order that is treated as a qualified domestic relations order under the Retirement Plan. Notwithstanding this statement, if the Participant is indebted to UPS at any time when payments are required to be made under the provisions of this Plan, UPS shall have the right to reduce the amount of payments remaining to be made to the Participant or his/her spouse or beneficiary under the Plan to the extent of such indebtedness. An election by UPS not to reduce such payment shall not constitute a waiver of its claim for such indebtedness.

Section 9.4 ERISA. UPS intends that this Plan constitute an “excess benefit plan” as defined in Section 3(36) of ERISA and, therefore, be exempt from coverage under ERISA. However, to the extent this Plan does not constitute an “excess benefit plan”, UPS intends that this Plan come within the various exceptions and exemptions to ERISA for a plan maintained for a “select group of management or highly compensated employees” as described in Sections 201(2), 301(a) (3), and 401(a) (1) of ERISA. Any ambiguities in this Plan shall be construed to affect the intent as described in this Section.

Section 9.5 Construction. The headings and subheadings set forth in this Plan are intended for convenience only and have no substantive meaning whatsoever. In the construction of this Plan, the singular shall include the plural. This Plan shall be construed in accordance with the laws of the State of Georgia.

Executed this 19th day of December 2008.

ATTEST:	UNITED PARCEL SERVICE OF AMERICA, INC.
/s/ Terri P. McClure	/s/ D. Scott Davis
Terri P. McClure	D. Scott Davis
Secretary	Chairman

EXHIBIT A

Participant Name	Interest Rate	RPRO Rollout Date
Carranza	6.26%	9/28/2010
Davis	5.72%	1/23/12 - Policy 1 1/21/09 - Policy 2
Winestock	5.72%	12/21/11

Exhibit 10.8(17)

Execution Copy

AMENDMENT NO. 17
TO THE
UPS QUALIFIED STOCK OWNERSHIP PLAN
AND TRUST AGREEMENT

WHEREAS, United Parcel Service of America, Inc. and certain of its affiliated companies established the UPS Qualified Stock Ownership Plan and Trust Agreement ("Plan") effective as of January 1, 1998 to provide their eligible employees with a matching contribution invested in shares of UPS class A common stock ("UPS Stock") and to permit eligible employees to transfer amounts from the UPS Savings Plan to the Plan for the purpose of investing in UPS Stock;

WHEREAS, the Board of Directors and/or the Executive Committee of United Parcel Service of America, Inc. ("the Board") reserved the right in Section 12.1 of the Plan to amend the Plan from time to time;

WHEREAS, the Board of Directors desires to amend the Plan to cease all contributions to the Plan and merge its assets and liabilities with and into the UPS Savings Plan effective as of the close of business on December 31, 2008;

NOW THEREFORE, the UPS Qualified Stock Ownership Plan and Trust Agreement ("Plan") is hereby amended, as follows:

1. No Savings*PLUS* Contributions will be made to the Plan for pay periods ending after December 31, 2008. All Savings*PLUS* Contributions attributable to payroll periods ending on or before December 31, 2008, that have not already been contributed to the Plan as of such date, will be contributed to the UPS Savings Plan.

2. All Distributions, Withdrawals or Transfers, as described in Article VIII of the Plan, will cease as of the close of business on December 31, 2008.

3. Effective as of the close of business on December 31, 2008 all the assets and liabilities of the Plan will be merged with, and become a part of, the UPS Savings Plan.

4. Effective as of the close of business on December 31, 2008, all benefits accrued under the Plan will be determined and paid under the terms and conditions of the UPS Savings Plan.

5. Section 5.1, <u>Code § 415 Limitations</u>, is hereby amended, effective for limitation years beginning after July 1, 2007, to insert the following sentence immediately after the title of such Section:

> For limitation years beginning on or after July 1, 2007, refer to Appendix 5.2. For limitation years ending after December 31, 2002 and before July 1, 2007, this Section 5.2 shall apply.

6. The Plan is hereby amended, effective for limitation years beginning after July 1, 2007 to insert a new Appendix 5.2 at the end of the Plan, as attached.

7. Except as otherwise expressly amended herein, the Plan as in effect immediately before this Amendment No. One 17 shall remain in full force and effect pending the merger into the UPS Savings Plan.

IN WITNESS WHEREOF, the undersigned certify that United Parcel Service of America, inc. based upon prior action by its Board of Directors and/or Executive Committee has caused this Amendment No. 17 to be adopted.

ATTEST:	UNITED PARCEL SERVICE OF AMERICA, INC.
/s/ Teri P. McClure	/s/ D. Scott Davis
Teri P. McClure Secretary	D. Scott Davis Chairman
December 19, 2008	December 19, 2008

Appendix 5.2

MAXIMUM BENEFITS

The limitations of this Appendix shall apply in Limitation Years beginning on or after July 1, 2007, except as otherwise provided herein. Capitalized terms are defined in Section 3 hereof or, if not defined in Section 3, in the main body of the Plan. All Section references are to Sections of this Appendix 5.2, except as otherwise provided.

Section 1.1. If the Participant does not participate in, and has never participated in another qualified plan maintained by the Employer or a welfare benefit fund, as defined in Internal Revenue Code ("Code") § 419(e) maintained by the Employer, or an individual medical account, as defined in Code § 415(1)(2), maintained by the Employer, or a simplified employee pension, as defined in Code § 408(k), maintained by the Employer, which provides an annual addition as defined in Section 3.1, the amount of Annual Additions which may be credited to the Participant's Account for any Limitation Year will not exceed the lesser of the Maximum Permissible Amount or any other limitation contained in this Plan. If the Employer contribution that would otherwise be contributed or allocated to the Participant's Account would cause the Annual Additions for the Limitation Year to exceed the Maximum Permissible Amount, the amount contributed or allocated will be reduced so that the Annual Additions for the Limitation Year will equal the Maximum Permissible Amount.

Section 2.1. This Section applies if, in addition to this Plan, the Participant is covered under another qualified defined contribution plan maintained by the Employer, a welfare benefit fund maintained by the Employer, an individual medical account maintained by the Employer, or a simplified employee pension maintained by the Employer (collectively "Qualified Plans"), that provides an Annual Addition during any Limitation Year. The Annual Additions which may be credited to a Participant's Account under this Plan for any such Limitation Year will not exceed the Maximum Permissible Amount reduced by the Annual Additions credited to a Participant's Account under the other Qualified Plans for the same Limitation Year. If the Annual Additions with respect to the Participant under other Qualified Plans maintained by the Employer are less than the Maximum Permissible Amount and the Employer contribution that would otherwise be contributed or allocated to the Participant's Account under this Plan would cause the Annual Additions for the Limitation Year to exceed this limitation, the amount contributed or allocated will be reduced so that the Annual Additions under all such plans and funds for the Limitation Year will equal the Maximum Permissible Amount. If the Annual Additions with respect to the Participant under such other Qualified Plans, in the aggregate are equal to the Maximum Permissible Amount, no amount will be contributed or allocated to the Participant's Account under this Plan for the Limitation Year.

Section 3. Definitions.

Section 3.1. - Annual Additions: The sum of the following amounts credited to a Participant's Account for the Limitation Year:

(a) employer contributions;

(b) employee contributions;

(c) forfeitures;

(d) amounts allocated to an individual medical account, as defined in Code § 415(1)(2), which is part of a pension or annuity plan maintained by the Employer are treated as Annual Additions to a defined contribution plan. Also amounts derived from contributions paid or accrued which are attributable to post-retirement medical benefits, allocated to the separate account of a key employee, as defined in Code § 419A(d)(3), under a welfare benefit fund, as defined in Code § 419(e), maintained by the Employer are treated as Annual Additions to a defined contribution plan; and

(e) allocations under a simplified employee pension.

Section 3.2. Compensation: For purposes of § 415 of the Internal Revenue Code, Compensation is defined as wages, within the meaning of § 3401(a) of the Internal Revenue Code, 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 §§ 6041(d), 6051(a)(3), and 6052 of the Internal Revenue Code (i.e., wages, tips and other compensation as reported on Form W-2). Compensation shall be determined without regard to any rules under § 3401(a) of the Internal Revenue Code 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 § 3401(s)(2) of the Internal Revenue Code).

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 1/2 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 1/2 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 § 414(u)(1) of the Internal Revenue Code) 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 § 1.415(c)-2(g)(8) of the Internal Revenue Code, 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 § 125(a), §402(e)(3), § 402(h)(1)(B), § 402(k), or § 457(b) of the Internal Revenue Code. 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 § 132(f)(4) of the Internal Revenue Code. 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 § 106 of the Internal Revenue Code 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 or she 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 3.3. Defined Contribution Dollar Limitation: $40,000, as adjusted under Code § 415(d).

Section 3.4. Employer: Employer means United Parcel Service of America, Inc. and Affiliates.

Section 3.5. Limitation Year is 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 3.6. Maximum Permissible Amount

Except for catch up contributions described in Code § 414(v), the Maximum Permissible Amount for any Limitation Year shall not exceed the lesser of:

(a) $40,000, as adjusted for increases in the cost-of-living under Code § 415(d), or

(b) 100 percent of the Participant's Compensation for the Limitation Year.

The compensation limit referred to in (b) shall not apply to any contribution for medical benefits after separation from service (within the meaning of Code §§ 401(h) or 419A(f)(2)) which is otherwise treated as an Annual Addition.

If a short Limitation Year is created because of an amendment changing the Limitation Year to a different 12-consecutive month period, the Maximum Permissible Amount will not exceed the Defined Contribution Dollar Limitation multiplied by the following fraction:

$$\frac{\text{Number of months in the short Limitation Year}}{12}$$

Exhibit 10.10

AMENDMENT AND RESTATEMENT
TO THE
UPS DEFERRED COMPENSATION PLAN

WHEREAS, United Parcel Service of America, Inc. established the UPS Deferred Compensation Plan (“Plan”); and

WHEREAS, United Parcel Service of America, Inc. desires to amend and restate the Plan to comply with changes to the Internal Revenue Code.

NOW THEREFORE, the UPS Deferred Compensation Plan is hereby amended and restated in the form attached effective as of January 1, 2008.

IN WITNESS WHEREOF, the undersigned certify that United Parcel Service of America, Inc. based upon action by the Board of Directors on December 19, 2008 has caused the attached amendment and restatement of the UPS Deferred Compensation Plan to be adopted.

ATTEST:	UNITED PARCEL SERVICE OF AMERICA, INC.
/s/ Teri P. McClure	/s/ D. Scott Davis
Teri P. McClure Secretary	D. Scott Davis Chairman

UPS Deferred Compensation Plan

Rules Governing 2005 and Beyond Salary Deferrals

This communication summarizes the UPS Deferred Compensation Plan as it is in effect beginning January 1, 2008.As a result of changes to the Internal Revenue Code, the UPS Deferred Compensation Plan permits only salary deferrals on and after January 1, 2005 (the 2005 and Beyond Salary Deferral Feature). For the rules governing salary and stock option deferrals made prior to January 1, 2005 (into the 2004 and Before Salary Deferral Feature or the Stock Option Deferral Feature), you must refer to the 2004 Summary Plan Description. (A copy of the 2004 Summary Plan Description may be obtained on the Plan Web site at **http://upssavings.csplans.com** or from the Corporate Compensation Department.)

The UPS Deferred Compensation Plan is a non-qualified plan that does not meet the tax code requirements for a qualified retirement plan and is not subject to most of the requirements of ERISA. Amounts deferred under the Plan remain part of UPS's general assets and are subject to the claims of UPS's and your employer's creditors. In the event of UPS's or your employer's insolvency or bankruptcy, your benefit under this Plan could be entirely lost.

This booklet constitutes part of the official prospectus covering securities that have been registered under the Securities Act of 1933.

Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved the securities offered by this prospectus or determined that this prospectus is accurate or complete.

Any representation to the contrary is a criminal offense.

UPS Deferred Compensation Plan

Table of Contents

Summary Plan Description:
2009 UPS Deferred Compensation Plan

PLAN DESCRIPTION

Q. What is the UPS Deferred Compensation Plan?

A. The UPS Deferred Compensation Plan (the "Plan") is a non-qualified plan that has been established to allow you to defer up to 35 percent of your monthly or semi-monthly compensation. You may also elect to defer up to 100 percent of your half month bonus and the cash portion of your MIP award, and 100 percent of any UPS Savings Plan Average Deferral Percentage ("ADP") refund for the 2009 Plan Year.

During the Plan's annual enrollment period (August 25, 2008 at 4:01 p.m. {Eastern Time} - September 26, 2008 at 4 p.m. {Eastern Time}), you may elect to defer from your 2009 monthly or semi-monthly compensation, 2009 half month bonus, the cash portion of your 2009 MIP award, and any 2009 ADP refund.

Even if you do not choose to participate in the Deferred Compensation Plan from your direct pay, you may want to consider electing to defer 100 percent of any refund of pre-tax contributions you may receive from the UPS Savings Plan in the event the Savings Plan fails the ADP Test for Plan Year 2009. Earnings received as the result of the refund will not be deferred to the Deferred Compensation Plan and will be taxable for 2009.

Should the UPS Savings Plan fail the 2009 ADP Test, distributions will occur in March 2010 but are taxable on the 2009 tax return. By electing to defer any pre-tax refund resulting from the 2009 ADP Test, you will defer taxation on the distribution. You will be issued a W2-C in March 2010 for the filing of your 2009 tax return. Roth 401(k) contributions distributed to satisfy the 2009 ADP Test may not be deferred to the Plan.

Please note that your deferrals into the Deferred Compensation Plan will be in addition to your deferrals into the UPS Savings Plan. You may defer one to 35 percent of your monthly or semi-monthly pay, up to 100 percent of your half month bonus and the cash portion of your 2009 MIP award on a pre-tax basis into the Savings Plan, up to the annual maximum. If you are age 50 by the end of 2009, you may also elect a catch-up contribution to the Savings Plan, up to the annual maximum.

For 2009, we anticipate that the annual contribution limits for regular and catch-up contributions will be indexed for inflation. However, the limits have not yet been announced by the Internal Revenue Service. For purposes of illustration, this booklet will use the annual 2008 maximums: $15,500 for regular pre-tax contributions and $5,000 for catch-up contributions.

The Plan also allows non-employee directors of United Parcel Service, Inc. to defer 100 percent of their retainer and meeting fees.

Q. What is a non-qualified plan?

A. A non-qualified plan is a plan which does not meet the tax code requirements for a qualified retirement plan and is not subject to most ERISA requirements. Amounts contributed to a non-qualified plan remain part of the company's general assets. These assets are subject to the claims of UPS's and your employer's creditors, and in the event of UPS's or your employer's insolvency or bankruptcy, your interest in the Plan could be entirely lost.

Because of the additional risk associated with non-qualified plans, only non-employee directors and senior level employees may be offered the opportunity to participate.

Example:

A manager's base salary is $11,750 per month plus half month pay of $5,875 plus a MIP cash portion of $23,500 (for illustration purposes only, the MIP factor is assumed to be 2) for total annual eligible compensation of $170,375. The manager would like to defer the maximum 35 percent of monthly or semi-monthly pay, 100 percent of the half month bonus, and 100 percent of the cash portion of MIP to the UPS Deferred Compensation Plan versus only contributing the maximum $15,500 (actual amount to be determined) per year in the UPS Savings Plan. The manager also elects to defer any return of excess pre-tax contributions distributed as the result of an ADP Test failure for UPS Savings Plan year 2009.

	UPS Savings Plan and UPS Deferred Compensation Plan	UPS Savings Plan (only)
Total Pay	$ 170,375	$ 170,375
Salary Deferrals:		
UPS Savings Plan (max. $15,500)	-15,500	-15,500
UPS Deferred Compensation Plan (35 percent)	-49,350	N/A
Half Month Bonus (100 percent)	-5,875	N/A
Cash Portion of MIP (100 percent)	-23,500	N/A
Taxable Income	**$ 76,150**	**$ 154,875**

Should the UPS Savings Plan fail the 2009 ADP Test, distributions will occur in March 2010 but are taxable on the 2009 tax return. By electing to defer any pre-tax refund resulting from the 2009 ADP Test, the manager will defer 2009 taxation on the pre-tax refund.

Q. How does salary deferral under the qualified UPS Savings Plan differ from the salary deferral under the non-qualified UPS Deferred Compensation Plan?

Principal Characteristics:	UPS Deferred Compensation Plan	UPS Savings Plan
Deferral on pre-tax basis	Yes	Yes
FICA/Medicare withheld on deferrals	Yes	Yes
Earnings accumulate tax free	Yes	Yes
Actual funds or assets held in trust safe from creditors	No	Yes
Distributions subject to income taxes	Yes	Yes
Federal income tax withholding on lump sum payments	Yes	Yes
Rollover into an IRA allowed	No	Yes
10 year income tax averaging available	No	Yes[1]
Hardship withdrawals available	Yes[2]	Yes
Loans against accounts available	No	Yes

Q. Does this mean I will have separate salary deferral accounts for the UPS Savings Plan and the UPS Deferred Compensation Plan?

A. Yes, the UPS Savings Plan and the UPS Deferred Compensation Plan are two separate plans. You will receive a separate itemized annual statement for each account you have in the UPS Deferred Compensation Plan. Statements may be viewed online at any time through the UPS Savings Advantage Web site, **http://upssavings.csplans.com** (the Plan Web site).

Eligibility

Q. Who is eligible to participate in the UPS Deferred Compensation Plan?

A. You are eligible to participate in the UPS Deferred Compensation Plan if, as of August 25, 2008, you are a region department manager or have equal or greater managerial responsibilities at UPS or one of the UPS authorized subsidiaries, are eligible to participate in the UPS Savings Plan and are not domiciled in Puerto Rico. In addition, non-employee directors of United Parcel Service, Inc. are eligible to participate in the Plan.

You will cease to be eligible to make new deferral elections in the Plan if you no longer meet the eligibility requirements above or you separate from service with UPS and each of its subsidiaries that is treated under Section 409A of the Internal Revenue Code (the “Code”) and related IRS regulations and guidance (the “409A Rules”) as a single employer with UPS for purposes of determining whether a “separation from service” has occurred (“UPS”). **However, your deferrals will continue to be deducted from your compensation, half-month bonus, the cash portion of your MIP award and your ADP refund until the end of the calendar year.**

1 If not rolled over.
2 “Hardship” definition is more stringent than in UPS Savings Plan.

For example, if you elect to contribute monthly to the Plan in 2009 and are subsequently demoted, your contributions will continue for the duration of 2009. Should you elect to defer a 2009 Savings Plan ADP refund, that deferral will be made to the Plan in March 2010, **even if you are no longer an eligible employee or you have a separation from service.**

Q. Can I participate if I am promoted mid-year?

A. No, you must be eligible to participate in the Plan as of the date the enrollment period begins (for 2009, the enrollment period begins on August 25, 2008).

Deferral Elections

Q. When can I make an election to defer?

A. Elections are made during the annual enrollment period. For 2009, you can elect to defer up to 35 percent of your monthly or semi-monthly salary, up to 100 percent of your half month bonus and/or up to 100 percent of the cash portion of your MIP award.

You may also elect to defer 100 percent of a UPS Savings Plan return of excess pre-tax contributions, should the Savings Plan fail the 2009 ADP Test. Since the ADP Test will be applied to the Savings Plan in 2009, an ADP deferral you elect now will be made in March 2010.

The enrollment period this year begins August 25, 2008 at 4:01 p.m. (Eastern Time) and ends September 26, 2008 at 4:00 p.m. (Eastern Time).

During the enrollment period, non-employee directors may elect to defer 100 percent of their retainer and meeting fees. New non-employee directors may make their initial deferral election within 30 days after being named a director.

Q. Should I maximize my contribution into the UPS Savings Plan before making a contribution to this Plan?

A. Generally, yes. The UPS Savings Plan is a qualified retirement plan where assets are held in trust for future payment to you. Depending upon which UPS subsidiary you work for, you may be eligible for matching contributions on your pre-tax contributions to the UPS Savings Plan. Additionally, distributions from the UPS Savings Plan are eligible for special tax treatment (e.g., rollover to an IRA). Because the UPS Deferred Compensation Plan is non-qualified these benefits will be subordinate to the claims of UPS's and your employer's creditors. Distributions to you from the Plan will be subject to immediate taxation and are not eligible for special tax treatment (e.g., rollover, loan, IRA). If you do not take full opportunity of your contributions to the UPS Savings Plan, you may miss the opportunity to receive the maximum amount of matching contributions that you can receive.

Salary Deferral Feature Example 1:

This manager elects to defer 12 percent from monthly salary, 50 percent from the half month bonus and 50 percent of the cash portion of MIP into the Salary Deferral Feature (for illustration purposes only, the MIP factor is assumed to be 2) and 100 percent of any return of excess contributions as the result of the UPS Savings Plan failure of the 2009 ADP Test. The manager also elects to defer 12 percent of monthly salary into the UPS Savings Plan.

Manager’s base salary is $11,750 per month x 12 months	$141,000
Manager’s half month pay	5,875
Manager’s cash portion of MIP	23,500
Total Annual Eligible Compensation	**$170,375**

Here’s what the monthly activity would look like for the UPS Deferred Compensation Plan and the UPS Savings Plan in this example.

2009	UPS Savings Plan	UPS Deferred Compensation Plan
	12%	12%
January	$ 1,410.00	$ 1,410.00
February	$ 1,410.00	$ 1,410.00
March	$ 1,410.00	$ 1,410.00
April	$ 1,410.00	$ 1,410.00
May	$ 1,410.00	$ 1,410.00
June	$ 1,410.00	$ 1,410.00
July	$ 1,410.00	$ 1,410.00
August	$ 1,410.00	$ 1,410.00
September	$ 1,410.00	$ 1,410.00
October	$ 1,410.00	$ 1,410.00
November	$ 1,400.00	$ 1,410.00
December	$ 0.00	$ 1,410.00
Half month	$ 0.00	$ 2,937.50
Cash portion of MIP	$ 0.00	$ 11,750.00
TOTAL	**$15,500.00**	**$ 31,607.50**
TOTAL DEFERRED	**$ 47,107.50**	

Should the UPS Savings Plan fail the 2009 ADP Test, distributions will occur in March 2010 but are taxable on the 2009 tax return. By electing to defer any pre-tax refund resulting from the 2009 ADP Test, the manager will defer 2009 taxation on the distribution of the pre-tax refund.

Before calculating any amount to be deferred to the UPS Deferred Compensation Plan, it is recommended that you choose a percentage that results in the contribution of the maximum permissible contribution to the UPS Savings Plan. In 2008, the maximum was $15,500, or $20,500 if you were over 50. You also may receive Savings***PLUS,*** the match on certain amounts deferred under the UPS Savings Plan.

Salary Deferral Feature Example 2:

This manager elects to defer the maximum 35 percent from base salary and 100 percent from half month pay and the cash portion of MIP into the Salary Deferral Feature (for illustration purposes only, the MIP factor is assumed to be 2) and 100 percent of any return of excess pre-tax contributions as the result of the UPS Savings Plan failure of the 2009 ADP Test. The manager also elects to defer 12 percent of base salary into the UPS Savings Plan.

Manager’s base salary is $11,750 per month x 12 months	$141,000
Manager’s half month pay	5,875
Cash portion of MIP	23,500
Total Annual Eligible Compensation	**$170,375**

Here’s what the monthly activity would look like for the UPS Savings Plan and the UPS Deferred Compensation Plan in this example.

2009	UPS Savings Plan	UPS Deferred Compensation Plan
	12%	35%
January	$ 1,410.00	$ 4,112.50
February	$ 1,410.00	$ 4,112.50
March	$ 1,410.00	$ 4,112.50
April	$ 1,410.00	$ 4,112.50
May	$ 1,410.00	$ 4,112.50
June	$ 1,410.00	$ 4,112.50
July	$ 1,410.00	$ 4,112.50
August	$ 1,410.00	$ 4,112.50
September	$ 1,410.00	$ 4,112.50
October	$ 1,410.00	$ 4,112.50
November	$ 1,400.00	$ 4,112.50
December	$ 0.00	$ 4,112.50
Half Month	$ 0.00	$ 5,875.00
Cash portion of MIP	$ 0.00	$ 23,500.00
TOTAL	**$15,500.00**	**$ 78,725.00**
TOTAL DEFERRED	**$ 94,225.00**	

Should the UPS Savings Plan fail the 2009 ADP Test, distributions will occur in March 2010 but are taxable on the 2009 tax return. By electing to defer any pre-tax refund resulting from the 2009 ADP Test, the manager will defer 2009 taxation on the distribution of the pre-tax refund.

Before calculating any amount to be deferred to the UPS Deferred Compensation Plan, it is recommended that you choose a percentage that results in the contribution of the maximum permissible contribution to the UPS Savings Plan. In 2008, the maximum was $15,500, or $20,500 if you were over 50. You also may receive Savings***PLUS,*** the match on certain amounts deferred under the UPS Savings Plan.

Salary Deferral Feature Example 3:

This manager elects to defer 5 percent from base salary, zero percent from half month pay and 100 percent of the cash portion of MIP into the Salary Deferral Feature (for illustration purposes only, the MW factor is assumed to be 2) and 100 percent of any return of excess pre-tax contributions as the result of the UPS Savings Plan failure of the 2009 ADP Test. The manager also elects to defer 12 percent of base salary into the UPS Savings Plan.

Manager's base salary is $11,750 per month x 12 months	$141,000
Manager's half month pay	5,875
Cash portion of MIP	23,500
Total Annual Eligible Compensation	**$170,375**

Here's what the monthly activity would look like for the UPS Savings Plan and the UPS Deferred Compensation Plan in this example.

2009	**UPS Savings Plan**	**UPS Deferred Compensation Plan**
	12%	5%
January	$ 1,410.00	$ 587.50
February	$ 1,410.00	$ 587.50
March	$ 1,410.00	$ 587.50
April	$ 1,410.00	$ 587.50
May	$ 1,410.00	$ 587.50
June	$ 1,410.00	$ 587.50
July	$ 1,410.00	$ 587.50
August	$ 1,410.00	$ 587.50
September	$ 1,410.00	$ 587.50
October	$ 1,410.00	$ 587.50
November	$ 1,400.00	$ 587.50
December	$ 0.00	$ 587.50
Half Month	$ 0.00	$ 0.00
Cash portion of MIP	$ 0.00	$ 23,500.00
TOTAL	**$15,500.00**	**$ 30,550.00**
TOTAL DEFERRED	**$ 46,050.00**	

Should the UPS Savings Plan fail the 2009 ADP Test, distributions will occur in March 2010 but are taxable on the 2009 tax return. By electing to defer any pre-tax refund resulting from the 2009 ADP Test, the manager will defer 2009 taxation on the distribution of the pre-tax refund.

Before calculating any amount to be deferred to the UPS Deferred Compensation Plan, it is recommended that you choose a percentage that results in the contribution of the maximum permissible contribution to the UPS Savings Plan. In 2008, the maximum was $15,500, or $20,500 if you were over 50. You also may receive Savings***PLUS,*** the match on certain amounts deferred under the UPS Savings Plan.

Q. Will I need to wait until my UPS Savings Plan pre-tax deferral reaches the maximum for 2009 before I begin to defer funds into the UPS Deferred Compensation Plan?

A. No. However, it is to your advantage to defer the maximum amount into the UPS Savings Plan. Before you decide what percentage to defer into the UPS Deferred Compensation Plan, make sure you will be deferring the maximum limit into the UPS Savings Plan. If you will be 50 or older in 2009, you will also want to make a catch-up contribution to the UPS Savings Plan. The amount you defer into the UPS Savings Plan can be changed monthly. Your deferral percentage into the UPS Deferred Compensation Plan cannot be changed for the entire calendar year.

Q. When will my salary deferrals under the UPS Deferred Compensation Plan begin?

A. Salary deferrals will begin in January 2009 and continue through December 2009. If you elect to have money deferred from your half month check, this amount will be deducted from your December 2009 half month pay.

The percentage of your 2009 MIP cash award that you elect to defer into the 2005 and Beyond Salary Deferral Account will be reflected on the Mellon Web site, where you may view it during the 2009 fall election of the MIP cash award. You will not be able to make a change to this percentage. The funds will be deferred at the time the 2009 MIP is distributed.

Note that if you previously elected to defer a percentage of your 2008 MIP cash award to the UPS Deferred Compensation Plan during the 2008 Plan enrollment period (August 27, 2007—September 28, 2007), that percentage will be displayed on the Mellon Web site during the MIP election in 2008. It may not be changed.

If you elect to defer the refund of 2009 pre-tax contributions you receive from the UPS Savings Plan, in the event the Savings Plan fails the ADP Test for 2009, 100 percent of the pre-tax refund will be contributed to your Plan account in March 2010. You will receive a W-2C in March 2010 for the filing of your 2009 taxes. Roth 401(k) contributions distributed to satisfy the 2009 ADP Test may not be deferred into the Plan.

Note that if you previously elected to defer the refund of excess contributions (and any earnings thereon) you receive from the UPS Savings Plan in the event the Savings Plan fails the ADP Test for 2008, 100 percent of the pre-tax refund will be contributed to your Plan account in March 2009. You will receive a W-2C in March 2009 for the filing of your 2008 taxes.

Remember, even if you cease to be eligible to make new deferral elections in the future or you separate from service with UPS, your deferrals will continue to be deducted from your compensation, half-month bonus, the cash portion of your MIP award and your ADP refund for 2009. Your 2005 and Beyond Account will continue to be credited with these contributions elected for 2009 even if you are no longer an eligible employee or if you have separated from service. If you are receiving monthly installments, the amount of the ADP refund will be included in the calculation of the installments. If you previously have received a lump sum distribution, you will received the ADP refund as an additional distribution as soon as administratively possible, but in no event later than 90 days following the event (with the actual payment date determined by UPS in its sole discretion).

Q. How will my salary deferral under the UPS Deferred Compensation Plan be accounted for?

A. Any salary deferrals that you make to the Plan on or after January 1, 2005 will be credited for bookkeeping purposes to your 2005 and Beyond Salary Deferral Account. This account will be subject to the rules set forth in this booklet.

Any salary deferrals you made to this Plan prior to January 1, 2005 will continue to be credited for bookkeeping purposes in your 2004 and Before Salary Deferral Account. Amounts credited to this account will continue to be subject to the rules set forth in the 2004 version of the UPS Deferred Compensation Plan Summary Plan Description booklet.

Q. When will my salary deferrals be credited to my account?

A. Salary deferrals will be credited to your account as soon as practicable following each pay period, but generally no later than ten business days after you receive the paycheck from which the deduction was made.

Q. Can I change my UPS Deferred Compensation Plan annual deferral elections during the calendar year?

A. No, your annual election to defer salary to the UPS Deferred Compensation Plan, once made, cannot be changed for that calendar year. Your election must be made online during the enrollment period, August 25, 2008 at 4:01 p.m. (Eastern Time) to September 26, 2008 at 4:00 p.m. (Eastern Time). Once you make your annual deferral election, you cannot change the deferral percentage amount until the next annual deferral election period in 2009 for Plan year 2010.

Investment Options

Q. What are my investment options?

A. Your Salary Deferral Accounts will accrue earnings based on the investment option(s) you select. These investment options are the same funds offered in the UPS Savings Plan, as well as UPS Stock. The investment options currently available to you in the UPS Deferred Compensation Plan are:

Government Short-term Investment Fund	**Bright Horizon Income Fund**
Stable Value Fund	**Bright Horizon 2010 Fund**
Bond Market Index Fund	**Bright Horizon 2015 Fund**
Balanced Fund	**Bright Horizon 2020 Fund**
S&P 500 Equity Index Fund	**Bright Horizon 2025 Fund**
S&P Midcap 400 Index Fund	**Bright Horizon 2030 Fund**
Russell 2000 Index Fund	**Bright Horizon 2035 Fund**
EAFE International Index Fund*	**Bright Horizon 2040 Fund**
UPS Stock	**Bright Horizon 2045 Fund**
	Bright Horizon 2050

Notes:

- ALL transactions related to UPS Stock, whether through the UPS Deferred Compensation Plan or otherwise, are subject to the UPS Insider Trading Guidelines. You must verify that the trading window is open before you make any transactions involving UPS Stock.
- There is no limit on the amount you may invest in UPS Stock.
- The Self-Managed Account is not available as an investment option for the Salary Deferral Feature of the UPS Deferred Compensation Plan.
- Note to first-time participants in the 2005 and Beyond Salary Deferral Feature: When you enroll you will be asked to select investment options. Because the trading window is anticipated to be closed from September 1 through October 23, you will be unable to select UPS Stock as an investment option after 4:00 p.m. (ET) on August 29, 2008. If it is your intent to invest your contributions in UPS Stock, you may do so through the Plan Web site or the Information Line any time after January 1, 2009 when the trading window is open.
- The Bright Horizon 2050 Fund was added to the investment line-up in 2008. Please see the Summary Plan Description and Summary of Material Modifications for the UPS Savings Plan for a description of each investment option. Fund Fact Sheets and investment returns will be available on the Plan Web site for your review at **http://upssavings.csplans.com**. If you have any questions, you may call the UPS Deferred Compensation Plan Administrator.
- Because the Plan is non-qualified, your investment selections are for recordkeeping purposes only and no funds will be set aside or invested in the options you select.

* The Plan will assess a 2 percent short-term trading fee against the portion of your account balance transferred from the EAFE Fund and/or paid out as a distribution within 30 days of investment in the Fund. The 2 percent redemption fee is assessed against the gross proceeds from the sales transaction. This short-term trading fee will only apply to a sale of the Fund due to a transfer request and/or a distribution. For this purpose, units held longest will be liquidated first and units held the shortest will be liquidated last. The redemption fees assessed are treated as reinvested into the EAFE Fund for the benefit of all participants in the Plan with balances in the Fund. This fee is designed to offset market impact and other costs associated with fluctuations in the EAFE Fund caused by short-term shareholder trading.

Your selections will be used solely for purposes of determining the value of your Salary Deferral Account.

Q. Can I reallocate my Salary Deferral Account balance between the investment options?

A. Yes, you may reallocate your Salary Deferral Account balance among the different investment options on a daily basis. (Please note that all transactions related to UPS Stock, whether in the UPS Deferred Compensation Plan or otherwise, are subject to the UPS Insider Trading Guidelines.) You will be able to change your investment selections by accessing your account online at **http://upssavings.csplans.com**. You may also change your investment selections by calling the UPS Savings Advantage Information Line at 1-800-541-6154 and speaking to a Participant Service Representative Monday through Friday from 7:30 a.m. to 5:00 p.m. (Eastern Time), except for stock market holidays. This reallocation capability includes both the new deferrals being deferred into your account and your existing investment account balance. Your account will continue to accrue earnings or losses based on your investment elections until your Salary Deferral Account balance is fully distributed.

Q. What are the investment risks?

A. Due to the risks inherent in all investment activities, the total value of your account may be greater or smaller than your total deferrals. Additionally, because your account is unfunded, your rights to receive payments in the event of UPS's or your employer's bankruptcy or insolvency (as remote as that may seem) will be the same as that of any other unsecured general creditor.

Distribution Options

Q. When am I eligible to receive a distribution of my 2005 and Beyond Salary Deferral Account?

A. You are eligible to receive a distribution of your 2005 and Beyond Salary Deferral Account (a) in the event you retire or have another "separation from service" with UPS (within the meaning of the 409A Rules), (b) in the event of a "change in control" of United Parcel Service, Inc. as defined in the 2009 UPS Incentive Compensation Plan that also constitutes a "change in the ownership or effective control" of United Parcel Service, Inc. under 409A Rules (a "Change in Control"), or (c) in the event of your death.

If you are entitled to a distribution of your 2005 and Beyond Salary Deferral Account as a result of your separation from service, you will receive (or begin to receive, in the case of installments) your distribution on the first day of the calendar month that is 6 months following your separation from service. Distributions of your 2005 and Beyond Salary Deferral Account as a result of a Change in Control or your death will be paid as soon as administratively possible, but in no event later than 90 days following the date of the Change in Control or your death (with the actual payment date determined by UPS in its sole discretion).

If you are enrolling in the 2005 and Beyond Salary Deferral Feature for the first time, you will be asked to make a distribution election. Please consider your distribution choice for your 2005 and Beyond Salary Deferral Account carefully: once made, your distribution election may not be changed. Should you fail to elect a distribution option upon your initial enrollment for funds contributed in 2005 and subsequent years, your distribution will be paid out under the default option, the Lump Sum Payment.

You are eligible to receive a distribution of your 2004 and Before Salary Deferral Account (pre-2005 deferrals) in accordance with the rules set forth in the 2004 Summary Plan Description. (A copy of the 2004 Summary Plan description may be obtained on the Plan Web site at **http://upssavings.csplans.com** or from the Corporate Compensation Department.) Please note that your 2004 and Before Salary Deferral Account will not automatically be distributed to you in the event of a Change in Control.

Q. What are my distribution options?

A. The Plan provides for five distribution options:

Option 1: 3 Year Installment (36 monthly payments)

Option 2: 5 Year Installment (60 monthly payments)

Option 3: 7 Year Installment (84 monthly payments)

Option 4: 10 Year Installment (120 monthly payments)

Option 5: Lump Sum Payment (one payment) - DEFAULT

Each installment distribution option pays out on a calendar month basis.

Note: For distributions during 2009, if the total balance in your 2005 and Beyond Salary Deferral Account (plus the total balance in any other account which must be aggregated with your 2005 and Beyond Salary Deferral Account under the 409A Rules) is less than $10,000 on the date you become eligible for the distribution, you will receive a Lump Sum Payment from this account regardless of the option you selected.

For distributions during or after 2010, if the total balance in your 2005 and Beyond Salary Deferral Account (plus the total balance in any other account which must be aggregated with your 2005 and Beyond Salary Deferral Account under the 409A Rules) is less than the Code Section 402(g) deferral limit in effect for the UPS Savings Plan on the date you become eligible for the distribution, you will receive a Lump Sum Payment from this account regardless of the option you selected.

If you made deferrals to the Plan prior to January 1, 2005, the distribution option you previously chose for your 2004 and Before Salary Deferral Account will continue to apply. (If your total 2004 and Before Salary Deferral Account balance is less than $20,000 as of your termination date, you will receive a Lump Sum Payment from this account regardless of the option you have selected.)

A copy of the 2004 Summary Plan Description may be obtained on the Plan Web site at **http://upssavings.csplans.com**, or from the Corporate Compensation Department.

Q. How do I change my distribution option?

A. After your initial enrollment you may not change your selected (or if no selection was made, the default) distribution option for your 2005 and Beyond Salary Deferral Account.

In order to change your 2004 and Before Salary Deferral Account distribution option, you may go to the Plan Web site, http://upssavings.csplans.com, and print a 2004 and Before Salary Deferral Feature Distribution Election Form from the Forms section. You may also direct your request to the UPS Savings Advantage Information Line at 1-800-541-6154 and speak with a Participant Service Representative. The representative will send you a form. You must complete and return the updated form to the UPS Deferred Compensation Plan Administrator at the address printed on it. A new distribution option for your 2004 and Before Salary Deferral Account must be on file for at least 12 months in order to become effective.

Q. What happens to my Salary Deferral Accounts if I should die prior to receiving distribution of the entire account balance?

A. You may designate a beneficiary(ies) when you enroll in the Plan. Your beneficiary designation may be changed at any time, but must be the same for any accounts you have in the Plan. The balance in your 2005 and Beyond Salary Deferral Account will be paid to your designated beneficiary(ies) (or begin to be paid, in the case of installments) in accordance with your distribution election in effect at the time of your death, as soon as administratively possible, but in no event later than 90 days following your death (with the actual payment date determined by UPS in its sole discretion). Your beneficiary(ies) will not be able to select a distribution option.

In the event that you have not designated a beneficiary, your 2005 and Beyond Salary Deferral Account balance will be distributed to your estate as soon as administratively possible, but in no event later than 90 days following your death (with the actual payment date determined by UPS in its sole discretion).

Amounts credited to your 2004 and Before Salary Deferral Account or your Stock Optional Deferral Account will be distributed to your beneficiary(ies) in accordance with your distribution election. However, your beneficiary(ies) may elect to withdraw your entire 2004 and Before Salary Deferral or your Stock Option Deferral Account balances (pre-2005 deferrals) at any time. Ten percent of the total value of those accounts at the time of the withdrawal will be forfeited. Withdrawals will be paid as a lump sum. Note that this option is not available for deferrals made to your 2005 and Beyond Salary Deferral Account

Q. How do I designate a beneficiary?

A. When you initially enroll, you will designate one or more beneficiaries online. This beneficiary designation can be changed at any time on a Beneficiary Designation Form.

Note: Your beneficiary designation applies to any of your UPS Deferred Compensation Plan accounts (2004 and Before Salary Deferral Account, 2005 and Beyond Salary Deferral Account and/or Stock Option Deferral Account).

Q. How do I change my beneficiary?

A. To make a beneficiary change, you may go to the Plan Web site at **http://upssavings.csplans.com** and print a Beneficiary Designation Form from the Forms section. You may also direct your request to the UPS Savings Advantage Information Line at 1-800-541-6154 and speak with a Participant Service Representative. The representative will send you a Beneficiary Designation Form. You must complete and return the updated beneficiary form to the UPS Deferred Compensation Plan Administrator at the address printed on the form.

Withdrawal Options

Q. May I take a hardship withdrawal?

A. Hardship withdrawals are available under very limited circumstances. In the event of an unforeseeable emergency which results in a severe financial hardship, you may petition the UPS Deferred Compensation Plan Committee for a distribution of the amount reasonably necessary to meet your financial need. This definition of hardship is more stringent than the hardship provision in a qualified 401(k) plan, and does not, for instance, include college expenses or costs in connection with a home purchase. It generally encompasses hardship generated by unforeseen circumstances such as medical expenses, loss of property due to casualty and other similar extraordinary and unforeseeable circumstances arising as a result of events beyond your control. A hardship withdrawal may not be made to the extent the hardship is or may be relieved through reimbursement, insurance, liquidation of your assets (under certain circumstances) or the cessation of Plan deferrals. The Committee may approve or deny the request in its sole discretion. Hardship withdrawals will be paid in a lump sum as soon as administratively possible, but in no event later than 90 days following approval by the Committee (with the actual payment date determined by UPS in its sole discretion).

Q. May I take a withdrawal for reasons other than hardship?

A. You may withdraw all of your 2004 and Before Salary Deferral Account balance or your Stock Option Deferral Account balance (pre-2005 deferrals) at any time. However, you will forfeit 10 percent of the total value of your accounts. Withdrawals will be paid in a lump sum.

Other than in the event of hardship as described above, you may not withdraw amounts credited to your 2005 and Beyond Salary Deferral Account.

Q. May I take a loan?

A. Unlike the UPS Savings Plan or other qualified 401(k) plans, loans are not permitted under the UPS Deferred Compensation Plan.

Q. May I roll over my deferred account balance?

A. Unlike qualified 401(k) plans, rollovers are not permitted under the UPS Deferred Compensation Plan.

Taxes

Q. Am I taxed on my deferrals or earnings that are credited to my account?

A. Under current law, neither the deferrals nor the earnings on those amounts are subject to federal income tax until they are withdrawn from the Plan, as long as you make your election before you earn the income. All states with income taxes, except New Jersey, follow the federal law. As a result, other than in the state of New Jersey, there will be no state income tax liability until you actually receive a distribution. Distributions from the Plan will be taxed as ordinary income upon receipt. You should consult with your legal counsel or tax advisor concerning your specific state or local city and county tax laws.

Note: We intend for the Plan to satisfy the 409A Rules. If the Plan does not satisfy these rules, you may be subject to additional taxes and interest.

Q. What about Social Security and Medicare Taxes?

A. Deferred amounts are subject to Social Security and Medicare taxes at the time of the deferral (when they are deducted from your pay). However, the distributions from the UPS Deferred Compensation Plan, including the earnings, are not subject to these taxes under current law. Payments from the Plan will not reduce the Social Security benefits after retirement, as they do not represent wages for service performed at that time.

Note: Non-employee directors are not subject to Social Security and Medicare taxes on amounts deferred under the Plan.

Q. How will my distribution payments be reported?

A. Whether you are an active, terminated, or retired employee, your distribution payments will be reported to you on a Form W-2. Payments to beneficiaries, in the event of your death, will be reported on a Form 1099. Payments to non-employee directors will be reported on a Form 1099-MISC.

Q. How will my distributions be taxed?

A. Under current law, distributions from the UPS Deferred Compensation Plan generally are taxed as ordinary income when received, and no special tax advantages or penalties apply. Federal, state and local income taxes (see above for the exception—New Jersey) will be withheld from your distribution payments when they are actually made.

Note: No federal, state or local income taxes will be withheld from payments made to non-employee directors, unless requested by the non-employee directors.

Q. Is my distribution eligible to be rolled over to an IRA?

A. No, because this is not a tax-qualified plan under the Code, distributions are not eligible to be rolled over into an IRA.

Q. Will benefits paid to my beneficiaries be included in my gross estate for federal tax purposes?

A. Yes, the cumulative amounts in your account at the time of death will be included in your estate.

Note: You should consult with your own legal counsel or tax advisor concerning your beneficiary(ies) designations and plan to obtain the most appropriate result for your personal situation.

Enrollment Process

Q. How do I enroll in the Salary Deferral Feature of the UPS Deferred Compensation Plan for 2009?

A. Log on to the Plan Web site, **http://upssavings.csplans.com**, using your Social Security Number or Employee ID and your PIN.

- If you have not previously done so, you will be asked to change your PIN from 4 numbers to 6 numbers. You may also be asked to establish PIN reset security questions at this time.
- Once logged on, you will receive a message to enroll in the Plan for 2009. Please note that this message will appear until the end of the enrollment period whether or not you have taken action.
- Click on the link to open the enrollment window.
- You may scroll down to view the Plan’s enrollment materials, including the 2009 Summary Plan Description, Fund Fact Sheets and Investment Returns, or click on 2009 Enrollment to begin making your elections.
- Follow the prompts to enroll in the Plan. Your first enrollment choice will be one of the following:
  - I elect to defer 100% of my ADP refund.
  - I elect not to defer 100% of my ADP refund.
- You will next choose the deferral percentage from your monthly or semi-monthly pay. If you do not want to defer from pay, please enter zero. Note that if you participate in the Plan in 2008, your current deferral percentage is displayed.
- On the next screen you will elect your percentages from the half month bonus and the MIP cash award. If you do not want to defer from either of them or they do not apply to you, please enter zeroes.

- If you have never participated in the 2005 and Beyond Salary Deferral Feature, you will be asked to make your investment option selections. Although UPS Stock is an investment option in the Plan, because the trading window is anticipated to be closed from September 1 through October 23, you will not be able to select UPS Stock after 4:00 p.m. (ET) on August 29, 2008. If it is your intent to invest your contributions in UPS Stock, you may do so through the Plan Web site or the Information Line any time after January 1, 2009 when the trading window is open.
- If you have never participated in the 2005 and Beyond Salary Deferral Feature, you will be asked to choose your distribution option. You will first choose your payment type (Lump Sum or Installments), then enter the number of calendar months you are electing to receive monthly installments.

  3 Year Installment = 36 Payments
  5 Year Installment = 60 Payments
  7 Year Installment = 84 Payments
  10 Year Installment = 120 Payments
- Confirm your elections and submit your 2009 enrollment.
- Print a copy of the confirmation screen for your records. If you previously elected to have confirmations sent to you via online mailbox, a copy will be sent to your My Correspondence and Records Box. If you have not yet elected to have confirmations sent to you online, you will receive a copy at your home address.
- To designate a beneficiary if you have not previously participated in any of the Plan's 3 features, please go to Personal Information (on the top navigation bar) and follow the prompts to designate your beneficiary(ies).
- Do not change your beneficiary online if you have previously made a designation for any features in the Plan. Once you have chosen a beneficiary, to make a change you must complete a Beneficiary Designation Form found in the Forms section of the Plan Web site.

Q. Do I need to do anything if I do not want to participate in 2009?

A. No.

ADDITIONAL INFORMATION

Plan Administrator

Q. Who is the administrator and how can I check my account balance?

A. The administrator for the UPS Deferred Compensation Plan is the administrative committee appointed by the Salary Committee of United Parcel Service, Inc., and the recordkeeper for the Plan is ING. The Plan administrator has the exclusive responsibility and complete discretionary authority to control the operation, management and administration of the Plan, with all powers necessary to enable it properly to carry out those responsibilities, including (but not limited to) the power to construe the Plan, to determine eligibility for benefits, to settle disputed claims and to resolve all administrative, interpretive, operational, equitable and other questions that arise under the Plan. The decisions of the Plan administrator on all matters within the scope of its authority will be final and binding. To the extent a discretionary power or responsibility under the Plan is expressly assigned to a person by the Plan administrator, that person will have complete discretionary authority to carry out that power or responsibility, and that person's decisions on all matters within the scope of that person's authority will be final and binding.

Although you will receive an annual statement, you can determine the balance in your account at any time by accessing your account online at **http://upssavings.csplans.com**.

You can also call the UPS Savings Advantage Information Line at 1-800-541-6154 and speak to a Participant Service Representative. Participant Service Representatives are available from 7:30 a.m. to 5:00 p.m. (Eastern Time) Monday through Friday, except for stock market holidays.

With the exception of the 2% short-term trading fee associated with the EAFE Fund, no annual fees will be charged to you for the Plan. Other than the EAFE short-term trading fee, all fees associated with the Plan will be paid by UPS until and unless you are notified otherwise.

Plan Amendment or Termination

Q. Can the Plan be amended or discontinued?

A. Yes. United Parcel Service of America, Inc. ("UPS America") has established the Plan with the expectation that it will be continued indefinitely. Nevertheless, UPS America retains the right to amend or terminate all or part of the Plan at any time. However, your Salary Deferral Accounts and the number of shares credited to your Stock Option Account, at the time of any amendment, suspension or termination of the Plan, cannot be reduced (except by reason of future investment losses).

Note: UPS America may be required to make further amendments to the Plan in order to comply with the federal tax law applicable to non-qualified deferred compensation plans. You will be notified of those amendments if they materially affect information provided in this Summary Plan Description/Prospectus.

Miscellaneous

Q. Which documents govern the UPS Deferred Compensation Plan?

A. The terms governing the UPS Deferred Compensation Plan are set forth in this UPS Deferred Compensation Plan document, which also serves as the Summary Plan Description and Prospectus.

Q. Can I transfer, pledge or assign my accounts?

A. No. Rights to your Salary Deferral Accounts cannot be transferred, assigned, pledged or alienated. You may not pledge or assign your account balances to secure a bank loan or other indebtedness.

Q. Are there any restrictions on my ability to sell shares of UPS Stock that I receive in a distribution under the Plan?

A. Each person who controls, or is a member of a group that controls, or who is under common control with, UPS and who distributes any shares of UPS Stock obtained through a distribution under the Plan, and any broker or dealer who participates in any such distribution, may, in connection with such a distribution, be deemed to be an "underwriter" within the meaning of the Securities Act of 1933 (the "Securities Act") unless the shares are sold pursuant to Rule 144 under the Securities Act. This brochure may not be used in connection with any resales of any shares received by such a person.

In addition, the filing requirements of Section 16(a) of the Securities Exchange Act of 1934 (the "Exchange Act') and the short-swing profit rules under Section 16(b) of the Exchange Act may apply to purchases and sales of UPS Stock, including shares received in a distribution under the Plan and subsequent resale of these shares, by any person who is an executive officer, director or beneficial owner of 10% or more of UPS's outstanding common stock.

Officers and directors should consult with the UPS Legal Department before offering for sale any of the shares of UPS Stock received in a distribution under the Plan so that we may ensure compliance with Rule 144, Section 16 and any other applicable provisions of federal and state securities laws.

To the extent any transaction could, in the absolute discretion of UPS, cause a participant to be subject to liability under Section 16 of the Exchange Act, UPS may refuse to permit such transaction. In addition, UPS may establish procedures to ensure that transactions under the Plan will be executed in accordance with the requirements of Section 16(b) of the Exchange Act and any regulations promulgated thereunder.

Q. What Claims Procedures apply under the Plan?

A. Any claim for a benefit under the Plan must be filed and resolved in accordance with the claims procedure provided under the UPS Savings Plan, which claims procedure is incorporated in the Plan by reference, except that the Plan administrator is the entity with whom a claim for review should be filed under the Plan, and the Plan administrator has absolute discretion to resolve any claims under the Plan.

Q. What other rules apply under the Plan?

A. The following rules also apply under the Plan:

Construction: The Plan will be construed in accordance with the laws of the State of Georgia. Headings have been added only for convenience of reference and will have no substantive effect whatsoever. All references to the singular include the plural, and all references to the plural include the singular.

No Contract of Employment: Nothing contained in the Plan will be construed as a contract of employment between UPS and any employee, as a right of any employee to be continued in the employment of UPS, or as a limitation of the right of UPS to discharge an employee with or without cause at any time.

No Liability: No Plan participant or beneficiary will have the right to look to, or have any claim whatsoever against, any officers, director, employee or agent of UPS in his or her individual capacity for the distribution of his or her Account.

ERISA: UPS intends that the Plan come within the various exceptions and exemptions to ERISA for a plan maintained for a "select group of management or highly compensated employees" as described in Sections 201(2), 301(a)(3), and 401(a)(1) of ERISA, and any ambiguities in the Plan will be construed to effect this intent.

Where You Can Find Additional Information

Q. Where can I find more information about UPS?

A. We file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's Web site at **http://www.sec.gov**. You may also read and copy any document we file with the SEC at its public reference facilities at 100 F Street, N.E., Room 1580, Washington, DC 20549, 233 Broadway, New York, New York 10279 and CitiCorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. You can also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Room 1580, and Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities. Our SEC filings are also available at the office of the New York Stock Exchange. For further information on obtaining copies of our public filings from the New York Stock Exchange, you should call 212-656-5060.

The SEC allows us to "incorporate by reference" into this document the information that we file with it. This means that we can disclose important information by referring you to those documents. The information incorporated by reference is an important part of this prospectus, and information in documents that we file after the date of this prospectus and before the termination of the offering will automatically update information in this prospectus.

We incorporate by reference the documents listed below that we had filed on or prior to July 31, 2007 and any filings after such date that we make with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until our offering is completed, provided, however, that we are not incorporating by reference any information furnished (but not filed) under Item 2.02 or Item 7.01 of any current report on Form 8-K:

- our annual report on Form 10-K for the year ended December 31, 2007;

- our quarterly reports on Form 10-0, for the quarter ended March 31, 2008;
- our current reports on Form 8-K, filed on January 9, 2008, January 15, 2008, February 1, 2008, March 20, 2008, April 18, 2008; May 28, 2008 and May 30, 2008; and
- the description of United Parcel Service of America, Inc.'s common stock, contained in its registration statement on Form 8-A, filed with the SEC in April 1970, as updated by item 5 of its annual report on Form 10-K for the year ended December 31, 1998, as modified by the description of the class A-1 common stock contained in our registration statement on Form S-4 (no. 333-83349). We succeeded to the Exchange Act registration of United Parcel Service of America, Inc. pursuant to Rule 12g-3 under the Exchange Act.

Q. How can I obtain copies of this information?

A. We will provide, without charge, to each person to whom a copy of this prospectus is delivered, upon written or oral request a copy of any and all of the documents incorporated by reference in this prospectus, other than the exhibits to such documents, unless such exhibits are specifically incorporated by reference into the documents that this prospectus incorporates. Requests for copies of such documents should be directed to **United Parcel Service, Inc., 55 Glenlake Parkway, N.E., Atlanta, Georgia 30328, Attn: Investor Relations, telephone number 404-828-6059.**

In addition, we will furnish to each participant in the Plan a copy of our Annual Report to Shareowners. We will provide additional copies of our annual report, without charge, upon written or oral request to the address or telephone number listed above.

Exhibit 12

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
Ratio of Earnings to Fixed Charges

	Year Ended December 31,				
	2008	2007	2006	2005	2004
Earnings:					
Earnings before income taxes and accounting changes	$5,015	$431	$6,510	$6,075	$4,922
Add: Interest expense	442	246	211	172	149
Add: Interest factor in rental expense	278	296	304	281	253
Total earnings	$5,735	$973	$7,025	$6,528	$5,324
Fixed charges:					
Interest expense	$ 442	$246	$ 211	$ 172	$ 149
Interest capitalized	48	67	48	32	25
Interest factor in rental expense	278	296	304	281	253
Total fixed charges	$ 768	$609	$ 563	$ 485	$ 427
Ratio of earnings to fixed charges	7.5	1.6	12.5	13.5	12.5

Exhibit 21

SUBSIDIARIES OF UNITED PARCEL SERVICE, INC.

As of December 31, 2008

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
Evind Corporation	Indiana
Fritz Companies Deutschland GmbH	Germany
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.	New York
United Parcel Service, Inc.	Ohio
UPINSCO, Inc.	Virgin Islands
United Parcel Service Canada Ltd.	Canada
UPS Capital Bancorp, Inc.	Delaware
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

The names of particular subsidiaries are omitted pursuant to Item 601(b)(21)(ii)of Regulation S-K.

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-147737, 333-08369-01, 333-108272, and 333-112329 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 our reports dated February 27, 2009, 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 (which report on the consolidated financial statements expresses an unqualified opinion and includes an explanatory paragraph relating to the Company's adoption of the provisions of Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109)," on January 1, 2007, the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," on January 1, 2006, and the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (an amendment of FASB Statements No. 87, 88, 106, and 132(R))," on December 31, 2006), appearing in this Annual Report on Form 10-K of United Parcel Service, Inc. for the year ended December 31, 2008.

Deloitte & Touche LLP

Atlanta, Georgia
February 27, 2009

Exhibit 31.1

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 27, 2009

Exhibit 31.2

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 27, 2009

Exhibit 32.1

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with the Annual Report on Form 10-K of United Parcel Service, Inc. (the "Corporation") for the year ended December 31, 2008, 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 27, 2009

Exhibit 32.2

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with the Annual Report on Form 10-K of United Parcel Service, Inc. (the "Corporation") for the year ended December 31, 2008, 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 27, 2009