SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended September 30, 2000

Commission file number 0-4714

United Parcel Service, Inc.

(Exact name of registrant specified in its charter)

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

55 Glenlake Parkway, NE

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

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

Not Applicable

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

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

YES X NO

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

(Title of Class)

967,128,260 Class A shares, 164,309,050 Class B shares

Outstanding as of November 10, 2000

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

<TABLE>
<CAPTION>

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

<S>	<C>	<C>
Assets	September 30, 2000	December 31, 1999
Current Assets:		
Cash & cash equivalents	$ 1,670	$4,204
Marketable securities & short-term investments	1,922	2,074
Accounts receivable	3,383	3,167
Prepaid employee benefit costs	1,626	1,327

Materials, supplies & other prepaid expenses	506	366
Total Current Assets	9,107	11,138
Property, Plant & Equipment (including aircraft under capitalized lease obligations) - at cost, net of accumulated depreciation & amortization of $9,442 in 2000 and $8,891 in 1999	11,721	11,579
Other Assets	584	326
	$21,412	$ 23,043
Liabilities & Shareowners' Equity		
Current Liabilities:		
Commercial paper	$ 955	$ -
Accounts payable	1,433	1,295
Accrued wages & withholdings	1,740	998
Dividends payable	-	361
Tax assessment	146	457
Income taxes payable	396	50
Current maturities of long-term debt	263	512
Other current liabilities	686	525
Total Current Liabilities	5,619	4,198
Long-Term Debt (including capitalized lease obligations)	2,052	1,912
Accumulated Postretirement Benefit Obligation, Net	1,049	990
Deferred Taxes, Credits & Other Liabilities	3,426	3,469
Shareowners' Equity:		
Preferred stock, no par value, authorized 200,000,000 shares, none issued	-	-
Class A common stock, par value $.01 per share, authorized 4,600,000,000 shares, issued 988,395,928 and 1,101,295,534 in 2000 and 1999	10	11
Class B common stock, par value $.01 per share, authorized 5,600,000,000 shares, issued 146,553,441 and 109,400,000 in 2000 and 1999	1	1
Additional paid-in capital	345	5,096
Retained earnings	9,152	7,536
Accumulated other comprehensive loss	(242)	(170)
	9,266	12,474
	$21,412	$ 23,043

</TABLE>

See notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Revenue	$ 7,367	$ 6,715	$ 21,871	$ 19,606
Operating Expenses:				
Compensation and benefits	4,072	3,849	12,189	11,226
Other	2,134	1,876	6,274	5,522
	6,206	5,725	18,463	16,748
Operating Profit	1,161	990	3,408	2,858
Other Income and (Expense):				
Investment income	71	45	466	115
Interest expense	(41)	(65)	(158)	(170)
Tax assessment	-	-	-	(1,786)
Miscellaneous, net	(20)	(8)	(32)	(30)
	10	(28)	276	(1,871)
Income Before Income Taxes	1,171	962	3,684	987

Income Taxes	469	385	1,474	765
Net Income	$ 702	$ 577	$2,210	$ 222
Basic Earnings Per Share	$0.62	$0.53	$ 1.91	$ 0.20
Diluted Earnings Per Share	$0.60	$0.52	$ 1.87	$ 0.20

See notes to unaudited consolidated financial statements.

<TABLE>
<CAPTION>

UNITED PARCEL SERVICE, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREOWNERS' EQUITY
Nine Months Ended September 30, 2000
(In millions except per share amounts)
(unaudited)

<S>	<C> Class A Common Stock Shares	<C> Amount	<C> Class B Common Stock Shares	<C> Amount	<C> Additional Paid-In Capital	<C> Retained Earnings	<C> Accumulated Other Comprehensive Loss	<C> Total Shareowners' Equity
Balance, January 1, 2000	1,101	$ 11	109	$1	$5,096	$7,536	$ (170)	$ 12,474
Comprehensive income:								
Net income	-	-	-	-	-	2,210	-	2,210
Foreign currency adjustments	-	-	-	-	-	-	(77)	(77)
Unrealized gain on marketable securities	-	-	-	-	-	-	5	5
Comprehensive income								2,138
Dividends ($0.51 per share)	-	-	-	-	-	(594)	-	(594)
Stock award plans	5	-	-	-	113	-	-	113
Common stock purchases:								
Tender offer	(68)	(1)	-	-	(4,069)	-	-	(4,070)
Other	(9)	-	(4)	-	(813)	-	-	(813)
Common stock issuances	1	-	-	-	18	-	-	18
Conversion of Class A Common Stock to Class B Common Stock	(42)	-	42	-	-	-	-	-
Balance, September 30, 2000	988	$ 10	147	$1	$ 345	$9,152	$ (242)	$ 9,266

</TABLE>

See notes to unaudited consolidated financial statements.

<TABLE>
<CAPTION>

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

<S>	<C> Nine Months Ended September 30,	

	2000	1999
Cash flows from operating activities:		
Net income	$2,210	$222
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	864	850
Postretirement benefits	59	18
Deferred taxes, credits, and other	(9)	(79)
Stock award plans	415	304
Gain on investments and sale of business	(263)	-
Changes in assets and liabilities:		
Accounts receivable	(216)	(132)
Prepaid employee benefit costs	(299)	(294)
Materials, supplies and other prepaid expenses	(140)	(54)
Accounts payable	138	(9)
Accrued wages and withholdings	371	241
Dividends payable	(361)	(247)
Tax assessment	(311)	621
Income taxes payable	481	55
Other current liabilities	98	45
Net cash from operating activities	3,037	1,541
Cash flows from investing activities:		
Capital expenditures	(1,247)	(1,080)
Disposals of property, plant and equipment	204	155
Purchases of marketable securities and short-term investments	(3,423)	(2,089)
Sales and maturities of marketable securities and short-term investments	3,806	1,785
Construction funds in escrow	59	(138)
Other asset receipts (payments)	(272)	15
Net cash (used in) investing activities	(873)	(1,352)
Cash flows from financing activities:		
Proceeds from borrowings	1,643	1,617
Repayments of borrowings	(793)	(246)
Purchases of common stock via tender	(4,070)	-
Other purchases of common stock	(813)	(1,196)
Issuances of common stock pursuant to stock awards and employee stock purchase plans	70	684
Dividends	(594)	(311)
Other transactions	(118)	(10)
Net cash (used in) financing activities	(4,675)	538
Effect of exchange rate changes on cash	(23)	(12)
Net increase (decrease) in cash and cash equivalents	(2,534)	715
Cash and cash equivalents:		
Beginning of period	4,204	1,240
End of period	$1,670	$1,955
Cash paid during the period for:		
Interest (net of amount capitalized)	$194	$927
Income taxes	$905	$660

</TABLE>

See notes to unaudited consolidated financial statements

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

1. For interim consolidated financial statement purposes, we compute our tax provision on the basis of our estimated annual effective income tax rate, and provide for accruals under our various employee benefit plans for each three month period based on one quarter of the estimated annual expense.

2. In our opinion, the accompanying interim, unaudited, consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position as of September 30, 2000, the results of operations for the three and nine months ended September 30, 2000 and

1999, and cash flows for the nine months ended September 30, 2000 and 1999. The results reported in these consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

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

<TABLE>
<S>

	<C> Three Months Ended September 30,		<C> Nine Months Ended September 30,	
	2000	1999	2000	1999
Numerator:				
Numerator for basic and diluted earnings per share -				
Net income	$ 702	$ 577	$2,210	$ 222
Denominator:				
Weighted-average shares -				
Denominator for basic earnings per share	1,140	1,094	1,158	1,107
Effect of dilutive securities:				
Contingent shares -				
Management incentive awards	9	15	6	11
Stock option plans	15	9	17	8
Denominator for diluted earnings per share	1,164	1,118	1,181	1,126
Basic Earnings Per Share	$0.62	$0.53	$ 1.91	$0.20
Diluted Earnings Per Share	$0.60	$0.52	$ 1.87	$0.20

</TABLE>

4. On August 9, 1999 the U.S. Tax Court issued an opinion unfavorable to UPS regarding a Notice of Deficiency asserting that we are liable for additional tax for the 1983 and 1984 tax years. The Court held that we are liable for tax on income of Overseas Partners Ltd. ("OPL"), a Bermuda company, which had reinsured excess value package insurance purchased by our customers beginning in 1984. The Court held that for the 1984 tax year we are liable for taxes of $31 million on income reported by OPL, penalties and penalty interest of $93 million and interest for a total after-tax exposure estimated at approximately $246 million. In February 2000, the U.S. Tax Court entered a decision in accord with its opinion.

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

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

In the second quarter 1999 financial statements, we recorded a tax assessment charge of $1.786 billion, which included an amount for related state tax liabilities. The charge included taxes of $915 million and interest of $871 million. This assessment resulted in a tax benefit of $344 million related to the interest component of the assessment. As a result, our net charge to net income for the tax assessment was $1.442 billion, increasing our total after-tax reserve at that time with respect to these matters to $1.672 billion. The tax benefit of deductible interest is included in income taxes; however, since none of the income on which this tax assessment is based is our income, we have not classified the tax charge as income taxes.

We determined the size of our reserve with respect to these matters in accordance with generally accepted accounting principles based on our estimate

of our most likely liability. In making this determination, we concluded that it was more likely that we would be required to pay taxes on income reported by OPL and interest, but that it was not probable that we would be required to pay any penalties and penalty interest. If penalties and penalty interest ultimately are determined to be payable, we would have to record an additional charge of up to $681 million.

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

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

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

We expect that we will prevail on substantially all of these issues. We believe that our practice of expensing the items that the IRS alleges should have been capitalized is consistent with the practices of other industry participants. Should the IRS prevail, however, unpaid interest on these adjustments through September 30, 2000, could aggregate up to $270 million, after the benefit of related tax deductions. The IRS's proposed adjustments include penalties and penalty interest. We believe that the possibility that such penalties and penalty interest will be sustained is remote. The IRS has taken similar positions with respect to some of these issues for each of the years from 1991 through 1994 and we expect the IRS to take similar positions for the years 1995 through 1999. We believe the eventual resolution of these issues will not result in a material adverse effect on our financial condition, results of operations or liquidity.

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

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

On November 22, 1999, the U.S. Occupational Safety and Health Administration proposed regulations to mandate an ergonomics standard that would require American industry to make significant changes in the workplace in order to reduce the incidence of musculoskeletal complaints such as low back pain. The exact changes in the workplace that might be required to comply with these standards are not specified in the proposal. If OSHA enforced these regulations

by seeking the same ergonomic measures it has advocated in the past under its general authority to remedy "recognized hazards," however, it might demand extensive changes in the physical layout of our distribution centers as well as the hiring of significant numbers of additional full-time and part-time employees. Our competitors, as well as the remainder of American industry, also would incur proportionately comparable costs.

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

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

In addition, we are a defendant in various other lawsuits that arose in the normal course of business. In our opinion, none of these cases is expected to have a material effect on our financial condition, results of operations or liquidity.

5. We report our operations in three segments: U.S. domestic package operations, international package operations and non-package operations. Package operations represent our core business and are divided into regional operations around the world. Regional operations managers are responsible for both domestic and export operations within their geographic region. International package operations include shipments wholly outside the U.S. as well as shipments with either origin or delivery outside the U.S. Non-package operations, which include the UPS Logistics Group, are distinct from package operations and are thus managed and reported separately.

Segment information for the three and nine months ended September 30, 2000 and 1999, is as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Revenue:				
U.S. domestic package	$5,928	$5,574	$17,659	$16,239
International package	1,028	909	3,074	2,702
Non-package	411	232	1,138	665
Consolidated	$7,367	$6,715	$21,871	$19,606
Operating profit:				
U.S. domestic package	$1,043	$916	$ 2,954	$ 2,603
International package	58	47	207	170
Non-package	60	27	247	85
Consolidated	$1,161	$990	$ 3,408	$ 2,858

Non-package operating profit included $24 and $28 million for the three

months ended September 30, 2000 and 1999, respectively, and $77 and $85 million for the nine months ended September 30, 2000 and 1999, respectively, of intersegment profit, with a corresponding amount of operating expense, which reduces operating profit, included in the U.S. domestic package segment.

6. The major components of other operating expenses for the three months and nine months ended September 30, 2000 and 1999, are as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Repairs and maintenance	$246	$231	$726	$674
Depreciation and amortization	294	287	864	850
Purchased transportation	478	407	1,378	1,168
Fuel	224	174	672	467
Other occupancy	99	89	297	278
Other expenses	793	688	2,337	2,085
Consolidated	$2,134	$1,876	$6,274	$5,522

7. In June 1998, the FASB issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"), as amended by Statement No. 137 and No. 138, which provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. Upon adoption, all derivative instruments will be recognized on the balance sheet at fair value, and changes in the fair values of such instruments must be recognized currently in earnings unless specific hedge accounting criteria are met. FAS 133 will be effective for us on January 1, 2001. Based on an evaluation of our material derivative instruments held at September 30, 2000, the adoption of FAS 133 at that date would not have had a material impact on our financial position or results of operations.

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

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

Three Months Ended September 30, 2000 and 1999

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

	Three Months Ended September 30,			
	2000	1999	$	%
Revenue (in millions):				
U.S. domestic package:				
Next Day Air	$1,420	$1,344	$ 76	5.7 %
Deferred	690	649	41	6.3
Ground	3,818	3,581	237	6.6
Total U.S. domestic package	5,928	5,574	354	6.4
International package:				
Domestic	218	221	(3)	(1.4)
Export	698	605	93	15.4
Cargo	112	83	29	34.9
Total international package	1,028	909	119	13.1
Non-package:				
UPS Logistics Group	268	197	71	36.0
Other	143	35	108	308.6
Total non-package	411	232	179	77.2
Consolidated	$7,367	$6,715	$652	9.7 %
Average Daily Package Volume				
(in thousands):			#	
U.S. domestic package:				
Next Day Air	1,130	1,046	84	8.0 %
Deferred	845	789	56	7.1

Ground	10,345	9,849	496	5.0
Total U.S. domestic package	12,320	11,684	636	5.4
International package:				
Domestic	770	691	79	11.4
Export	366	298	68	22.8
Total international package	1,136	989	147	14.9
Consolidated	13,456	12,673	783	6.2 %
Operating days in period	63	64		
Average Revenue Per Piece:				
U.S. domestic package:			$	
Next Day Air	$19.95	$20.08	$(0.13)	(0.6)%
Deferred	12.96	12.85	0.11	0.9
Ground	5.86	5.68	0.18	3.2
Total U.S. domestic package	7.64	7.45	0.19	2.6
International:				
Domestic	4.49	5.00	(0.51)	(10.2)
Export	30.27	31.72	(1.45)	(4.6)
Total international package	12.80	13.05	(0.25)	(1.9)
Consolidated	$ 8.07	$ 7.89	$ 0.18	2.3 %

U.S. domestic package revenue increased 6.4% primarily due to volume gains across all product lines, continuing the trends reported during the first and second quarters of 2000. Average daily package volume for our Ground products increased 5.0%, or almost one-half million packages per day. This volume increase, combined with a 3.2% increase in revenue per piece for our Ground products, accounted for approximately two-thirds of the overall revenue increase for this segment. The remaining increase in U.S. domestic package revenue was due to continued volume growth for our Next Day Air and Deferred products.

The increase in international package revenue of 13.1% was due to volume growth for both our domestic and export products, offset by a decline in the revenue per piece for these products. This decline was primarily due to a decline in the value of the Euro relative to the U.S. dollar. Excluding the impact of currency fluctuations, overall revenue per piece for our international products would have increased 4.4%. The 22.8% increase in average daily volume for our export products represents our third consecutive quarter with volume increases in excess of 20%.

The increase in non-package revenue resulted primarily from the new arrangement for providing excess value package insurance for our customers as well as continued growth of the UPS Logistics Group. Revenue for the UPS Logistics Group increased by $71 million, or 36.0%, from $197 million to $268 million.

Operating expenses increased by $481 million, or 8.4%, to $6.206 billion during the third quarter of 2000. Compensation and benefits expenses increased by $223 million while other operating expenses increased $258 million. The increase in other operating expenses was primarily due to higher purchased transportation costs, higher fuel costs and claims expense associated with the new arrangement for providing excess value package insurance for our customers. The increase in purchased transportation costs were primarily due to increased business for our international and logistics operations, while the $50 million, or 28.7%, increase in fuel costs was due to the increase in fuel prices and the growth in volume, partially offset by the cost reductions generated by our fuel hedging program. International operating expenses were favorably impacted by the decline in the value of the Euro relative to the U.S. dollar.

To offset the increasing fuel costs we have experienced over the last several quarters and that we expect to continue into the future, we implemented a temporary 1.25% fuel surcharge effective August 7, 2000. Approximately $50 million in revenue was recorded during the quarter as a result of the surcharge.

Our operating margin improved from 14.7% during the third quarter of 1999 to 15.8% during the third quarter of 2000. The 15.8% operating margin represents our fourth consecutive quarter with an operating margin in excess of 15.0%. This improvement continues our recently reported trends and is favorably impacted by continued product mix improvements and our continued successful efforts in obtaining profitable volume growth.

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

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

Operating Segment	Three Months Ended September 30, 2000	1999	Change $	Change %
U.S. domestic package	$1,043	$ 916	$127	13.9 %
International package	58	47	11	23.4
Non-package	60	27	33	122.2
Consolidated Operating Profit	$1,161	$ 990	$171	17.3 %

U.S. domestic package operating profit increased over $100 million due to the volume and revenue improvements discussed previously.

International package operating profit increased over 23% due to increased volume and revenue, and was realized despite significantly higher fuel costs. Continuing the trends we have reported in previous quarters, this improvement was well-balanced across our international regions. Excluding the impact of currency fluctuations, this segment would have reported an additional $8 million in operating profit during this period.

The increase in non-package operating profit is largely due to the new arrangement for providing excess value package insurance for our customers, which contributed $60 million of operating profit for the quarter. This improvement was offset in part by start-up costs associated with UPS Service Parts Logistics, UPS Capital Corporation and other initiatives.

Our other income and expense improved $38 million, from expense of $28 million in the third quarter of 1999 to income of $10 million in the third quarter of 2000. This improvement was primarily due to higher cash and marketable securities balances that resulted in higher investment income, along with lower debt balances outstanding which resulted in lower interest expense.

Net income for the third quarter of 2000 increased by $125 million from the third quarter of 1999. This increase resulted in an improvement in diluted earnings per share from $0.52 in the third quarter of 1999 to $0.60 in the third quarter of 2000.

Nine Months Ended September 30, 2000 and 1999

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

	Nine Months Ended September 30, 2000	1999	Change $	Change %
Revenue (in millions):				
U.S. domestic package:				
Next Day Air	$ 4,213	$ 3,834	$379	9.9 %
Deferred	2,074	1,897	177	9.3
Ground	11,372	10,508	864	8.2
Total U.S. domestic package	17,659	16,239	1,420	8.7
International package:				
Domestic	673	680	(7)	(1.0)
Export	2,094	1,785	309	17.3
Cargo	307	237	70	29.5
Total international package	3,074	2,702	372	13.8
Non-package:				
UPS Logistics Group	696	566	130	23.0
Other	442	99	343	346.5
Total non-package	1,138	665	473	71.1
Consolidated	$21,871	$19,606	$2,265	11.6 %
Average Daily Package Volume				
(in thousands):			#	

U.S. domestic package:				
Next Day Air	1,104	1,012	92	9.1 %
Deferred	851	790	61	7.7
Ground	10,193	9,709	484	5.0
Total U.S. domestic package	12,148	11,511	637	5.5
International package:				
Domestic	758	686	72	10.5
Export	356	290	66	22.8
Total international package	1,114	976	138	14.1
Consolidated	13,262	12,487	775	6.2 %
Operating days in period	192	191		
Average Revenue Per Piece:				
U.S. domestic package:			$	
Next Day Air	$ 19.88	$ 19.84	$ 0.04	0.2 %
Deferred	12.69	12.57	0.12	1.0
Ground	5.81	5.67	0.14	2.5
Total U.S. domestic package	7.57	7.39	0.18	2.4
International:				
Domestic	4.62	5.19	(0.57)	(11.0)
Export	30.64	32.23	(1.59)	(4.9)
Total international package	12.94	13.22	(0.28)	(2.1)
Consolidated	$8.02	$7.84	$ 0.18	2.3 %

U.S. domestic package revenue increased 8.7% primarily due to volume gains across all product lines, continuing the trends reported during the first and second quarters of 2000. All products contributed to this increase, with our higher revenue per piece express (Next Day Air and Deferred) products accounting for almost 40% of the overall revenue increase. Our average daily Ground volume grew at a 5.0% rate for the period, increasing by an average of 484,000 packages per day. Also contributing to the revenue increase was one extra operating day in the first nine months of 2000 compared to the first nine months of 1999.

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

The increase in international package revenue was due to volume growth for both our domestic and export products, offset by a decline in the revenue per piece for these products. This decline was primarily due to a decline in the value of the Euro relative to the U.S. dollar. Overall average daily package volume increased 14.1% for international operations, with our export products, which had an average revenue per piece of $30.64, increasing at 22.8%.

The increase in non-package revenue resulted primarily from the new arrangement for providing excess value package insurance for our customers as well as continued growth of the UPS Logistics Group. Revenue for the UPS Logistics Group increased by $130 million, or 23.0%, from $566 million to $696 million during this period.

Operating expenses increased by $1.715 billion, or 10.2%, which was less than our revenue increase of 11.6%. Compensation and benefits expenses, the largest component of this increase, accounted for $963 million and included a $59 million charge recorded in the first quarter of this year relating to the creation of 4,000 new full-time hourly jobs resulting from the 1997 Teamsters contract. Other operating expenses increased $752 million due to higher purchased transportation costs, higher fuel costs and claims expense associated with the new arrangement for providing excess value package insurance for our customers. The increase in purchased transportation costs was primarily due to increased business for our international and logistics operations. The 43.9% increase in fuel costs from $467 million to $672 million was due to the increase in fuel prices and the growth in our average daily volume, partially offset by the cost reductions generated by our fuel hedging program. The increase in other operating expenses was slightly offset by the $49 million gain we recognized in the first quarter of this year from the sale of our UPS Truck Leasing subsidiary. International operating expenses were favorably impacted by the

decline in the value of the Euro relative to the U.S. dollar.

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

To offset the increasing fuel costs we have experienced over the last several quarters and that we expect to continue into the future, we implemented a temporary 1.25% fuel surcharge effective August 7, 2000. Approximately $50 million in revenue has been recorded year-to-date as a result of the surcharge.

Our operating margin improved from 14.6% during the first nine months of 1999 to 15.6% during the same period in 2000. This improvement continues our recently reported trends and is favorably impacted by continued product mix improvements and our continued successful efforts in obtaining profitable volume growth.

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

	Nine Months Ended September 30,		Change	
Operating Segment	2000	1999	$	%
U.S. domestic package	$2,954	$2,603	$351	13.5 %
International package	207	170	37	21.8
Non-package	247	85	162	190.6
Consolidated Operating Profit	$3,408	$2,858	$550	19.2 %

U.S. domestic package operating profit increased over $351 million due to the volume and revenue improvements discussed previously.

The improvement in the operating profit of our international package operations of 21.8% resulted primarily from increased volume and revenue, and was realized despite significantly higher fuel costs. This improvement occurred throughout our international regions. Excluding the impact of currency fluctuations, this segment would have reported an additional $20 million in operating profit during this period.

The increase in non-package operating profit is largely due to the new arrangement for providing excess value package insurance for our customers, which contributed $175 million of additional operating profit for the nine-month period. Also contributing to the operating profit improvement was the $49 million gain we recognized during the first quarter of 2000 from the sale of our UPS Truck Leasing subsidiary. These improvements were offset somewhat by start-up costs associated with UPS Service Parts Logistics, UPS Capital Corporation and other initiatives.

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

The increase in investment income of $351 million for the period is primarily due to two factors. First, in the first quarter of 2000, two companies in which our Strategic Enterprise Fund held investments were acquired by other companies, which caused us to recognize a gain of $241 million. Second, we earned income on the $5.3 billion in net IPO proceeds available for investment prior to the tender offer that occurred in early March 2000 and the $1.2 billion in IPO proceeds that were not utilized for the tender offer. We announced a share repurchase program on April 20, 2000 under which we expect to utilize up to the remaining $1.2 billion not used in the tender offer, of which approximately $500 million remains available for share repurchases as of September 30, 2000, and continues to generate investment income.

Net income for the nine months ended September 30, 2000 amounted to $2.210 billion, or $1.87 per diluted share, compared to net income of $222 million, or $0.20 per diluted share, for the same period in the prior year. Our fiscal 2000 results reflect the non-recurring items discussed above, which include the gains on our Strategic Enterprise Fund investments and sale of our Truck Leasing subsidiary, offset partially by the charge for retroactive costs associated with creating new full-time jobs from existing part-time Teamster jobs. Our fiscal 1999 results reflect a tax assessment charge resulting from an unfavorable ruling of the U.S. Tax Court. Excluding these non-recurring transactions for each of these periods, net income for the nine months ending September 30, 2000, would have been $2.071 billion, an increase of $407 million over adjusted 1999 net income of $1.664 billion. Adjusted diluted earnings per share increased from $1.48 in 1999 to $1.75 in 2000.

Management's Discussion and Analysis of Financial Condition and Results

Liquidity and Capital Resources

Our primary source of liquidity is our cash flow from operations. We maintain significant cash, cash equivalents, marketable securities and short-term investments, amounting to $3.592 billion at September 30, 2000. Of this amount, approximately $500 million represents the net proceeds remaining from our initial public offering, which was completed in November 1999. We used the majority of the IPO proceeds to fund a cash tender offer to purchase Class A-1 shares from shareowners. The tender offer, which was announced on February 4, 2000 and expired on March 3, 2000, was for up to 100,893,277 shares at a price of $60 per share. The actual number of shares validly tendered and accepted for purchase by us was 67,834,815, which resulted in a cash expenditure of approximately $4.1 billion and reduced our outstanding Class A shares accordingly.

The remaining IPO proceeds of approximately $500 million as of September 30, 2000, are available for a share repurchase program that was announced on April 20, 2000. In addition, an additional $750 million has been authorized for share repurchases.

We maintain a commercial paper program under which we are authorized to borrow up to $2.0 billion. Approximately $1.055 billion was outstanding under this program as of September 30, 2000. Since we do not intend to refinance the full commercial paper balance outstanding at September 30, 2000, $955 million has been classified as a current liability on our balance sheet. The average interest rate on the amount outstanding at September 30, 2000 was 6.6%. On October 25, 2000, we entered into a second commercial paper program under which we are authorized to borrow up to $5.0 billion.

We maintain two credit agreements with a consortium of banks. These agreements provide revolving credit facilities of $1.25 billion each, with one expiring in April 2001 and the other expiring in April 2005. Interest on any amounts we borrow under these facilities would be charged at 90-day LIBOR plus 15 basis points. There were no borrowings under either of these agreements as of September 30, 2000.

We also maintain a European medium-term note program with a borrowing capacity of $1.0 billion. Under this program, we may issue notes from time to time denominated in a variety of currencies. At September 30, 2000, $800 million was available under this program. The $200 million outstanding at September 30, 2000 bears interest at a stated interest rate of 6.625%.

In January 1999, we filed a shelf registration statement with the SEC under which we may issue debt securities in the U.S. marketplace of up to $2.0 billion. The debt may be denominated in a variety of currencies. In September 2000, we issued $300 million cash-settled convertible senior notes due September 27, 2007 pursuant to our shelf registration statement. The notes were sold at par with a stated interest rate of 1.75% and are callable after three years. The notes are convertible into cash, with the conversion price indexed to the trading price of our Class B common stock. There was approximately $405 million issued under this shelf registration statement at September 30, 2000.

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

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

OSHA has taken the position that the cost of compliance with the proposed

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

Market Risk

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

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

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

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

Future Accounting Changes

In June 1998, the FASB issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"), as amended by Statement No. 137 and No. 138, which provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. Upon adoption, all derivative instruments will be recognized on the balance sheet at fair value, and changes in the fair values of such instruments must be recognized currently in earnings unless specific hedge accounting criteria are met. FAS 133 will be effective for us on January 1, 2001. We have performed an evaluation of our current material derivative instruments, including those items discussed in the Market Risk section set forth above. Based on our evaluation of the material open derivative contracts we held at September 30, 2000, the adoption of FAS 133 at that date would not have had a material impact on our financial position or results of operations.

In December 1999, the SEC issued Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 provides guidance on applying generally accepted accounting principles to revenue recognition issues in financial statements. We will adopt SAB 101 as required in the fourth quarter of 2000. This adoption will not have a material impact on our financial position or results of operations.

"Management's Discussion and Analysis of Financial Condition and Results of Operations," "Liquidity and Capital Resources" and other parts of this report contain "forward-looking" statements about matters that are inherently difficult to predict. These statements include statements regarding our intent, belief and current expectations about our strategic direction, prospects and future results. We have described some of the important factors that affect these statements as we discussed each subject. Forward-looking statements involve risks and uncertainties, and certain factors may cause actual results to differ

materially from those contained in the forward-looking statements. These factors include, for example, our competitive environment, economic and other conditions in the markets in which we operate, strikes, work stoppages and slowdowns, governmental regulation, increases in aviation and motor fuel prices, and cyclical and seasonal fluctuations in our operating results. Additional information concerning these risks and uncertainties, and other factors you may wish to consider, are provided in the "Risk Factors" section of our prospectus dated November 9, 1999, as filed with the Securities and Exchange Commission.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See Item 2.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

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

a) Exhibits:

(1) Underwriting Agreement dated September 21, 2000 between United Parcel Service, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated

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

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

EXHIBIT INDEX

(1) Underwriting Agreement dated September 21, 2000 between United Parcel Service, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITED PARCEL SERVICE, INC.
(Registrant)

Date: November 14, 2000

By: /S/ Robert J. Clanin
Robert J. Clanin
Senior Vice President,
Treasurer and
Chief Financial Officer

UNITED PARCEL SERVICE, INC.

1.75% CASH-SETTLED CONVERTIBLE SENIOR NOTES
DUE SEPTEMBER 27, 2007

UNDERWRITING AGREEMENT

DATED AS OF SEPTEMBER 21, 2000

1. Introductory. United Parcel Service, Inc., a Delaware corporation (the "Company"), proposes to issue and sell $300,000,000 of its 1.75% Cash-Settled Convertible Senior Notes due September 27, 2007 ("Debt Securities"). The Debt Securities will be issued under an Indenture, dated as of January 26, 1999, as supplemented by the First Supplemental Indenture thereto, dated as of March 27, 2000, and as further supplemented by the resolutions of the Executive Committee of the Board of Directors of the Company adopted on September 21, 2000 (the "Indenture"), between the Company and Citibank, N.A., as Trustee, subject to the terms stated herein and as specified in the Terms Agreement referred to in Section 3.

The firm or firms which agree to purchase the Debt Securities are hereinafter referred to as the "Underwriters" of such Debt Securities, and the representative or representatives of the Underwriters, if any, specified in a Terms Agreement referred to in Section 3 are hereinafter referred to as the "Representatives"; provided, however, that if the Terms Agreement does not specify any representative of the Underwriters, the term "Representatives", as used in this Agreement (other than in Sections 2(b), 5 and 6 and the second sentence of Section 3), shall mean the Underwriters.

2. Representations and Warranties of the Company. The Company represents and warrants to, and agrees with, each Underwriter that:

(a) Registration Statement. A registration statement (No. 333-08369), including a prospectus, covering the registration of certain of its securities (including the Debt Securities), has been filed with the Securities and Exchange Commission (the "Commission"). Such registration statement, as amended, has been declared effective by the Commission and the Indenture has been qualified under the Trust Indenture Act of 1939 (the "Trust Indenture Act"). Such registration statement, as amended at the time of any Terms Agreement referred to in Section 3, is hereinafter referred to as the "Registration Statement", and the prospectus constituting a part thereof and the prospectus supplement relating to the offering of the Debt Securities to be filed by the Company pursuant to Rule 424(b) promulgated under the Securities Act of 1933 (the "Securities Act") and in the form first used to confirm sales of the Debt Securities, including all documents incorporated by reference therein on the date thereof, is hereinafter referred to as the "Prospectus". All financial statements and schedules included in material incorporated by reference into the Prospectus shall be deemed included in the Prospectus.

(b) Compliance. On the effective date of the most recent post-effective amendment to the Registration Statement, such Registration Statement conformed in all material respects to the requirements of the Securities Act, the Trust Indenture Act and the rules and regulations of the Commission (the "Rules and Regulations") and did not include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading. On the date of its issue and on the Closing Date (as defined in Section 3), the Prospectus conformed and will conform in all respects to the requirements of the Securities Act and the Rules and Regulations, and the Prospectus did not include nor will include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading. The representations and warranties in this subsection shall not apply to statements in or omissions from any of such documents based upon written information furnished to the Company by any Underwriter through the Representatives, if any, specifically for use therein.

(c) Due Incorporation and Good Standing. The Company has been duly incorporated, is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has the corporate power and authority to own its property and to conduct its business as described in the Prospectus and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a Material Adverse Effect (as defined below).

(d) Significant Subsidiaries. Each subsidiary of the Company that is a "significant subsidiary" as defined in Rule 1-02(w) of Regulation S-X under the Securities Act (the "Significant Subsidiaries") has been duly incorporated, is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has the corporate power and authority to own its property and to conduct its business as described in the Prospectus and is

duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a Material Adverse Effect (as defined below); all of the issued shares of capital stock of each Significant Subsidiary have been duly and validly authorized and issued, are fully paid and non-assessable and are owned directly or indirectly by the Company, free and clear of all liens, encumbrances, equitable claims or other adverse claims ("Adverse Claims").

(e) Authorization of Underwriting Agreement and Terms Agreement. This Underwriting Agreement has been, and the applicable Terms Agreement as of the date thereof will have been, duly authorized, executed and delivered by the Company.

(f) Authorization of Debt Securities. The Debt Securities have been duly authorized by the Company for issuance and sale pursuant to this Underwriting Agreement and the Terms Agreement. The Debt Securities, when issued and authenticated in the manner provided for in the Indenture and delivered against payment of the consideration therefor specified in the Terms Agreement, will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, except as the enforcement thereof may be limited by bankruptcy, insolvency (including, without limitation, all laws relating to fraudulent transfers), reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally or by general equitable principles (regardless of whether enforcement is considered in a proceeding in equity or at law).

(g) Authorization of Indenture. The Indenture has been duly authorized, executed and delivered by the Company and constitutes a valid and binding agreement of the Company, enforceable against the Company in accordance with its terms, except as the enforcement thereof may be limited by bankruptcy, insolvency (including, without limitation, all laws relating to fraudulent transfers), reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally or by general equitable principles (regardless of whether enforcement is considered in a proceeding in equity or at law).

(h) Authorization of Swap Agreement. The Confirmation Letter Agreement to be entered into between Merrill Lynch International and the Company on the Closing Date, which supplements and forms a part of an ISDA Master Agreement, dated as of the Closing Date (collectively, the "Swap Agreement"), will have been duly authorized, executed and delivered by the Company on the Closing Date and will constitute the valid and legally binding obligation of the Company, enforceable in accordance with its terms, except as the enforcement thereof may be limited by bankruptcy, insolvency (including, without limitation, all laws relating to fraudulent transfers), reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally or by general equitable principles (regardless of whether enforcement is considered in a proceeding in equity or at law).

(i) Absence of Defaults and Conflicts. The Company is not in violation of its charter or bylaws or in default in the performance of any obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, deed of trust, loan or credit agreement, note, lease or other agreement or instrument to which the Company is subject (collectively, "Agreements and Instruments"), except for such defaults that would not result in a Material Adverse Effect (as defined below). The (A) execution, delivery and performance of this Underwriting Agreement, the Indenture, the Swap Agreement, the Terms Agreement and any other agreement or instrument entered into or issued or to be entered into or issued by the Company in connection with the transactions contemplated hereby or thereby or in the Registration Statement, the Prospectus and the Swap Agreement, and (B) consummation of the transactions contemplated therein (including the issuance and sale of the Debt Securities) and compliance by the Company with its obligations hereunder and thereunder, have been duly authorized by all necessary corporate action and do not and will not, whether with or without the giving of notice or passage of time or both, conflict with or constitute a breach of, or default or Repayment Event (as defined below) under, or result in the creation or imposition of any lien, charge or encumbrance upon any assets, properties or operations of the Company pursuant to any Agreements and Instruments, nor will such action result in any violation of the provisions of the charter or bylaws of the Company or any applicable law, statute, rule, regulation, judgment, order, writ or decree of any government, government instrumentality or court (domestic or foreign), having jurisdiction over the Company or any of its assets, properties or operations, except for such conflicts, breaches or defaults that would not result in a Material Adverse Effect. As used herein, a "Repayment Event" means any event or condition that gives the holder of any note, debenture or other evidence of indebtedness (or any person acting on such holder's behalf) the right to require the repurchase, redemption or repayment of all or a portion of such indebtedness by the Company.

(j) No Consents. No consent, approval, authorization or order of, or qualification with, any governmental body or agency is required for the

performance by the Company of its obligations under this Agreement, the Indenture, the Swap Agreement and the Terms Agreement, except such as have been obtained under the federal securities laws or as may be required by the securities or Blue Sky laws of the various states or any applicable law, rule or regulation of any foreign jurisdiction in connection with the offer and sale of the Debt Securities.

(k) Financial Statements. The financial statements of the Company included or incorporated by reference in the Registration Statement and the Prospectus, together with the related schedules and notes thereto (the "Financial Statements"), present fairly in all material respects the financial position of the Company and its consolidated subsidiaries as of and for the periods specified therein. Such Financial Statements have been prepared in conformity with generally accepted accounting principles ("GAAP") applied on a consistent basis throughout the periods involved.

(l) No Material Adverse Change. Since the respective dates as of which information is given in the Registration Statement and Prospectus, except as otherwise stated therein, (A) there has been no material adverse change in the condition, financial or otherwise, or in the earnings, business or operations of the Company and its subsidiaries considered as one enterprise (a "Material Adverse Effect"), (B) there have been no transactions entered into by the Company, other than those arising in the ordinary course of business, which are material with respect to the Company and its subsidiaries considered as one enterprise, and (C) except for regular dividends on the Company's common stock or preferred stock, in amounts per share that are consistent with past practice and its charter and bylaw documents (as amended), there has been no dividend or distribution of any kind declared, paid or made by the Company on any class of its capital stock.

(m) Legal Proceedings; Required Disclosure. There are no legal or governmental proceedings pending or threatened to which the Company or any Significant Subsidiary is a party or to which any of the properties of the Company or any Significant Subsidiary is subject that are required to be described in the Registration Statement or the Prospectus and are not so described or any statutes, regulations, contracts or other documents that are required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement that are not described or filed as required.

(n) Investment Company. The Company is not, and, after giving effect to the offering and sale of the Debt Securities and the application of the proceeds thereof as described in the Prospectus, the Company will not be required to register as an "investment company" as such term is defined in the Investment Company Act of 1940, as amended.

(o) Title to Property. The Company and the Significant Subsidiaries have good and marketable title to all real property and good and marketable title to all personal property owned by them which is material to the business of the Company, in each case free and clear of all liens, encumbrances and defects except such as are described in the Prospectus or such as do not materially affect the value of such property and do not interefere with the use made or proposed to be made by the Company or any Significant Subsidiary of such property; and any real property and buildings held under lease by the Company and the Significant Subsidiaries are held by them under valid, subsisting and enforceable leases with such exceptions as are not material and do not interfere with the use made or proposed to be made of such property and buildings by the Company or any Significant Subsidiary, in each case except as described in or contemplated by the Prospectus.

(p) Labor Disputes. Except as set forth in the Prospectus, no material labor dispute with the employees of the Company or any of the Significant Subsidiaries exists or, to the knowledge of the Company, is imminent.

(q) Permits. The Company and the Significant Subsidiaries possess all certificates, authorizations and permits issued by the appropriate federal, state or foreign regulatory authorities necessary to conduct their businesses in all material respects as described in the Prospectus, and neither the Company nor any Significant Subsidiary has received any notice of proceedings relating to the revocation or modification of any such certificate, authorization or permit which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would result in a Material Adverse Effect, except as described in or contemplated by the Prospectus.

3. Purchase and Offering of Securities. The obligation of the Underwriters to purchase the Debt Securities will be evidenced by an exchange of telegraphic or other written communications (the "Terms Agreement") at the time the Company determines to sell the Debt Securities. The Terms Agreement will incorporate by reference the provisions of this Agreement, except as otherwise provided therein, and will specify the firm or firms which will be Underwriters, the names of any Representatives, the principal amount of Debt Securities to be purchased by each Underwriter, the purchase price to be paid by the Underwriters

and the terms of the Debt Securities not already specified in the Indenture, including, but not limited to, interest rate, maturity, any redemption provisions and any sinking fund requirements, and whether any of the Debt Securities may be sold to institutional investors pursuant to Delayed Delivery Contracts (as defined below). The Terms Agreement will also specify the time and date of delivery and payment (such time and date, or such other time and date as the Representatives and the Company agree as the time for payment and delivery, being herein and in the Terms Agreement referred to as the "Closing Date"), the place of delivery and payment and any details of the terms of offering that are reflected in the prospectus supplement relating to the offering of the Debt Securities. The obligations of the Underwriters to purchase the Debt Securities will be several and not joint. It is understood that the Underwriters propose to offer the Debt Securities for sale as set forth in the Prospectus. The Debt Securities delivered to the Underwriters on the Closing Date will be in fully registered or bearer form in such denominations and numbers and registered in such names as the Underwriters may request.

If the Terms Agreement provides for sales of Debt Securities pursuant to delayed delivery contracts, the Company authorizes the Underwriters to solicit offers to purchase Debt Securities pursuant to delayed delivery contracts substantially in the form of Annex I attached hereto ("Delayed Delivery Contracts") with such changes therein as the Company may authorize or approve. Delayed Delivery Contracts are to be with institutional investors, including commercial and savings banks, insurance companies, pension funds, investment companies and educational and charitable institutions. On the Closing Date the Company will pay, as compensation, to the Representatives for the accounts of the Underwriters, the fee set forth in such Terms Agreement in respect of the principal amount of Debt Securities to be sold pursuant to Delayed Delivery Contracts ("Contract Securities"). The Underwriters will not have any responsibility in respect of the validity or the performance of Delayed Delivery Contracts. If the Company executes and delivers Delayed Delivery Contracts, the Contract Securities will be deducted from the Debt Securities to be purchased by the several Underwriters and the aggregate principal amount of Debt Securities to be purchased by each Underwriter will be reduced pro rata in proportion to the principal amount of Debt Securities set forth opposite each Underwriter's name in such Terms Agreement, except to the extent that the Representatives determine that such reduction shall be otherwise than pro rata and so advise the Company. The Company will advise the Representatives not later than the business day prior to the Closing Date of the Debt Securities that are the Contract Securities.

4. Certain Agreements of the Company. The Company agrees with the several Underwriters that it will furnish to the Representatives one signed copy of the Registration Statement, including all exhibits, in the form it became effective and of all amendments thereto and that in connection with the offering of the Debt Securities:

(a) The Company will advise the Representatives promptly of any proposal to amend or supplement the Registration Statement or the Prospectus (whether pursuant to the Securities Act or the Exchange Act) and will afford the Representatives a reasonable opportunity to comment on any such proposed amendment or supplement during the offering period; and the Company will also advise the Representatives promptly of the filing of any such amendment or supplement and of the institution by the Commission of any stop order proceedings in respect of the Registration Statement or of any part thereof and will use its best efforts to prevent the issuance of any such stop order and to obtain as soon as possible its lifting, if issued.

(b) If, at any time when a prospectus relating to the Debt Securities is required to be delivered under the Securities Act, any event occurs as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it is necessary at any time to amend the Prospectus to comply with the Securities Act, the Company promptly will prepare and file with the Commission an amendment or supplement which will correct such statement or omission or an amendment which will effect such compliance, and will afford the Representatives a reasonable opportunity to comment on any such proposed amendment or supplement during the offering period.

(c) As soon as practicable, but not later than 18 months, after the date of each Terms Agreement, the Company will make generally available to its security holders an earnings statement covering a period of at least 12 months beginning after the later of (i) the most recent effective date of the Registration Statement, (ii) the effective date of the most recent post-effective amendment to the Registration Statement to become effective prior to the date of such Terms Agreement and (iii) the date of the Company's most recent Annual Report on Form 10-K filed with the Commission prior to the date of such Terms Agreement, which will satisfy the provisions of Section 11(a) of the Securities Act (including, at the option of the Company, Rule 158 of the Rules and Regulations under the Securities Act).

(d) The Company will furnish to the Representatives copies of the

Registration Statement, including all exhibits, any related preliminary prospectus, any related preliminary prospectus supplement and all amendments and supplements to such documents, in each case as soon as available, and copies of the Prospectus and all amendments and supplements to the Prospectus not later than 10:00 A.M., New York City time, on the day following the date thereof or as soon thereafter as practicable. The Company will furnish each of such documents in such quantities as are reasonably requested.

(e) The Company will arrange for the qualification of the Debt Securities for sale and the determination of their eligibility for investment under the laws of such jurisdictions within the United States as the Representatives designate and will continue such qualifications in effect so long as required for the distribution; provided that the Company will not be required to qualify to do business in any jurisdiction where it is not now qualified or to take any action which would subject it to general or unlimited service of process in any jurisdiction where it is not now subject.

(f) During the period of five years after the date of any Terms Agreement, the Company will furnish to the Representatives (i) as soon as available, a copy of each Annual Report on Form 10-K, Quarterly Report on Form 10-Q, Current Report on Form 8-K of the Company filed with the Commission under the Securities Exchange Act of 1934 (the "Exchange Act") or mailed to stockholders, and (ii) from time to time, such other information concerning the Company as the Representatives may reasonably request.

(g) The Company will pay all expenses incident to the performance of its obligations under this Agreement and will reimburse the Underwriters for any expenses (including fees and disbursements of counsel) incurred by them in connection with qualification of the Debt Securities for sale and determination of their eligibility for investment under the laws of such jurisdictions as the Representatives may designate and the printing of memoranda relating thereto, for any fees charged by investment rating agencies for the rating of the Debt Securities, for the filing fee of the National Association of Securities Dealers, Inc. relating to the Debt Securities and for expenses incurred in distributing the Prospectus, any preliminary prospectuses and any preliminary prospectus supplements to Underwriters.

(h) For a period beginning at the time of execution of the Terms Agreement and ending on the later of (a) the Closing Date and (b) the date on which the Underwriters notify the Company that they have completed their distribution of the Debt Securities, without the prior consent of the Representatives, the Company will not offer or contract to sell or, except pursuant to a commitment entered into prior to the date of the Terms Agreement, sell or otherwise dispose of any substantially similar security.

5. Conditions of the Obligations of the Underwriters. The obligations of the several Underwriters to purchase and pay for the Debt Securities will be subject to the accuracy of the representations and warranties on the part of the Company herein as of the date hereof, as of the date of the Terms Agreement and as of the Closing Date, to the accuracy of the statements of Company officers made pursuant to the provisions hereof, to the performance by the Company of its obligations hereunder and to the following additional conditions precedent:

(a) The Underwriters shall have received, on each of the date hereof and the Closing Date, a letter dated the date hereof or the Closing Date, as the case may be, in form and substance satisfactory to the Underwriters, from Deloitte & Touche LLP, independent public accountants, containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in the Registration Statement and the Prospectus; provided that the letter delivered on the Closing Date shall use a "cut-off date" not earlier than the date hereof.

(b) No stop order suspending the effectiveness of the Registration Statement or of any part thereof shall have been issued and no proceedings for that purpose shall have been instituted or, to the knowledge of the Company or any Underwriter, shall be contemplated by the Commission.

(c) Subsequent to the execution of the Terms Agreement, there shall not have occurred (i) any change in the long-term debt of the Company or any change, or any development involving a prospective change, in the financial condition or in the earnings, business or operations of the Company, otherwise than as set forth or contemplated in the Prospectus, the effect of which is, in the judgment of the Representatives so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Debt Securities on the terms and in the manner contemplated in the Prospectus; (ii) any downgrading in the rating of the Company's debt securities by any "nationally recognized statistical rating organization" (as defined for purposes of Rule 436(g) under the Securities Act), and no such organization shall have publicly announced that it has under surveillance or review, with possible negative implications, its rating of such debt securities; (iii) any banking

moratorium declared by Federal or New York authorities, or the authorities of any country in whose currency any Debt Securities are denominated under the applicable Terms Agreement; (iv) any outbreak or escalation of hostilities in which the United States or any country in whose currency any Debt Securities are denominated under the applicable Terms Agreement is involved, any declaration of war by Congress, any material adverse change in financial markets or any other substantial national or international calamity or emergency if, in the judgment of the Representatives, the effect of any such outbreak, escalation, material adverse change, declaration, calamity or emergency makes it impractical or inadvisable to proceed with completion of the sale of and payment for the Debt Securities; or (v) any action by any governmental authority or any change, or any development involving a prospective change, involving currency exchange rates or exchange controls, which makes it impracticable or inadvisable in the reasonable judgment of the Representatives to proceed with the public offering or delivery of the Purchased Securities on the terms and in the manner contemplated in the Prospectus.

(d) The Representatives shall have received an opinion, dated the Closing Date, of King & Spalding, special counsel for the Company, to the effect that:

(i) the Company is a corporation validly existing and in good standing under the laws of the State of Delaware, with corporate power and authority under such laws to own its properties and conduct its business as described in the Prospectus;

(ii) the Indenture has been duly authorized, executed and delivered by the Company; the Indenture constitutes a legal, valid and binding instrument of the Company, enforceable against the Company in accordance with its terms, subject, as to enforcement of remedies, to bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally, general equitable principles and the discretion of courts in granting equitable remedies. The Indenture has been duly qualified under the Trust Indenture Act.

(iii) the Debt Securities have been duly authorized and, when executed, authenticated, issued and delivered in the manner provided for in the Indenture against payment therefor as provided in this Agreement and the applicable Terms Agreement, will constitute legal, valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject, as to enforcement of remedies, to bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally, general equitable principles and the discretion of courts in granting equitable remedies; and the Debt Securities will be entitled to the benefits of the Indenture. The Contract Securities, if any, when executed, authenticated, issued and delivered pursuant to the Indenture and the Delayed Delivery Contracts, if any, will constitute legal, valid and binding obligations of the Company, subject, as to enforcement of remedies, to bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally, general equitable principles and the discretion of courts in granting equitable remedies, and will be entitled to the benefits of the Indenture; and the Debt Securities and the Indenture conform in all material respects to the descriptions thereof in the Prospectus.

(iv) no consent, approval, authorization or order of, or filing with, any governmental agency or body or any court is required for the issuance, sale and delivery of the Debt Securities by the Company or for the consummation by the Company of the transactions contemplated by the Terms Agreement (including the provisions of this Agreement), except such as have been obtained and made under the Securities Act and the Trust Indenture Act and such as may be required under state securities laws;

(v) this Agreement and the applicable Terms Agreement and any Delayed Delivery Contracts have been duly authorized, executed and delivered by the Company;

(vi) the Swap Agreement has been duly authorized, executed and delivered by the Company and constitutes a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, subject, as to enforcement of remedies, to bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally, general equitable principles and the discretion of courts in granting equitable remedies (this needs to be delivered to Merrill Lynch International, the swap counterparty);

(vii) such counsel will confirm its opinion as to the United States tax matters set forth in the Prospectus; and

(viii) such counsel shall state that the Registration Statement has become effective under the Securities Act, and, to the knowledge of such counsel, no stop order suspending the effectiveness of the Registration Statement or of any part thereof has been issued and no proceedings for that purpose have been instituted or are pending or contemplated under the Securities Act, and the Registration Statement, as of its effective date, and the

Prospectus, as amended or supplemented as of its issue date and the Closing Date, complied as to form in all material respects with the requirements of the Securities Act, the Trust Indenture Act and the Rules and Regulations (in each case other than the financial statements and notes thereto, the financial statement schedules and the other financial and statistical data included or incorporated by reference therein);

In addition, such counsel shall state that, although such counsel does not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement or the Prospectus as amended or supplemented, it has no reason to believe that (a) the Registration Statement (other than the financial statements and notes thereto, the financial statement schedules and the other financial and statistical data included or incorporated by reference therein), as of its effective date, contained an untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading or (b) the Prospectus (other than the financial statements and notes thereto, the financial statement schedules and the other financial and statistical data included or incorporated by reference therein), as amended or supplemented, as of its issue date and as of the Closing Date, contained or contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(e) The Representatives shall have received an opinion, dated the Closing Date, of Allen Hill, Vice President, Legal Department Manager for the Company, to the effect that:

(i) the Company is duly qualified to do business as a foreign corporation in good standing in each jurisdiction in which it owns or leases substantial properties or in which the conduct of its business requires such qualification and in which the failure to so qualify would have a Material Adverse Effect;

(ii) each Significant Subsidiary has been duly incorporated, is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has the corporate power and authority to own its property and to conduct its business as described in the Prospectus and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a Material Adverse Effect; and

(iii) the execution, delivery and performance of the Indenture, the Terms Agreement (including the provisions of this Agreement), and any Delayed Delivery Contracts and the issuance and sale of the Debt Securities by the Company and the consummation of the transactions contemplated herein and therein by the Company (a) do not and will not result in any violation of the certificate of incorporation or bylaws of the Company, (b) to the best of such counsel's knowledge, do not and will not result in a breach or violation of any of the terms and provisions of, or constitute a default under, any agreement or other instrument binding upon the Company or any Significant Subsidiary that is material to the Company and its subsidiaries taken as a whole, and (c) do not and will not result in a violation of any existing material law, rule or regulation applicable to the Company or any material judgment, order, writ, injunction or decree known to such counsel of any governmental authority or court having jurisdiction over the Company, and the Company has full power and authority to authorize, issue and sell the Debt Securities as contemplated by the Terms Agreement (including the provisions of this Agreement); and

(iv) the descriptions in the Registration Statement and Prospectus of statutes, legal and governmental proceedings and contracts (or portions thereof) and other documents fairly summarize in all material respects such statutes, legal and governmental proceedings and contracts (or portions thereof) and fairly present the information required to be shown; such counsel does not know of any legal or governmental proceedings pending or threatened to which the Company or any Significant Subsidiary is a party, or to which any of the properties of the Company or any Significant Subsidiary is subject, that are required to be described in the Registration Statement or the Prospectus and are not so described or of any statutes, regulations or contracts that are required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement that are not described or filed as required.

(f) The Representatives shall have received from Gibson, Dunn & Crutcher

LLP, counsel for the Underwriters, such opinion or opinions, dated the Closing Date, with respect to the incorporation of the Company, the validity of the Debt Securities, the Registration Statement, the Prospectus and other related matters as they may require, and the Company shall have furnished to such counsel such documents as they request for the purpose of enabling them to pass upon such matters.

(g) The Representatives shall have received a certificate, dated the Closing Date, of the President or any Vice President and a principal financial or accounting officer of the Company in which such officers shall state, in their capacity as officers of the Company, that the representations and warranties of the Company in this Agreement are true and correct with the same force and effect as though expressly made on the Closing Date, that the Company has complied with all agreements and satisfied all conditions on its part to be performed or satisfied hereunder at or prior to the Closing Date, that no stop order suspending the effectiveness of the Registration Statement or of any part thereof has been issued and no proceedings for that purpose have been instituted or are contemplated by the Commission and that, subsequent to the date of the most recent financial statements in the Prospectus, there has been no material adverse change in earnings, business or operations of the Company and its subsidiaries except as set forth in or contemplated by the Prospectus or as described in such certificate.

The Company will furnish the Representatives with such conformed copies of such opinions, certificates, letters and documents as they reasonably request.

6. Indemnification and Contribution.

(a) The Company will indemnify and hold harmless each Underwriter against any losses, claims, damages or liabilities, joint or several, to which such Underwriter may become subject, under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, the Prospectus, or any amendment or supplement thereto, or any related preliminary prospectus or preliminary prospectus supplement, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse each Underwriter for any legal or other expenses reasonably incurred by such Underwriter in connection with investigating or defending any such loss, claim, damage, liability or action as such expenses are incurred, provided, however, that the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement in or omission or alleged omission from any of such documents in reliance upon and in conformity with written information furnished to the Company by any Underwriter through the Representatives, if any, specifically for use therein; and provided further, that as to any preliminary prospectus this indemnity agreement shall not inure to the benefit of any Underwriter or any person controlling that Underwriter on account of any loss, claim, damage or liability arising from the sale of Debt Securities to any person by that Underwriter if that Underwriter failed to send or give a copy of the Prospectus, as the same may be amended or supplemented, to that person within the time required by the Securities Act, and the untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact in such preliminary prospectus was corrected in the Prospectus, unless such failure resulted from non-compliance by the Company with Section 4(d). For purposes of the second proviso to the immediately preceding sentence, the term Prospectus shall not be deemed to include the documents incorporated therein by reference, and no Underwriter shall be obligated to send or give any supplement or amendment to any document incorporated by reference in a preliminary prospectus or the Prospectus to any person other than a person to whom such Underwriter has delivered such incorporated documents in response to a written request therefor.

(b) Each Underwriter will indemnify and hold harmless the Company against any losses, claims, damages or liabilities to which the Company may become subject, under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, the Prospectus, or any amendment or supplement thereto, or any related preliminary prospectus or preliminary prospectus supplement, or arise out of or are based upon the omission or the alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by such Underwriter through the Representatives, if any, specifically for use therein, and will reimburse any legal or other expenses reasonably incurred by the Company in connection with investigating or defending any such loss, claim, damage, liability or action as such expenses are incurred.

(c) Promptly after receipt by an indemnified party under this Section of

notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under subsection (a) or (b) above, notify the indemnifying party of the commencement thereof; but the omission so to notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party otherwise than under subsection (a) or (b) above. In case any such action is brought against any indemnified party and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party), and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party under this Section for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation. In any such proceeding, any indemnified party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the indemnifying party and the indemnified party shall have mutually agreed to the retention of such counsel or (ii) the named parties to any such proceeding (including any impleaded parties) include both the indemnifying party and the indemnified party and representation of both parties by the same counsel would be inappropriate due to actual or potential conflicts of interests between them. It is understood that the indemnifying party shall not, in respect of the legal expenses of any indemnified party in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the fees and expenses of more than one separate firm (in addition to any local counsel) for all such indemnified parties and that all such fees and expenses shall be reimbursed as they are incurred. The indemnified party shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party from and against any loss or liability by reason of such settlement or judgment. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such proceeding.

(d) If the indemnification provided for in this Section is unavailable or insufficient to hold harmless an indemnified party under subsection (a) or (b) above, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of the losses, claims, damages or liabilities referred to in subsection (a) or (b) above (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriters on the other from the offering of the Debt Securities or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and the Underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the Underwriters. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. The amount paid by an indemnified party as a result of the losses, claims, damages or liabilities referred to in the first sentence of this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any action or claim which is the subject of this subsection (d). Notwithstanding the provisions of this subsection (d), no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Debt Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations in this subsection (d) to contribute are several in proportion to their respective underwriting obligations and not joint.

(e) The obligations of the Company under this Section shall be in addition to any liability which the Company may otherwise have and shall extend, upon the same terms and conditions, to each person, if any, who controls any Underwriter

within the meaning of the Securities Act; and the obligations of the Underwriters under this Section shall be in addition to any liability which the respective Underwriters may otherwise have and shall extend, upon the same terms and conditions, to each director of the Company, to each officer of the Company who has signed the Registration Statement and to each person, if any, who controls the Company within the meaning of the Securities Act.

7. Default of Underwriters. If any Underwriter or Underwriters default in their obligations to purchase Debt Securities under the Terms Agreement and the aggregate amount of the Debt Securities that such defaulting Underwriter or Underwriters agreed but failed to purchase does not exceed 10% of the aggregate amount of the Debt Securities, the Representatives may make arrangements satisfactory to the Company for the purchase of such Debt Securities by other persons, including any of the Underwriters, but if no such arrangements are made by the Closing Date, the non-defaulting Underwriters shall be obligated severally, in proportion to their respective commitments under this Agreement and the Terms Agreement, to purchase the Debt Securities that such defaulting Underwriters agreed but failed to purchase. If any Underwriter or Underwriters so default and the aggregate amount of the Debt Securities with respect to which such default or defaults occur exceeds 10% of the aggregate amount of the Debt Securities and arrangements satisfactory to the Representatives and the Company for the purchase of such Debt Securities by other persons are not made within 36 hours after such default, such Terms Agreement will terminate without liability on the part of any non-defaulting Underwriter or the Company, except as provided in Section 8. As used in this Agreement, the term "Underwriter" includes any person substituted for an Underwriter under this Section. As used in this Section only, the "aggregate amount" of Debt Securities shall mean the aggregate principal amount of any Debt Securities. Nothing herein will relieve a defaulting Underwriter from liability for its default. The respective commitments of the several Underwriters for the purposes of this Section shall be determined without regard to reduction in the respective Underwriters' obligations to purchase the amount of Debt Securities set forth opposite their names in the Terms Agreement as a result of Delayed Delivery Contracts entered into by the Company.

The foregoing obligations and agreements set forth in this Section will not apply if the Terms Agreement specifies that such obligations and agreements will not apply.

8. Survival of Certain Representations and Obligations. The indemnity and contribution provisions contained in Section 6 and the representations, warranties and other statements of the Company and of the Underwriters contained in this Agreement shall remain operative and in full force and effect regardless of (i) any termination of this Agreement, (ii) any investigation made by or on behalf of any Underwriter or any person controlling any Underwriter or by or on behalf of the Company, its officers or directors or any person controlling the Company and (iii) acceptance of and payment for any of the Debt Securities. If the obligations of the Underwriters with respect to any offering of Debt Securities are terminated pursuant to Section 7 or if for any reason the purchase of the Debt Securities by the Underwriters under a Terms Agreement is not consummated, the Company shall remain responsible for the expenses to be paid or reimbursed by it pursuant to Section 4 and the respective obligations of the Company and the Underwriters pursuant to Section 6 shall remain in effect. If for any reason the purchase of the Debt Securities by the Underwriters is not consummated other than because of the termination of this Agreement pursuant to Section 7 or a failure to satisfy the conditions set forth in Section 5(c), the Company shall reimburse the Underwriters, severally, for all out-of-pocket expenses (including fees and disbursements of counsel) reasonably incurred by them in connection with the offering of the Debt Securities.

9. Notices. All communications hereunder will be in writing and, if sent to the Underwriters, will be mailed, delivered or telegraphed and confirmed to them at their addresses furnished to the Company in writing for the purpose of communications hereunder or, if sent to the Company, will be mailed, delivered or telegraphed and confirmed to it at 55 Glenlake Parkway, N.E., Atlanta, Georgia 30328, Attention: Joseph R. Moderow, Senior Vice President, General Counsel and Secretary.

10. Successors. This Agreement will inure to the benefit of and be binding upon the Company and such Underwriters as are identified in Terms Agreements and their respective successors and the officers and directors and controlling persons referred to in Section 5, and no other person will have any right or obligation hereunder.

11. Applicable Law. This Agreement and the Terms Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, without giving effect to principles of conflicts of laws of such state. Each of the parties hereto waives to the fullest extent permitted by law any right it may have to a trial by jury in respect of any claim, demand, action or cause of action based on, arising out of, under or in connection with this Agreement.

ANNEX I

(Three copies of this Delayed Delivery Contract should be signed and returned to the address shown below so as to arrive not later than 9:00 A.M., Eastern Standard time, on _____ __, 2000. [insert date which is third full business

day prior to Closing Date under the Terms Agreement])

DELAYED DELIVERY CONTRACT

_____, 2000

UNITED PARCEL SERVICE, INC.
c/o [Insert name and address of lead Underwriter]

Attention:

Gentlemen:

The undersigned hereby agrees to purchase from United Parcel Service, Inc., a Delaware corporation ("Company"), and the Company agrees to sell to the undersigned, as of the date hereof, for delivery on _____ __, 2000 ("Delivery Date"), $_____ principal amount of the Company's [Insert title of debt securities] ("Debt Securities") and offered by the Company's Prospectus dated January 26, 1999 and a Prospectus Supplement dated _____ relating thereto, receipt of copies of which is hereby acknowledged, at ___% of the principal amount of the Debt Securities plus accrued interest, if any, and on the further terms and conditions set forth in this Delayed Delivery Contract ("Contract").

Payment for the Debt Securities that the undersigned has agreed to purchase for delivery on the Delivery Date shall be made to the Company or its order by certified or official bank check in New York Clearing House (next day) funds at the office of _____ at _____ .M. on the Delivery Date upon delivery to the undersigned of the Debt Securities to be purchased by the undersigned [for delivery on such Delivery Date] in definitive fully registered form and in such denominations or numbers and registered in such names as the undersigned may designate by written or telegraphic communication addressed to the Company not less than five full business days prior to the Delivery Date.

It is expressly agreed that the provisions for delayed delivery and payment are for the sole convenience of the undersigned; that the purchase hereunder of Debt Securities is to be regarded in all respects as a purchase as of the date of this Contract; that the obligation of the Company to make delivery of and accept payment for, and the obligation of the undersigned to take delivery of and make payment for, Debt Securities on the Delivery Date shall be subject only to the conditions that (1) investment in the Debt Securities shall not at the Delivery Date be prohibited under the laws of any jurisdiction in the United States to which the undersigned is subject and (2) the Company shall have sold to the Underwriters the total principal amount of the Debt Securities less the principal amount thereof covered by this and other similar Contracts. The undersigned represents that its investment in the Debt Securities is not, as of the date hereof, prohibited under the laws of any jurisdiction to which the undersigned is subject and which governs such investment.

Promptly after completion of the sale to the Underwriters the Company will mail or deliver to the undersigned at its address set forth below notice to such effect, accompanied by a copy of the opinion of counsel for the Company delivered to the Underwriters in connection therewith.

This Contract will (a) inure to the benefit of and be binding upon the parties hereto and their respective successors, but will not be assignable by either party hereto without the written consent of the other, and (b) shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to principles of conflicts of laws of such state.

It is understood that the acceptance of any such Contract is in the Company's sole discretion and, without limiting the foregoing, need not be on a first-come, first-served basis. If this Contract is acceptable to the Company, it is requested that the Company sign the form of acceptance below and mail or deliver one of the counterparts hereof to the undersigned at its address set forth below. This will become a binding contract between the Company and the undersigned when such counterpart is so mailed or delivered.

Yours very truly,

(Name of Purchaser)

By:_____

(Title of Signatory)

(Address of Purchaser)

Accepted, as of the above date.
UNITED PARCEL SERVICE, INC.

By:
Name:
Title:

UNITED PARCEL SERVICE, INC.
("COMPANY")

DEBT SECURITIES

TERMS AGREEMENT

September 21, 2000

United Parcel Service, Inc.
55 Glenlake Parkway, N.E.
Atlanta, Georgia 30328

Attention: Robert J. Clanin,
Senior Vice President and Chief Financial Officer

Dear Sirs:

The undersigned, Merrill Lynch, Pierce, Fenner & Smith Incorporated, offers to purchase, on and subject to the terms and conditions of the Underwriting Agreement relating to Debt Securities dated as of the date hereof ("Underwriting Agreement"), the following securities ("Securities") on the following terms:

DEBT SECURITIES

Title of Security:	1.75% Cash-Settled Convertible Senior Notes due September 27, 2007
Principal Amount:	$300,000,000
Interest Rate and Payment Dates:	1.75%, payable semi-annually on each September 27 and March 27, commencing March 27, 2001
Maturity:	September 27, 2007
Currency of Denomination:	U.S. Dollar
Currency of Payment:	U.S. Dollar
Form:	Book-entry only held through the Depository Trust Company
Denomination	Denominations of $1,000 and integral multiples in excess thereof; minimum purchase of $100,000 principal amount of notes.
Overseas Paying Agents:	N/A
Exchange Right:	From and after October 27, 2000, each holder will have the option to exchange a minimum $100,000 of such holder's notes for cash as set forth in the Prospectus (or such lesser amount if the holder holds less than $100,000 of notes).
Optional Redemption:	The Company may redeem all, but not less than all, of the notes at any time after September 27, 2003 as set forth in the Prospectus.

Sinking Fund:	N/A
Delayed Delivery Contracts:	N/A
Delivery Date:	N/A
Minimum Contract:	N/A
Maximum aggregate principal amount:	N/A
Fee:	N/A
Purchase Price:	98%
Expected Reoffering Price:	100%
Name and Address of Sole Underwriter:	Merrill Lynch & Co. Merrill Lynch, Pierce, Fenner & Smith Incorporated North Tower World Financial Center New York, New York 10281

- ---

The provisions of the Underwriting Agreement are incorporated herein by reference.

The Closing will take place at 9:00 A.M., Eastern Standard time, on September 27, 2000 at the offices of Gibson, Dunn & Crutcher LLP.

The Securities will be made available for checking and packaging at the offices of Gibson, Dunn & Crutcher LLP at least 24 hours prior to the Closing Date.

Please signify your acceptance by signing the enclosed response to us in the space provided and returning it to us.

Very truly yours,

MERRILL LYNCH & CO.
MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED

By: MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED

By: /s/ Simon Smith
Name: Simon Smith
Title: Vice President

Accepted, as of the above date.
UNITED PARCEL SERVICE, INC.

By:/s/ Thomas W. Delbrook
Name: Thomas W. Delbrook
Title: Assistant Treasurer

<TABLE> <S> <C>

<ARTICLE> 5
<LEGEND>
(Replace this text with the legend)
</LEGEND>
<CIK> 0001090727
<NAME> United Parcel Service, Inc.
<MULTIPLIER> 1,000,000
<CURRENCY> US$

<S> <C>
<PERIOD-TYPE> 9-MOS
<FISCAL-YEAR-END> Dec-31-2000
<PERIOD-START> Jan-01-2000
<PERIOD-END> Sep-30-2000
<EXCHANGE-RATE> 1
<CASH> 1,670
<SECURITIES> 1,922
<RECEIVABLES> 3,383
<ALLOWANCES> 0
<INVENTORY> 0
<CURRENT-ASSETS> 9,107
<PP&E> 21,163
<DEPRECIATION> 9,442
<TOTAL-ASSETS> 21,412
<CURRENT-LIABILITIES> 5,619
<BONDS> 2,052
<PREFERRED-MANDATORY> 0
<PREFERRED> 0
<COMMON> 11
<OTHER-SE> 9,255
<TOTAL-LIABILITY-AND-EQUITY> 21,412
<SALES> 21,871
<TOTAL-REVENUES> 21,871
<CGS> 0
<TOTAL-COSTS> 18,463
<OTHER-EXPENSES> 32
<LOSS-PROVISION> 0
<INTEREST-EXPENSE> 158
<INCOME-PRETAX> 3,684
<INCOME-TAX> 1,474
<INCOME-CONTINUING> 2,210
<DISCONTINUED> 0
<EXTRAORDINARY> 0
<CHANGES> 0
<NET-INCOME> 2,210
<EPS-BASIC> 1.91
<EPS-DILUTED> 1.87

</TABLE>