UMB FINANCIAL CORP
Form 4
May 02, 2007

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
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(Print or Type Responses)

1. Name and Address of Reporting Person *
GENOVESE PETER J
(Last) (First) (Middle)
2 S. BROADWAY
(Street)
ST. LOUIS, MO 63102
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
UMB FINANCIAL CORP [UMBF]

3. Date of Earliest Transaction (Month/Day/Year)
05/01/2007

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Vice Chairman

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	05/01/2007		S		2,180	D	$ 39.5	41,402.5167 (1)	D	
Common Stock	05/02/2007		S		1,820	D	$ 39.5	39,582.5167 (1)	D	
Common Stock								16,731.3077	I	by ESOP
Common Stock								1,230	I	by immediate family

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
								Date Exercisable	Expiration Date	Title	Amount or Number of Shares		
				Code	V	(A)	(D)						

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
GENOVESE PETER J 2 S. BROADWAY ST. LOUIS, MO 63102			Vice Chairman	

Signatures

John C. Pauls, Attorney in Fact	05/02/2007
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Includes shares acquired through participation in the Dividend Reinvestment Plan

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ;font-size:10pt;color:#000000;text-decoration:none;">2011 was $30.350 and $23.307 billion, respectively.

Benefit payments under the pension plans include $16 and $14 million paid from employer assets in both 2012 and 2011. Benefit payments (net of participant contributions) under the postretirement medical benefit plans include $110 and $108 million paid from employer assets in 2012 and 2011, respectively. Such benefit payments from employer assets are also categorized as employer contributions.

At December 31, 2012 and 2011, the projected benefit obligation, the accumulated benefit obligation, and the fair value of plan assets for pension plans with benefit obligations in excess of plan assets were as follows (in millions):

	Projected Benefit Obligation Exceeds the Fair Value of Plan Assets		Accumulated Benefit Obligation Exceeds the Fair Value of Plan Assets	
	2012	2011	2012	2011
U.S. Pension Benefits				
Projected benefit obligation	$31,868	$24,386	$ 31,868	$ 7,499
Accumulated benefit obligation	29,382	22,574	29,382	7,395
Fair value of plan assets	24,941	22,663	24,941	6,646
International Pension Benefits				
Projected benefit obligation	$1,028	$814	$ 678	$ 499
Accumulated benefit obligation	917	714	606	448
Fair value of plan assets	723	594	388	296

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

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Pension and Postretirement Plan Assets

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

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

The fair values of U.S. pension and postretirement benefit plan assets by asset category as of December 31, 2012 are presented below (in millions), as well as the percentage that each category comprises of our total plan assets and the respective target allocations.

	Level 1	Level 2	Level 3	Total Assets	Percentage of Plan Assets - 2012		Target Allocation 2012
Asset Category:							
Cash and cash equivalents	$103	$139	$—	$242	0.9	%	0-5
Equity Securities:							
U.S. Large Cap	2,548	2,162	—	4,710			
U.S. Small Cap	450	31	—	481			
Emerging Markets	1,160	123	—	1,283			
Global Equity	2,242	—	—	2,242			
International Equity	442	694	—	1,136			
Total Equity Securities	6,842	3,010	—	9,852	38.8		35-55
Fixed Income Securities:							
U.S. Government Securities	4,008	443	—	4,451			
Corporate Bonds	9	3,113	138	3,260			
Global Bonds	—	457	—	457			
Municipal Bonds	—	83	—	83			
Total Fixed Income Securities	4,017	4,096	138	8,251	32.5		25-35
Other Investments:							
Hedge Funds	—	—	2,829	2,829	11.1		5-15
Private Equity	—	—	1,416	1,416	5.6		1-10
Real Estate	177	23	1,039	1,239	4.9		1-10
Structured Products[1]	—	210	—	210	0.8		0-5
Other[2]	—	—	1,362	1,362	5.4		1-10
Total U.S. Plan Assets	$11,139	$7,478	$6,784	$25,401	100.0	%	

(1) Represents mortgage and asset-backed securities.
(2) Represents global balanced-risk commingled funds, consisting primarily of equity, bonds, and some currencies and commodities.

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The fair values of U.S. pension and postretirement benefit plan assets by asset category as of December 31, 2011 are presented below (in millions), as well as the percentage that each category comprises of our total plan assets and the respective target allocations.

	Level 1	Level 2	Level 3	Total Assets	Percentage of Plan Assets - 2011		Target Allocation 2011
Asset Category:							
Cash and cash equivalents	$74	$1	$—	$75	0.3	%	0-5
Equity Securities:							
U.S. Large Cap	2,264	2,460	—	4,724			
U.S. Small Cap	706	27	—	733			
Emerging Markets	533	264	—	797			
Global Equity	1,115	12	—	1,127			
International Equity	810	1,091	—	1,901			
Total Equity Securities	5,428	3,854	—	9,282	40.7		35-55
Fixed Income Securities:							
U.S. Government Securities	3,374	1,131	—	4,505			
Corporate Bonds	9	3,462	80	3,551			
Global Bonds	38	69	—	107			
Municipal Bonds	—	121	—	121			
Total Fixed Income Securities	3,421	4,783	80	8,284	36.3		20-40
Other Investments:							
Hedge Funds	—	—	2,132	2,132	9.3		5-15
Private Equity	—	—	1,354	1,354	5.9		1-10
Real Estate	151	—	948	1,099	4.8		1-10
Other[(1)]	—	—	611	611	2.7		1-10
Total U.S. Plan Assets	$9,074	$8,638	$5,125	$22,837	100.0	%	

(1) Represents global balanced-risk commingled funds, consisting primarily of equity, bonds, and some currencies and commodities.

There were no UPS class A or B shares of common stock directly held in plan assets as of December 31, 2012 or December 31, 2011.

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

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

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Certain investments' estimated fair value is based on unobservable inputs that are not corroborated by observable market data and are thus classified as Level 3. These investments include commingled funds comprised of corporate and government bonds, hedge funds, real estate investments and private equity funds. The commingled funds are valued using net asset values, adjusted, as appropriate, for investment fund specific inputs determined to be significant to the valuation. Investments in hedge funds are valued using reported net asset values as of December 31. These assets are primarily invested in a portfolio of diversified, direct investments and funds of hedge funds. Real estate investments and private equity funds are valued using fair values per the most recent partnership audited financial reports, adjusted as appropriate for any lag between the date of the financial reports and December 31. The real estate investments consist of U.S. and non-U.S. real estate investments and are broadly diversified. The fair values may, due to the inherent uncertainty of valuation for those alternative investments, differ significantly from the values that would have been used had a ready market for the alternative investments existed, and the differences could be material.

As of December 31, 2012 and 2011, $2.960 and $3.895 billion of plan assets are held in commingled stock funds that hold U.S. and international public market securities. The plans held the right to liquidate positions in these commingled stock funds at any time, subject only to a brief notification period. No unfunded commitments existed with respect to these commingled stock funds at December 31, 2012.

As of December 31, 2012 and 2011, the plans hold $2.455 and $2.302 billion of investments in limited partnership interests in various private equity and real estate funds. Limited provision exists for the redemption of these interests by the general partners that invest in these funds until the end of the term of the partnerships, typically ranging between 12 and 18 years from the date of inception. An active secondary market exists for similar partnership interests, although no particular value (discount or premium) can be guaranteed. At December 31, 2012, unfunded commitments to such limited partnerships totaling approximately $626 million are expected to be contributed over the remaining investment period, typically ranging between three and six years.

As of December 31, 2012 and 2011, $4.191 and $2.743 billion of plan investments are held in hedge funds that pursue multiple strategies to diversify risk and reduce volatility. Most of these funds allow redemptions either quarterly or semi-annually after a two to three month notice period, while other funds allow for redemption after only a brief notification period with no restriction on redemption frequency. No unfunded commitments existed with respect to these hedge funds as of December 31, 2012.

The following tables presents the changes in the Level 3 instruments measured on a recurring basis for the years ended December 31, 2012 and 2011 (in millions):

	Corporate Bonds	Hedge Funds	Real Estate	Private Equity	Other	Total
Balance on January 1, 2011	$193	$1,765	$789	$1,309	$258	$4,314
Actual Return on Assets:						
Assets Held at End of Year	(14)	69	144	145	53	397
Assets Sold During the Year	3	22	5	—	—	30
Purchases	57	457	150	164	300	1,128
Sales	(159)	(181)	(140)	(264)	—	(744)
Settlements	—	—	—	—	—	—
Transfers Into (Out of) Level 3	—	—	—	—	—	—
Balance on December 31, 2011	$80	$2,132	$948	$1,354	$611	$5,125
Actual Return on Assets:						
Assets Held at End of Year	1	59	85	163	151	459
Assets Sold During the Year	(3)	5	4	—	—	6
Purchases	71	1,300	144	184	600	2,299
Sales	(11)	(667)	(142)	(285)	—	(1,105)

Settlements	—	—	—	—	—	—
Transfers Into (Out of) Level 3	—	—	—	—	—	—
Balance on December 31, 2012	$138	$2,829	$1,039	$1,416	$1,362	$6,784

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The fair value disclosures above have not been provided for our international pension benefit plans since asset allocations are determined and managed at the individual country level. In general, the asset allocations for these plans were approximately 56% in equity securities, 34% in debt securities and 10% in other securities in 2012 (approximately 55%, 35%, and 10% in 2011, respectively). The amount of assets having significant unobservable inputs (Level 3), if any, in these plans would be immaterial to our financial statements.

Accumulated Other Comprehensive Income

The estimated amounts of prior service cost in AOCI expected to be amortized and recognized as a component of net periodic benefit cost in 2013 are as follows (in millions):

	U.S. Pension Benefits	U.S. Postretirement Medical Benefits	International Pension Benefits
Prior service cost / (benefit)	$ 172	$4	$2

Expected Cash Flows

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

	U.S. Pension Benefits	U.S. Postretirement Medical Benefits	International Pension Benefits
Employer Contributions:			
2013 (expected) to plan trusts	$—	$—	$ 76
2013 (expected) to plan participants	14	111	3
Expected Benefit Payments:			
2013	$798	$255	$ 20
2014	887	237	22
2015	978	254	25
2016	1,076	271	27
2017	1,182	288	30
2018 - 2022	7,815	1,575	199

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

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NOTE 5. MULTIEMPLOYER EMPLOYEE BENEFIT PLANS
We contribute to a number of multiemployer defined benefit plans under the terms of collective bargaining agreements that cover our union-represented employees. These plans generally provide for retirement, death and/or termination benefits for eligible employees within the applicable collective bargaining units, based on specific eligibility/participation requirements, vesting periods and benefit formulas. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the multiemployer plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If we choose to stop participating in some of our multiemployer plans, we may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability. However, cessation of participation in a multiemployer plan and subsequent payment of any withdrawal liability is subject to the collective bargaining process.

The discussion that follows sets forth the financial impact on our results of operations and cash flows for the years ended December 31, 2012, 2011 and 2010 from our participation in multiemployer benefit plans. Several factors could cause us to make significantly higher future contributions to these plans, including unfavorable investment performance, changes in demographics and increased benefits to participants. However, all surcharges are subject to the collective bargaining process. At this time, we are unable to determine the amount of additional future contributions, if any, or whether any material adverse effect on our financial condition, results of operations or liquidity would result from our participation in these plans.

The number of employees covered by our multiemployer plans has remained consistent over the past three years, and there have been no significant changes that affect the comparability of 2012, 2011 and 2010 contributions. We recognize expense for the contractually-required contribution for each period, and we recognize a liability for any contributions due and unpaid at the end of a reporting period.

Multiemployer Pension Plans

The following table outlines our participation in multiemployer pension plans for the periods ended December 31, 2012, 2011 and 2010, and sets forth our calendar year contributions into each plan. The “EIN/Pension Plan Number” column provides the Employer Identification Number (“EIN”) and the three-digit plan number. The most recent Pension Protection Act zone status available in 2012 and 2011 relates to the plans’ two most recent fiscal year-ends. The zone status is based on information that we received from the plans’ administrators and is certified by each plan’s actuary. Among other factors, plans certified in the red zone are generally less than 65% funded, plans certified in the orange zone are both less than 80% funded and have an accumulated funding deficiency or are expected to have a deficiency in any of the next six plan years, plans certified in the yellow zone are less than 80% funded, and plans certified in the green zone are at least 80% funded. The “FIP/RP Status Pending/Implemented” column indicates whether a financial improvement plan (“FIP”) for yellow/orange zone plans, or a rehabilitation plan (“RP”) for red zone plans, is either pending or has been implemented. As of December 31, 2012, all plans that have either a FIP or RP requirement have had the respective FIP or RP implemented.

Our collectively-bargained contributions satisfy the requirements of all implemented FIPs and RPs and do not currently require the payment of any surcharges. In addition, minimum contributions outside of the agreed upon contractual rate are not required. For the plans detailed in the following table, the expiration date of the associated collective bargaining agreements is July 31, 2013, with the exception of the Automotive Industries Pension Plan and the IAM National Pension Fund / National Pension Plan which both have a July 31, 2014 expiration date. For all plans detailed in the following table, we provided more than 5% of the total plan contributions from all employers for 2012, 2011 and 2010 (as disclosed in the Form 5500 for each respective plan).

Certain plans have been aggregated in the “All Other Multiemployer Pension Plans” line in the following table, as the contributions to each of these individual plans are not material.

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	EIN / Pension Plan	Pension Protection Act Zone Status		FIP/RP Status Pending/	(in millions) UPS Contributions			Surcharge
Pension Fund	Number	2012	2011	Implemented	2012	2011	2010	Imposed
Alaska Teamster-Employer Pension Plan	92-6003463-024	Red	Red	Yes/Implemented	$4	$4	$3	No
Automotive Industries Pension Plan	94-1133245-001	Red	Red	Yes/Implemented	4	4	4	No
Central Pennsylvania Teamsters Defined Benefit Plan	23-6262789-001	Yellow	Green	Yes/Implemented	29	27	26	No
Employer-Teamsters Local Nos. 175 & 505 Pension Trust Fund	55-6021850-001	Green	Green	No	9	8	8	No
Hagerstown Motor Carriers and Teamsters Pension Fund	52-6045424-001	Red	Red	Yes/Implemented	5	5	4	No
I.A.M. National Pension Fund / National Pension Plan	51-6031295-002	Green	Green	No	24	25	24	No
International Brotherhood of Teamsters Union Local No. 710 Pension Fund	36-2377656-001	Green	Yellow	No	75	74	70	No
Local 705, International Brotherhood of Teamsters Pension Plan	36-6492502-001	Red	Yellow	Yes/Implemented	46	58	56	No
Local 804 I.B.T. & Local 447 I.A.M.—UPS Multiemployer Retirement Plan	51-6117726-001	Red	Red	Yes/Implemented	87	84	84	No
Milwaukee Drivers Pension Trust Fund	39-6045229-001	Green	Green	No	26	26	24	No
New England Teamsters & Trucking Industry Pension Fund	04-6372430-001	Red	Red	Yes/Implemented	124	124	112	No
New York State Teamsters Conference Pension and Retirement Fund	16-6063585-074	Red	Red	Yes/Implemented	65	57	52	No
Teamster Pension Fund of Philadelphia and Vicinity	23-1511735-001	Yellow	Yellow	Yes/Implemented	44	41	39	No
Teamsters Joint Council No. 83 of Virginia Pension Fund	54-6097996-001	Yellow	Yellow	Yes/Implemented	44	41	38	No
	53-0237142-001	Green	Green	Yes/Implemented	36	33	31	No

Teamsters Local 639—Employers Pension Trust								
Teamsters Negotiated Pension Plan	43-6196083-001	Red	Red	Yes/Implemented	24	22	20	No
Truck Drivers and Helpers Local Union No. 355 Retirement Pension Plan	52-6043608-001	Yellow	Yellow	Yes/Implemented	14	12	12	No
United Parcel Service, Inc.—Local 177, I.B.T. Multiemployer Retirement Plan	13-1426500-419	Red	Red	Yes/Implemented	62	57	59	No
Western Conference of Teamsters Pension Plan	91-6145047-001	Green	Green	No	520	476	449	No
Western Pennsylvania Teamsters and Employers Pension Fund	25-6029946-001	Red	Red	Yes/Implemented	24	21	20	No
All Other Multiemployer Pension Plans					59	44	51	
				Total Contributions	$1,325	$1,243	$1,186	

In the third quarter of 2012, we reached an agreement with the New England Teamsters and Trucking Industry Pension Fund ("New England Pension Fund"), a multiemployer pension plan in which UPS is a participant, to restructure the pension liabilities for approximately 10,200 UPS employees represented by the Teamsters. The agreement reflects a decision by the New England Pension Fund's trustees to restructure the fund through plan amendments to utilize a "two pool approach", which effectively subdivides the plan assets and liabilities between two groups of beneficiaries. As part of this agreement, UPS agreed to withdraw from the original pool of the New England Pension Fund of which it had historically been a participant, and reenter the New England Pension Fund's newly-established pool as a new employer.

Upon ratification of the agreement by the Teamsters in September 2012, we withdrew from the original pool of the New England Pension Fund and incurred an undiscounted withdrawal liability of $2.162 billion to be paid in equal monthly installments over 50 years. The undiscounted withdrawal liability was calculated by independent actuaries employed by the New England Pension Fund, in accordance with the governing plan documents and the applicable requirements of the Employee Retirement Income Security Act of 1974. During 2012, we recorded a charge to expense to establish an $896 million withdrawal liability on our consolidated balance sheet, which represents the present value of the $2.162 billion future payment obligation discounted at a 4.25% interest rate. This discount rate represents the estimated credit-adjusted market rate of interest at which we could obtain financing of a similar maturity and seniority. As this agreement is not a contribution to the plan, the amounts reflected in the previous table do not include this $896 million non-cash transaction.

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Multiemployer Health and Welfare Plans
We also contribute to several multiemployer health and welfare plans that cover both active and retired employees. Health care benefits are provided to participants who meet certain eligibility requirements as covered under the applicable collective bargaining unit. The following table sets forth our calendar year plan contributions. Certain plans have been aggregated in the "All Other Multiemployer Health and Welfare Plans" line in the table, as the contributions to each of these individual plans are not material.

	(in millions) UPS Contributions		
Health and Welfare Fund	2012	2011	2010
Bay Area Delivery Drivers	$28	$27	$26
Central Pennsylvania Teamsters Health & Pension Fund	19	18	17
Central States, South East & South West Areas Health and Welfare Fund	471	452	441
Delta Health Systems—East Bay Drayage Drivers	24	17	15
Employer—Teamster Local Nos. 175 & 505	8	8	7
Joint Council #83 Health & Welfare Fund	25	25	25
Local 191 Teamsters Health Fund	9	9	9
Local 401 Teamsters Health & Welfare Fund	6	6	5
Local 804 Welfare Trust Fund	62	58	54
Milwaukee Drivers Pension Trust Fund—Milwaukee Drivers Health and Welfare Trust Fund	29	28	27
Montana Teamster Employers Trust	6	6	6
New York State Teamsters Health & Hospital Fund	44	41	40
North Coast Benefit Trust	7	7	7
Northern California General Teamsters (DELTA)	75	73	70
Northern New England Benefit Trust	33	32	31
Oregon / Teamster Employers Trust	27	27	25
Teamsters 170 Health & Welfare Fund	12	12	12
Teamsters Benefit Trust	32	29	27
Teamsters Local 251 Health & Insurance Plan	10	10	10
Teamsters Local 404 Health & Insurance Plan	6	6	6
Teamsters Local 638 Health Fund	29	28	27
Teamsters Local 639—Employers Health & Pension Trust Funds	22	22	21
Teamsters Local 671 Health Services & Insurance Plan	12	13	12
Teamsters Union 25 Health Services & Insurance Plan	36	34	33
Teamsters Union Local 677 Health Services & Insurance Plan	8	8	7
Truck Drivers and Helpers Local 355 Baltimore Area Health & Welfare Fund	13	12	12
Utah-Idaho Teamsters Security Fund	16	15	15
Washington Teamsters Welfare Trust	32	30	27
All Other Multiemployer Health and Welfare Plans	55	50	52
Total Contributions	$1,156	$1,103	$1,066

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NOTE 6. BUSINESS ACQUISITIONS, GOODWILL AND INTANGIBLE ASSETS

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

	U.S. Domestic Package	International Package	Supply Chain & Freight	Consolidated
Balance on January 1, 2011	$—	$377	$1,704	$2,081
Acquired	—	—	46	46
Currency / Other	—	(16)	(10)	(26)
Balance on December 31, 2011	$—	$361	$1,740	$2,101
Acquired	—	67	—	67
Currency / Other	—	2	3	5
Balance on December 31, 2012	$—	$430	$1,743	$2,173

Business Acquisitions

The increase in goodwill within the International Package segment in 2012 was due to the February acquisition of Kiala S.A. (“Kiala”), a Belgium-based developer of a platform that enables e-commerce retailers to offer their shoppers the option of having goods delivered to a convenient retail location. Kiala currently operates in Belgium, France, Luxembourg, the Netherlands and Spain. The acquisition broadens our service portfolio for business-to-consumer deliveries.

The increase in goodwill within the Supply Chain & Freight segment in 2011 was due to the December acquisition of the Pieffe Group (“Pieffe”), an Italian pharmaceutical logistics company. Pieffe offers storage, distribution and other logistics services to some of the world’s leading pharmaceutical companies.

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

The remaining change in goodwill for both the International Package and Supply Chain & Freight segments was due to the impact of changes in the value of the U.S. Dollar on the translation of non-U.S. Dollar goodwill balances.

Goodwill Impairment

We test our goodwill for impairment annually, as of October 1st, on a reporting unit basis. Our reporting units are comprised of the Europe, Asia, and Americas reporting units in the International Package reporting segment, and the Forwarding, Logistics, UPS Freight, MBE / The UPS Store, and UPS Capital reporting units in the Supply Chain & Freight reporting segment.

In assessing our goodwill for impairment, we initially evaluate qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment is not conclusive and it is necessary to calculate the fair value of a reporting unit, then we utilize a two-step process to test goodwill for impairment. First, a comparison of the fair value of the applicable reporting unit with the aggregate carrying value, including goodwill, is performed. We primarily determine the fair value of our reporting units using a discounted cash flow model, and supplement this with observable valuation multiples for comparable companies, as applicable. If the carrying amount of a reporting unit exceeds the reporting unit’s fair value, we perform the second step of the goodwill impairment test to determine the amount of impairment loss. The second step includes comparing the implied fair value of the affected reporting unit’s goodwill with the carrying value of that goodwill.

We did not have any goodwill impairment charges in 2012, 2011 or 2010. Cumulatively, our Supply Chain & Freight reporting segment has recorded goodwill impairment charges of $622 million, while our International and U.S. Domestic Package segments have not recorded any impairment charges.

Intangible Assets

The following is a summary of intangible assets at December 31, 2012 and 2011 (in millions):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted-Average Amortization Period (in years)
December 31, 2012				
Trademarks, licenses, patents, and other	$163	$(80)	$83	5.5
Customer lists	131	(79)	52	11.5
Franchise rights	117	(64)	53	20.0
Capitalized software	2,197	(1,782)	415	3.1
Total Intangible Assets, Net	$2,608	$(2,005)	$603	4.4
December 31, 2011				
Trademarks, licenses, patents, and other	$146	$(54)	$92	
Customer lists	120	(66)	54	
Franchise rights	109	(58)	51	
Capitalized software	2,014	(1,626)	388	
Total Intangible Assets, Net	$2,389	$(1,804)	$585	

Licenses with a carrying value of $5 million as of December 31, 2012 are deemed to be indefinite-lived intangibles, and therefore are not amortized. Impairment tests for indefinite-lived intangibles are performed on an annual basis. All of our other recorded intangible assets are deemed to be finite-lived intangibles, and are thus amortized over their estimated useful lives. Impairment tests for these intangible assets are only performed when a triggering event occurs that indicates that the carrying value of the intangible may not be recoverable. There were no impairments of any finite-lived or indefinite-lived intangible assets in 2012, 2011 or 2010.

Amortization of intangible assets was $244, $228 and $224 million during 2012, 2011 or 2010, respectively. Expected amortization of finite-lived intangible assets recorded as of December 31, 2012 for the next five years is as follows (in millions): 2013—$252; 2014—$168; 2015—$94; 2016—$14; 2017—$13. Amortization expense in future periods will be affe by business acquisitions, software development, licensing agreements, sponsorships and other factors.

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NOTE 7. DEBT AND FINANCING ARRANGEMENTS
The following table sets forth the principal amount, maturity or range of maturities, as well as the carrying value of our debt obligations, as of December 31, 2012 and 2011 (in millions). The carrying value of these debt obligations can differ from the principal amount due to the impact of unamortized discounts or premiums and valuation adjustments resulting from interest rate swap hedging relationships.

	Principal		Carrying Value	
	Amount	Maturity	2012	2011
Commercial paper	$—		$—	$—
Fixed-rate senior notes:				
4.50% senior notes	1,750	2013	1,751	1,778
3.875% senior notes	1,000	2014	1,033	1,050
1.125% senior notes	375	2017	373	—
5.50% senior notes	750	2018	851	841
5.125% senior notes	1,000	2019	1,140	1,119
3.125% senior notes	1,500	2021	1,655	1,641
2.45% senior notes	1,000	2022	996	—
6.20% senior notes	1,500	2038	1,480	1,480
4.875% senior notes	500	2040	489	489
3.625% senior notes	375	2042	367	—
8.375% Debentures:				
8.375% debentures	424	2020	512	504
8.375% debentures	276	2030	284	284
Pound Sterling Notes:				
5.50% notes	107	2031	103	99
5.13% notes	734	2050	699	678
Floating rate senior notes	378	2049 – 2053	374	376
Capital lease obligations	440	2013 – 3004	440	469
Facility notes and bonds	320	2015 – 2036	320	320
Other debt	3	2013 - 2022	3	—
Total debt	$12,432		12,870	11,128
Less: current maturities			(1,781)	(33)
Long-term debt			$11,089	$11,095

Commercial Paper
We are authorized to borrow up to $10.0 billion under our U.S. commercial paper program. We also maintain a European commercial paper program under which we are authorized to borrow up to €1.0 billion in a variety of currencies. No amounts were outstanding under these programs as of December 31, 2012. The amount of commercial paper outstanding under these programs in 2013 is expected to fluctuate.
Fixed Rate Senior Notes
We have completed several offerings of fixed rate senior notes. All of the notes pay interest semiannually, and allow for redemption of the notes by UPS at any time by paying the greater of the principal amount or a “make-whole” amount, plus accrued interest. We subsequently entered into interest rate swaps on several of these notes, which effectively converted the fixed interest rates on the notes to variable LIBOR-based interest rates. The average interest rate payable on these notes, including the impact of the interest rate swaps, for 2012 and 2011, respectively, were as follows:

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	Principal		Average Effective Interest Rate			
	Value	Maturity	2012		2011	
4.50% senior notes	1,750	2013	2.51	%	2.39	%
3.875% senior notes	1,000	2014	1.14	%	0.99	%
1.125% senior notes	375	2017	0.57	%	—	%
5.50% senior notes	750	2018	2.71	%	2.53	%
5.125% senior notes	1,000	2019	2.20	%	2.04	%
3.125% senior notes	1,500	2021	1.28	%	0.52	%
2.45% senior notes	1,000	2022	0.86	%	—	%

8.375% Debentures

The 8.375% debentures consist of two separate tranches, as follows:

- $276 million of the debentures have a maturity of April 1, 2030. These debentures have an 8.375% interest rate until April 1, 2020, and, thereafter, the interest rate will be 7.62% for the final 10 years. These debentures are redeemable in whole or in part at our option at any time. The redemption price is equal to the greater of 100% of the principal amount and accrued interest or the sum of the present values of the remaining scheduled payout of principal and interest thereon discounted to the date of redemption at a benchmark treasury yield plus five basis points plus accrued interest.
- $424 million of the debentures have a maturity of April 1, 2020. These debentures are not subject to redemption prior to maturity.

Interest is payable semiannually on the first of April and October for both debentures and neither debenture is subject to sinking fund requirements. We subsequently entered into interest rate swaps on the 2020 notes, which effectively converted the fixed interest rates on the notes to variable LIBOR-based interest rates. The average interest rate payable on the 2020 notes, including the impact of the interest rate swaps, for 2012 and 2011 was 5.73% and 5.97%, respectively.

Floating Rate Senior Notes

The floating rate senior notes bear interest at one-month LIBOR less 45 basis points. The average interest rate for 2012 and 2011 was 0.00% for both years. These notes are callable at various times after 30 years at a stated percentage of par value, and putable by the note holders at various times after 10 years at a stated percentage of par value. The notes have maturities ranging from 2049 through 2053. In 2012 and 2011, we redeemed notes with a principal value of $2 and $10 million, respectively, after put options were exercised by the note holders.

Capital Lease Obligations

We have certain property, plant and equipment subject to capital leases. Some of the obligations associated with these capital leases have been legally defeased. The recorded value of our property, plant and equipment subject to capital leases is as follows as of December 31 (in millions):

	2012	2011
Vehicles	$63	$35
Aircraft	2,282	2,282
Buildings	65	24
Plant Equipment	2	2
Technology Equipment	3	1
Accumulated amortization	(611)	(457)
	$1,804	$1,887

These capital lease obligations have principal payments due at various dates from 2013 through 3004.

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Facility Notes and Bonds

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

- Bonds with a principal balance of $149 million issued by the Louisville Regional Airport Authority associated with our Worldport facility in Louisville, Kentucky. The bonds, which are due in January 2029, bear interest at a variable rate, and the average interest rates for 2012 and 2011 were 0.15% and 0.11%, respectively.
- Bonds with a principal balance of $42 million and due in November 2036 issued by the Louisville Regional Airport Authority associated with our air freight facility in Louisville, Kentucky. The bonds bear interest at a variable rate, and the average interest rates for 2012 and 2011 were 0.15% and 0.11%, respectively.
- Bonds with a principal balance of $29 million issued by the Dallas / Fort Worth International Airport Facility Improvement Corporation associated with our Dallas, Texas airport facilities. The bonds are due in May 2032 and bear interest at a variable rate, however the variable cash flows on the obligation have been swapped to a fixed 5.11%.
- Bonds with a principal balance of $100 million issued by the Delaware County, Pennsylvania Industrial Development Authority associated with our Philadelphia, Pennsylvania airport facilities. The bonds, which are due in December 2015, bear interest at a variable rate, and the average interest rates for 2012 and 2011 were 0.13% and 0.11%, respectively.

Pound Sterling Notes

The Pound Sterling notes consist of two separate tranches, as follows:

- Notes with a principal amount of £66 million accrue interest at a 5.50% fixed rate, and are due in February 2031. These notes are not callable.
- Notes with a principal amount of £455 million accrue interest at a 5.13% fixed rate, and are due in February 2050. These notes are callable at our option at a redemption price equal to the greater of 100% of the principal amount and accrued interest, or the sum of the present values of the remaining scheduled payout of principal and interest thereon discounted to the date of redemption at a benchmark U.K. government bond yield plus 15 basis points and accrued interest.

We maintain cross-currency interest rate swaps to hedge the foreign currency risk associated with the bond cash flows for both tranches of these bonds. The average fixed interest rate payable on the swaps is 5.72%.

Contractual Commitments

We lease certain aircraft, facilities, land, equipment and vehicles under operating leases, which expire at various dates through 2038. Certain of the leases contain escalation clauses and renewal or purchase options. Rent expense related to our operating leases was $619, $629 and $615 million for 2012, 2011 and 2010, respectively.

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

Year	Capital Leases	Operating Leases	Debt Principal	Purchase Commitments
2013	$55	$342	$1,750	$629
2014	52	271	1,000	103
2015	50	203	101	22
2016	49	145	1	14
2017	48	118	375	7
After 2017	426	358	8,765	—
Total	680	$1,437	$11,992	$775
Less: imputed interest	(240)			
Present value of minimum capitalized lease payments	440			
Less: current portion	(31)			
Long-term capitalized lease obligations	$409			

As of December 31, 2012, we had outstanding letters of credit totaling approximately $1.369 billion issued in connection with our self-insurance reserves and other routine business requirements. We also issue surety bonds as an alternative to letters of credit in certain instances, and as of December 31, 2012, we had $584 million of surety bonds written.

Available Credit

We maintain two credit agreements with a consortium of banks. One of these agreements provides revolving credit facilities of $1.5 billion, and expires on April 11, 2013. Generally, amounts outstanding under this facility bear interest at a periodic fixed rate equal to LIBOR for the applicable interest period and currency denomination, plus an applicable margin. Alternatively, a fluctuating rate of interest equal to Citibank's publicly announced base rate, plus an applicable margin, may be used at our discretion. In each case, the applicable margin for advances bearing interest based on LIBOR is a percentage determined by quotations from Markit Group Ltd. for our 1-year credit default swap spread, subject to a minimum rate of 0.10% and a maximum rate of 0.75%. The applicable margin for advances bearing interest based on the base rate is 1.00% below the applicable margin for LIBOR advances (but not lower than 0.00%). We are also able to request advances under this facility based on competitive bids for the applicable interest rate. There were no amounts outstanding under this facility as of December 31, 2012.

The second agreement provides revolving credit facilities of $1.0 billion, and expires on April 12, 2017. Generally, amounts outstanding under this facility bear interest at a periodic fixed rate equal to LIBOR for the applicable interest period and currency denomination, plus an applicable margin. Alternatively, a fluctuating rate of interest equal to Citibank's publicly announced base rate, plus an applicable margin, may be used at our discretion. In each case, the applicable margin for advances bearing interest based on LIBOR is a percentage determined by quotations from Markit Group Ltd. for our credit default swap spread, interpolated for a period from the date of determination of such credit default swap spread in connection with a new interest period until the latest maturity date of this facility then in effect (but not less than a period of one year). The applicable margin is subject to certain minimum rates and maximum rates based on our public debt ratings from Standard & Poor's Rating Service and Moody's Investors Service. The minimum applicable margin rates range from 0.100% to 0.375%, and the maximum applicable margin rates range from 0.750% to 1.250%. The applicable margin for advances bearing interest based on the base rate is 1.00% below the applicable margin for LIBOR advances (but not less than 0.00%). We are also able to request advances under this facility based on competitive bids. There were no amounts outstanding under this facility as of December 31, 2012.

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Debt Covenants
Our existing debt instruments and credit facilities subject us to certain financial covenants. As of December 31, 2012 and for all prior periods presented, we have satisfied these financial covenants. These covenants limit the amount of secured indebtedness that we may incur, and limit the amount of attributable debt in sale-leaseback transactions, to 10% of net tangible assets. As of December 31, 2012, 10% of net tangible assets is equivalent to $2.770 billion; however, we have no covered sale-leaseback transactions or secured indebtedness outstanding. Additionally, we are required to maintain a minimum net worth, as defined, of $5.0 billion on a quarterly basis. As of December 31, 2012, our net worth, as defined, was equivalent to $8.007 billion. We do not expect these covenants to have a material impact on our financial condition or liquidity.
Fair Value of Debt
Based on the borrowing rates currently available to the Company for long-term debt with similar terms and maturities, the fair value of long-term debt, including current maturities, is approximately $14.658 and $12.035 billion as of December 31, 2012 and 2011, respectively. We utilized Level 2 inputs in the fair value hierarchy of valuation techniques to determine the fair value of all of our debt instruments.
NOTE 8. LEGAL PROCEEDINGS AND CONTINGENCIES
We are involved in a number of judicial proceedings and other matters arising from the conduct of our business activities.
Although there can be no assurance as to the ultimate outcome, we have generally denied, or believe we have a meritorious defense and will deny, liability in all litigation pending against us, including (except as otherwise noted herein) the matters described below, and we intend to defend vigorously each case. We have accrued for legal claims when, and to the extent that, amounts associated with the claims become probable and can be reasonably estimated. The actual costs of resolving legal claims may be substantially higher or lower than the amounts accrued for those claims.
For those matters as to which we are not able to estimate a possible loss or range of loss, we are not able to determine whether the loss will have a material adverse effect on our business, financial condition or results of operations or liquidity. For matters in this category, we have indicated in the descriptions that follow the reasons that we are unable to estimate the possible loss or range of loss.
Judicial Proceedings
We are a defendant in a number of lawsuits filed in state and federal courts containing various class action allegations under state wage-and-hour laws. At this time, we do not believe that any loss associated with these matters, would have a material adverse effect on our financial condition, results of operations or liquidity.
UPS and our subsidiary Mail Boxes Etc., Inc. are defendants in a lawsuit in California Superior Court about the rebranding of The UPS Store franchises. In the Morgate case, the plaintiffs are 125 individual franchisees who did not rebrand to The UPS Store and a certified class of all franchisees who did rebrand. The trial court entered judgment against a bellwether individual plaintiff, which was affirmed in January 2012. The trial court granted our motion for summary judgment against the certified class, which was reversed in January 2012.
There are multiple factors that prevent us from being able to estimate the amount of loss, if any, that may result from whatever remaining aspects of this case proceeds, including: (1) we are vigorously defending ourselves and believe we have a number of meritorious legal defenses; and (2) it remains uncertain what evidence of damages, if any, plaintiffs will be able to present. Accordingly, at this time, we are not able to estimate a possible loss or range of loss that may result from this matter or to determine whether such loss, if any, would have a material adverse effect on our financial condition, results of operations or liquidity.

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In AFMS LLC v. UPS and FedEx Corporation, a lawsuit filed in federal court in the Central District of California in August 2010, the plaintiff asserts that UPS and FedEx violated U.S. antitrust law by conspiring to refuse to negotiate with third-party negotiators retained by shippers and by individually imposing policies that prevent shippers from using such negotiators. The case is scheduled to go to trial in August 2013. The Antitrust Division of the U.S. Department of Justice ("DOJ") has an ongoing civil investigation of our policies and practices for dealing with third-party negotiators. We are cooperating with this investigation. We deny any liability with respect to these matters and intend to vigorously defend ourselves. There are multiple factors that prevent us from being able to estimate the amount of loss, if any, that may result from these matters including: (1) we believe that we have a number of meritorious defenses; (2) discovery is ongoing; and (3) the DOJ investigation is ongoing. Accordingly, at this time, we are not able to estimate a possible loss or range of loss that may result from these matters or to determine whether such loss, if any, would have a material adverse effect on our financial condition, results of operations or liquidity.

In Canada, four purported class-action cases were filed against us in British Columbia (2006); Ontario (2007) and Québec (2006 and 2013). The cases each allege inadequate disclosure concerning the existence and cost of brokerage services provided by us under applicable provincial consumer protection legislation and infringement of interest restriction provisions under the Criminal Code of Canada. The British Columbia class action was declared inappropriate for certification and dismissed by the trial judge. That decision was upheld by the British Columbia Court of Appeal in March 2010, which ended the case in our favor. The Ontario class action was certified in September 2011. Partial summary judgment was granted to us and the plaintiffs by the Ontario motions court. The complaint under the Criminal Code was dismissed. No appeal is being taken from that decision. The allegations of inadequate disclosure were granted and we are appealing that decision. The motion to authorize the 2006 Québec litigation as a class action was dismissed by the motions judge in October 2012; there was no appeal, which ended that case in our favor. The 2013 Québec litigation is in the earliest stages. We deny all liability and are vigorously defending the two outstanding cases. There are multiple factors that prevent us from being able to estimate the amount of loss, if any, that may result from these matters, including: (1) we are vigorously defending ourselves and believe that we have a number of meritorious legal defenses; and (2) there are unresolved questions of law and fact that could be important to the ultimate resolution of these matters. Accordingly, at this time, we are not able to estimate a possible loss or range of loss that may result from these matters or to determine whether such loss, if any, would have a material adverse effect on our financial condition, results of operation or liquidity.

Other Matters

In May and December 2007 and August 2008 we received and responded to grand jury subpoenas from the DOJ in the Northern District of California in connection with an investigation by the Drug Enforcement Administration. We also have responded to informal requests for information in connection with this investigation, which relates to transportation of packages on behalf of online pharmacies that may have operated illegally. We have been cooperating with this investigation and are exploring the possibility of resolving this matter, which could include our undertaking further enhancements to our compliance program and a payment. Such a payment may exceed the amounts previously accrued with respect to this matter, but we do not expect that the amount of such additional loss would have a material adverse effect on our financial condition, results of operations or liquidity.

We received a grand jury subpoena from the Antitrust Division of the DOJ regarding the DOJ's investigation into certain pricing practices in the freight forwarding industry in December 2007. In January 2013, we received a letter from the DOJ confirming that it is not pursuing a case against UPS with respect to the investigation.

In August 2010, competition authorities in Brazil opened an administrative proceeding to investigate alleged anticompetitive behavior in the freight forwarding industry. Approximately 45 freight forwarding companies and individuals are named in the proceeding, including UPS, UPS SCS Transportes (Brasil) S.A., and a former employee in Brazil. UPS will have an opportunity to respond to these allegations. In November 2012, we also received a request for information related to similar matters from authorities in Singapore.

We are cooperating with each of these investigations, and intend to continue to vigorously defend ourselves. There are multiple factors that prevent us from being able to estimate the amount of loss, if any, that may result from these matters including: (1) we are vigorously defending each matter and believe that we have a number of meritorious legal defenses; (2) there are unresolved questions of law that could be of importance to the ultimate resolutions of these matters, including the calculation of any potential fine; and (3) there is uncertainty about the time period that is the subject of the investigations. Accordingly, at this time, we are not able to estimate a possible loss or range of loss that may result from these matters or to determine whether such loss, if any, would have a material adverse effect on our financial condition, results of operations or liquidity.

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In January 2008, a class action complaint was filed in the United States District Court for the Eastern District of New York alleging price-fixing activities relating to the provision of freight forwarding services. UPS was not named in this case. In July 2009, the plaintiffs filed a first amended complaint naming numerous global freight forwarders as defendants. UPS and UPS Supply Chain Solutions are among the 60 defendants named in the amended complaint. The plaintiffs filed a Second Amended Complaint in October 2010, which we moved to dismiss. In August 2012, the Court granted our motion to dismiss all claims relevant to UPS in the Second Amended Complaint, with leave to amend. The plaintiffs filed a Third Amended Complaint in November 2012. We intend to file another motion to dismiss, and to otherwise vigorously defend ourselves in this case. There are multiple factors that prevent us from being able to estimate the amount of loss, if any, that may result from these matters including: (1) the court has dismissed the complaint once but has not considered the adequacy of the amended complaint; (2) the scope and size of the proposed class is ill-defined; (3) there are significant legal questions about the adequacy and standing of the putative class representatives; and (4) we believe that we have a number of meritorious legal defenses. Accordingly, at this time, we are not able to estimate a possible loss or range of loss that may result from these matters or to determine whether such loss, if any, would have a material adverse effect on our financial condition, results of operations or liquidity.

We are a defendant in various other lawsuits that arose in the normal course of business. We do not believe that the eventual resolution of these other lawsuits (either individually or in the aggregate), including any reasonably possible losses in excess of current accruals, will have a material adverse effect on our financial condition, results of operations or liquidity.

Tax Matters

In June 2011, we received an IRS Revenue Agent Report (RAR) covering excise taxes for tax years 2003 through 2007, in addition to the income tax matters described in note 12. The excise tax RAR proposed two alternate theories for asserting additional excise tax on transportation of property by air. We disagreed with these proposed excise tax theories and related adjustments. We filed protests and, in the third quarter of 2011, the IRS responded to our protests and forwarded the case to IRS Appeals.

In the third quarter of 2012, following the Appeals Opening Conference in July 2012, we had settlement discussions which we expect will lead to a complete resolution of all excise tax matters and correlative income tax refund claims for the 2003 through 2007 tax years within the next twelve months. We do not believe the ultimate resolution of these matters will have a material effect on our financial condition, results of operations or liquidity.

NOTE 9. SHAREOWNERS’ EQUITY

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

We maintain two classes of common stock, which are distinguished from each other by their respective voting rights. Class A shares of UPS are entitled to 10 votes per share, whereas class B shares are entitled to one vote per share. Class A shares are primarily held by UPS employees and retirees, as well as trusts and descendants of the Company’s founders, and these shares are fully convertible into class B shares at any time. Class B shares are publicly traded on the New York Stock Exchange (“NYSE”) under the symbol “UPS.” Class A and B shares both have a $0.01 par value, and as of December 31, 2012, there were 4.6 billion class A shares and 5.6 billion class B shares authorized to be issued. Additionally, there are 200 million preferred shares authorized to be issued, with a par value of $0.01 per share; as of December 31, 2012, no preferred shares had been issued.

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

	2012 Shares	2012 Dollars	2011 Shares	2011 Dollars	2010 Shares	2010 Dollars
Class A Common Stock						
Balance at beginning of year	240	$3	258	$3	285	$3
Common stock purchases	(9)	—	(7)	—	(6)	—
Stock award plans	8	—	7	—	6	—
Common stock issuances	3	—	3	—	3	—
Conversions of class A to class B common stock	(17)	—	(21)	—	(30)	—
Class A shares issued at end of year	225	$3	240	$3	258	$3
Class B Common Stock						
Balance at beginning of year	725	$7	735	$7	711	$7
Common stock purchases	(13)	—	(31)	—	(6)	—
Conversions of class A to class B common stock	17	—	21	—	30	—
Class B shares issued at end of year	729	$7	725	$7	735	$7
Additional Paid-In Capital						
Balance at beginning of year		$—		$—		$2
Stock award plans		444		388		398
Common stock purchases		(943)		(475)		(649)
Common stock issuances		293		287		249
Option Premiums Received (Paid)		206		(200)		—
Balance at end of year		$—		$—		$—
Retained Earnings						
Balance at beginning of year		$10,128		$10,604		$9,335
Net income attributable to controlling interests		807		3,804		3,338
Dividends ($2.28, $2.08 and $1.88 per share)		(2,243)		(2,086)		(1,909)
Common stock purchases		(695)		(2,194)		(160)
Balance at end of year		$7,997		$10,128		$10,604

For the years ended December 31, 2012, 2011 and 2010, we repurchased a total of 21.8, 38.7 and 12.4 million shares of class A and class B common stock for $1.638 billion, $2.669 billion and $809 million, respectively. On May 3, 2012, the Board of Directors approved a share repurchase authorization of $5.0 billion, which replaced an authorization previously announced in 2008. As of December 31, 2012, we had $3.970 billion of this share repurchase authorization remaining. On February 14, 2013, the Board of Directors approved a new share repurchase authorization of $10.0 billion, which replaced the 2012 authorization. This new share repurchase authorization has no expiration date.

In order to lower the average cost of acquiring shares in our ongoing share repurchase program, we periodically enter into structured repurchase agreements involving the use of capped call options for the purchase of UPS class B shares. We pay a fixed sum of cash upon execution of each agreement in exchange for the right to receive either a pre-determined amount of cash or stock. Upon expiration of each agreement, if the closing market price of our common stock is above the pre-determined price, we will have our initial investment returned with a premium in either cash or shares (at our election). If the closing market price of our common stock is at or below the pre-determined price, we will receive the number of shares specified in the agreement. During 2012, we did not pay premiums on options for the purchase of shares; however, we received $206 million in premiums for options that were entered into during 2011 that expired during 2012. During 2011, we settled options that resulted in the repurchase of

0.8 million shares at $65.11 per share, as well as the receipt of $6 million in premiums (in excess of our initial investment).

Accumulated Other Comprehensive Income (Loss)

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

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	2012	2011	2010
Foreign currency translation gain (loss):			
Balance at beginning of year	$(160)	$(68)	$37
Aggregate adjustment for the year (net of tax effect of $(9), $11 and $(34))	294	(92)	(105)
Balance at end of year	134	(160)	(68)
Unrealized gain (loss) on marketable securities, net of tax:			
Balance at beginning of year	6	12	(27)
Current period changes in fair value (net of tax effect of $4, $11 and $17)	6	18	30
Reclassification to earnings (net of tax effect of $(3), $(14) and $6)	(6)	(24)	9
Balance at end of year	6	6	12
Unrealized gain (loss) on cash flow hedges, net of tax:			
Balance at beginning of year	(204)	(239)	(200)
Current period changes in fair value (net of tax effect of $(25), $(16) and $(4))	(43)	(26)	(7)
Reclassification to earnings (net of tax effect of $(24), $37 and $(19))	(39)	61	(32)
Balance at end of year	(286)	(204)	(239)
Unrecognized pension and postretirement benefit costs, net of tax:			
Balance at beginning of year	(2,745)	(2,340)	(1,527)
Reclassification to earnings (net of tax effect of $1,876, $378 and $150)	3,135	628	245
Net actuarial gain (loss) and prior service cost resulting from remeasurements of plan assets and liabilities (net of tax effect of $(2,151), $(622) and $(633))	(3,598)	(1,033)	(1,058)
Balance at end of year	(3,208)	(2,745)	(2,340)
Accumulated other comprehensive income (loss) at end of year	$(3,354)	$(3,103)	$(2,635)

Deferred Compensation Obligations and Treasury Stock

We maintain a deferred compensation plan whereby certain employees were previously able to elect to defer the gains on stock option exercises by deferring the shares received upon exercise into a rabbi trust. The shares held in this trust are classified as treasury stock, and the liability to participating employees is classified as “deferred compensation obligations” in the shareowners’ equity section of the consolidated balance sheets. The number of shares needed to settle the liability for deferred compensation obligations is included in the denominator in both the basic and diluted earnings per share calculations. Employees are generally no longer able to defer the gains from stock options exercised subsequent to December 31, 2004. Activity in the deferred compensation program for the years ended December 31, 2012, 2011 and 2010 is as follows (in millions):

	2012		2011		2010	
	Shares	Dollars	Shares	Dollars	Shares	Dollars
Deferred Compensation Obligations						
Balance at beginning of year		$88		$103		$108
Reinvested dividends		3		4		4
Options exercise deferrals		—		—		1
Benefit payments		(13)		(19)		(10)
Balance at end of year		$78		$88		$103
Treasury Stock						
Balance at beginning of year	(2)	$(88)	(2)	$(103)	(2)	$(108)
Reinvested dividends	—	(3)	—	(4)	—	(4)
Options exercise deferrals	—	—	—	—	—	(1)
Benefit payments	1	13	—	19	—	10
Balance at end of year	(1)	$(78)	(2)	$(88)	(2)	$(103)

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Noncontrolling Interests

We have noncontrolling interests in certain consolidated subsidiaries in our International Package and Supply Chain & Freight segments, the largest of which relates to a joint venture that operates in the Middle East, Turkey, and portions of the Central Asia region. The activity related to our noncontrolling interests is presented below (in millions):

	2012	2011	2010
Noncontrolling Interests			
Balance at beginning of period	$73	$68	$66
Acquired noncontrolling interests	7	5	2
Dividends attributable to noncontrolling interests	—	—	—
Net income attributable to noncontrolling interests	—	—	—
Balance at end of period	$80	$73	$68

NOTE 10. STOCK-BASED COMPENSATION

Incentive Compensation Plan

The UPS Incentive Compensation Plan permits the grant of nonqualified and incentive stock options, stock appreciation rights, restricted stock and stock units, and restricted performance shares and units, to eligible employees. The number of shares reserved for issuance under the Incentive Compensation Plan is 27 million. Each share issued pursuant to an option and each share issued subject to the exercised portion of a stock appreciation right will reduce the share reserve by one share. Each share issued pursuant to restricted stock and stock units, and restricted performance shares and units, will reduce the share reserve by one share. As of December 31, 2012, stock options, restricted performance units and restricted stock units had been granted under the Incentive Compensation Plan. We had 27 million shares available to be issued under the Incentive Compensation Plan as of December 31, 2012.

Management Incentive Award

Non-executive management earning the right to receive Management Incentive Awards are determined annually by the Salary Committee, which is comprised of executive officers of the Company. Awards granted to executive officers are determined annually by the Compensation Committee of the UPS Board of Directors. Our Management Incentive Awards program provides, with certain exceptions, that one-half to two-thirds of the annual Management Incentive Award will be made in Restricted Units (depending upon the level of management involved), which generally vest over a five-year period. The other one-third to one-half of the award is in the form of cash or unrestricted shares of class A common stock, and is fully vested at the time of grant.

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

Long-Term Incentive Performance Award

We also award Restricted Units in conjunction with our Long-Term Incentive Performance Awards program to certain eligible employees. The Restricted Units ultimately granted under the Long-Term Incentive Performance Awards program will be based upon the achievement of certain performance measures, including growth in consolidated revenue and operating return on invested capital, each year during the performance award cycle, and other measures, including growth in consolidated earnings per share, over the entire three year performance award cycle. The Restricted Units granted under this program vest at the end of the three year performance award cycle.

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As of December 31, 2012, we had the following Restricted Units outstanding, including reinvested dividends:

	Shares (in thousands)	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Nonvested at January 1, 2012	15,839	$62.98		
Vested	(8,914)	63.99		
Granted	7,423	77.21		
Reinvested Dividends	568	N/A		
Forfeited / Expired	(272)	67.51		
Nonvested at December 31, 2012	14,644	$68.71	1.57	$1,080
Restricted Units Expected to Vest	14,172	$68.61	1.55	$1,045

The fair value of each Restricted Unit is the NYSE closing price of class B common stock on the date of grant. The weighted-average grant date fair value of Restricted Units granted during 2012, 2011 and 2010 was $77.21, $69.53 and $66.36, respectively. The total fair value of Restricted Units vested was $627, $557 and $523 million in 2012, 2011 and 2010, respectively. As of December 31, 2012, there was $571 million of total unrecognized compensation cost related to nonvested Restricted Units. That cost is expected to be recognized over a weighted average period of 3 years and 1 month.

Nonqualified Stock Options

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

Executive officers and certain senior managers annually receive non-qualified stock options of which the value is determined as a percentage of salary. Options granted generally vest over a five year period with approximately 20% of the award vesting at each anniversary date of the grant. All options granted are subject to earlier cancellation or vesting under certain conditions. Option holders may exercise their options via the tender of cash or class A common stock, and new class A shares are issued upon exercise. Options granted to eligible employees will be granted annually during the first quarter of each year.

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

	Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2012	13,199	$70.18		
Exercised	(2,778)	63.50		
Granted	187	76.94		
Forfeited / Expired	(13)	82.74		
Outstanding at December 31, 2012	10,595	$72.04	3.03	$34
Options Vested and Expected to Vest	10,595	$72.04	3.03	$34
Exercisable at December 31, 2012	10,115	$72.09	2.79	$32

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

	2012	2011	2010
Expected dividend yield	2.77%	2.77%	2.70%

Risk-free interest rate	1.63 %	2.90 %	3.30 %
Expected life in years	7.5	7.5	7.5
Expected volatility	25.06 %	24.26 %	23.59 %
Weighted average fair value of options granted	$14.88	$15.92	$14.83

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

We received cash of $122, $92 and $60 million during 2012, 2011 and 2010, respectively, from option holders resulting from the exercise of stock options. We received a tax benefit of $3, $6 and $4 million during 2012, 2011 and 2010, respectively, from the exercise of stock options, which is reported as cash from financing activities in the cash flow statement.

The total intrinsic value of options exercised during 2012, 2011 and 2010 was $39, $31 and $18 million, respectively. As of December 31, 2012, there was $2 million of total unrecognized compensation cost related to nonvested options. That cost is expected to be recognized over a weighted average period of 3 years and 4 months.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2012:

	Options Outstanding			Options Exercisable	
Exercise Price Range	Shares (in thousands)	Average Life (in years)	Average Exercise Price	Shares (in thousands)	Average Exercise Price
$50.01 - $60.00	211	6.35	$55.83	133	$55.83
$60.01 - $70.00	1,337	1.20	62.98	1,257	62.72
$70.01 - $80.00	6,858	3.19	71.47	6,536	71.27
$80.01 - $90.00	2,189	3.33	80.92	2,189	80.92
	10,595	3.03	$72.04	10,115	$72.09

Discounted Employee Stock Purchase Plan

We maintain an employee stock purchase plan for all eligible employees. Under this plan, shares of UPS class A common stock may be purchased at quarterly intervals at 95% of the NYSE closing price of UPS class B common stock on the last day of each quarterly period. Employees purchased 1.2, 1.3 and 1.5 million shares at average prices of $72.17, $66.86 and $57.98 per share during 2012, 2011, and 2010, respectively. This plan is not considered to be compensatory, and therefore no compensation cost is measured for the employees' purchase rights.

NOTE 11. SEGMENT AND GEOGRAPHIC INFORMATION

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

U.S. Domestic Package

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

International Package

International Package operations include delivery to more than 220 countries and territories worldwide, including shipments wholly outside the United States, as well as shipments with either origin or destination outside the United States. Our International Package reporting segment includes the operations of our Europe, Asia and Americas operating segments.

Supply Chain & Freight

Supply Chain & Freight includes our forwarding and logistics operations, UPS Freight and other aggregated business units. Our forwarding and logistics business provides services in more than 195 countries and territories worldwide, and includes supply chain design and management, freight distribution, customs brokerage, mail and consulting services. UPS Freight offers a variety of LTL and TL services to customers in North America. Other aggregated business units within this segment include Mail Boxes Etc. (the franchisor of Mail Boxes Etc. and The UPS Store) and UPS Capital.

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

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

	2012	2011	2010
Revenue:			
U.S. Domestic Package	$32,856	$31,717	$29,742
International Package	12,124	12,249	11,133
Supply Chain & Freight	9,147	9,139	8,670
Consolidated	$54,127	$53,105	$49,545
Operating Profit:			
U.S. Domestic Package	$459	$3,764	$3,238
International Package	869	1,709	1,831
Supply Chain & Freight	15	607	572
Consolidated	$1,343	$6,080	$5,641
Assets:			
U.S. Domestic Package	$19,934	$19,300	$18,425
International Package	11,248	6,729	6,228
Supply Chain & Freight	6,610	6,588	6,283
Unallocated	1,071	2,084	2,661
Consolidated	$38,863	$34,701	$33,597
Depreciation and Amortization Expense:			
U.S. Domestic Package	$1,220	$1,154	$1,174
International Package	475	474	443
Supply Chain & Freight	163	154	175
Consolidated	$1,858	$1,782	$1,792

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

	2012	2011	2010
U.S. Domestic Package:			
Next Day Air	$6,412	$6,229	$5,835
Deferred	3,392	3,299	2,975
Ground	23,052	22,189	20,932
Total U.S. Domestic Package	32,856	31,717	29,742
International Package:			
Domestic	2,531	2,628	2,365
Export	9,033	9,056	8,234
Cargo	560	565	534
Total International Package	12,124	12,249	11,133
Supply Chain & Freight:			
Forwarding and Logistics	5,977	6,103	6,022
Freight	2,640	2,563	2,208
Other	530	473	440
Total Supply Chain & Freight	9,147	9,139	8,670
Consolidated	$54,127	$53,105	$49,545

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

	2012	2011	2010
United States:			
Revenue	$40,428	$39,347	$36,795
Long-lived assets	$16,262	$16,085	$16,693
International:			
Revenue	$13,699	$13,758	$12,750
Long-lived assets	$5,312	$5,220	$5,047
Consolidated:			
Revenue	$54,127	$53,105	$49,545
Long-lived assets	$21,574	$21,305	$21,740

Long-lived assets include property, plant and equipment, pension and postretirement benefit assets, long-term investments, goodwill, and intangible assets.
No countries outside of the United States, nor any individual customers, provided 10% or more of consolidated revenue for the years ended December 31, 2012, 2011 or 2010.

NOTE 12. INCOME TAXES

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

	2012	2011	2010
Current:			
U.S. Federal	$1,901	$1,371	$776
U.S. State and Local	182	121	119
Non-U.S.	167	166	161
Total Current	2,250	1,658	1,056
Deferred:			
U.S. Federal	(1,871)	262	828
U.S. State and Local	(201)	44	98
Non-U.S.	(11)	8	(30)
Total Deferred	(2,083)	314	896
Total	$167	$1,972	$1,952

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

	2012	2011	2010
United States	$384	$5,309	$4,586
Non-U.S.	590	467	704
	$974	$5,776	$5,290

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

	2012	2011	2010
Statutory U.S. federal income tax rate	35.0 %	35.0 %	35.0 %
U.S. state and local income taxes (net of federal benefit)	—	2.0	2.4
Non-U.S. tax rate differential	(6.1)	(0.4)	(0.7)
Nondeductible/nontaxable items	(0.4)	(0.1)	0.3
U.S. federal tax credits	(7.4)	(1.7)	(1.9)
Other	(4.0)	(0.7)	1.8
Effective income tax rate	17.1 %	34.1 %	36.9 %

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Explanation of Responses:

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Our effective tax rate declined to 17.1% in 2012 compared with 34.1% in 2011 largely due to the significance of U.S. Federal tax credits and the proportion of taxable income in certain non-U.S. jurisdictions relative to total pre-tax income.

In the third quarter of 2010, we recognized a $40 million tax benefit associated with the release of a valuation allowance against deferred tax assets in our international package operations, partially offset by tax provided for interest earned on refunds.

In the first quarter of 2010, we changed the tax status of a German subsidiary that was taxable in the U.S. and its local jurisdiction to one that is taxed solely in its local jurisdiction. This change was made primarily to allow for more flexibility in funding this subsidiary’s operations with local liquidity sources, improve the cash flow position in the U.S., and help mitigate future currency remeasurement risk. As a result of this change in tax status, we recorded a non-cash charge of $76 million, which resulted primarily from the write-off of related deferred tax assets which will not be realizable following the change in tax status.

Beginning in 2012, we were granted a tax incentive for certain of our non-U.S. operations, which is effective through December 31, 2017 and may be extended through December 31, 2022 if additional requirements are satisfied. The tax incentive is conditional upon our meeting specific employment and investment thresholds. The impact of this tax incentive decreased non-U.S. tax expense by $22 million, or $0.02 per share, for 2012.

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

	2012	2011
Property, plant and equipment	$(3,624)	$(3,607)
Goodwill and intangible assets	(1,035)	(951)
Other	(617)	(554)
Deferred tax liabilities	(5,276)	(5,112)
Pension and postretirement benefits	4,608	2,106
Loss and credit carryforwards (non-U.S. and state)	258	259
Insurance reserves	737	696
Vacation pay accrual	209	208
Stock compensation	159	211
Other	708	635
Deferred tax assets	6,679	4,115
Deferred tax assets valuation allowance	(220)	(205)
Deferred tax asset (net of valuation allowance)	6,459	3,910
Net deferred tax asset (liability)	$1,183	$(1,202)
Amounts recognized in the consolidated balance sheets:		
Current deferred tax assets	$583	$611
Current deferred tax liabilities (included in other current liabilities)	(36)	(31)
Non-current deferred tax assets	684	118
Non-current deferred tax liabilities	(48)	(1,900)
Net deferred tax asset (liability)	$1,183	$(1,202)

The valuation allowance increased by $15, $2 and $30 million during the years ended December 31, 2012, 2011 and 2010, respectively.

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

	2012	2011
U.S. state and local operating loss carryforwards	$608	$859
U.S. state and local credit carryforwards	$61	$77

The operating loss carryforwards expire at varying dates through 2032. The state credits can be carried forward for periods ranging from three years to indefinitely.

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We also have non-U.S. loss carryforwards of approximately $842 million as of December 31, 2012, the majority of which may be carried forward indefinitely. As indicated in the table above, we have established a valuation allowance for certain non-U.S. and state carryforwards, due to the uncertainty resulting from a lack of previous taxable income within the applicable tax jurisdictions.

Undistributed earnings of foreign subsidiaries amounted to approximately $3.575 billion at December 31, 2012. Those earnings are considered to be indefinitely reinvested and, accordingly, no deferred income taxes have been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, we would be subject to income taxes and withholding taxes payable in various jurisdictions, which could potentially be offset by foreign tax credits. Determination of the amount of unrecognized deferred income tax liability is not practicable because of the complexities associated with its hypothetical calculation.

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

	Tax	Interest	Penalties
Balance at January 1, 2010	$266	$86	$8
Additions for tax positions of the current year	16	—	—
Additions for tax positions of prior years	45	25	2
Reductions for tax positions of prior years for:			
Changes based on facts and circumstances	(27)	(10)	(3)
Settlements during the period	(6)	(3)	—
Lapses of applicable statute of limitations	(10)	(3)	—
Balance at December 31, 2010	284	95	7
Additions for tax positions of the current year	13	—	—
Additions for tax positions of prior years	17	6	—
Reductions for tax positions of prior years for:			
Changes based on facts and circumstances	(50)	(9)	(2)
Settlements during the period	(11)	(19)	(1)
Lapses of applicable statute of limitations	(1)	—	(1)
Balance at December 31, 2011	252	73	3
Additions for tax positions of the current year	13	—	—
Additions for tax positions of prior years	7	9	1
Reductions for tax positions of prior years for:			
Changes based on facts and circumstances	(22)	(18)	—
Settlements during the period	(3)	(7)	—
Lapses of applicable statute of limitations	(15)	(4)	—
Balance at December 31, 2012	$232	$53	$4

The total amount of gross unrecognized tax benefits as of December 31, 2012, 2011 and 2010 that, if recognized, would affect the effective tax rate was $224, $247 and $283 million, respectively. We also had gross recognized tax benefits of $280, $291 and $326 million recorded as of December 31, 2012, 2011 and 2010, respectively, associated with outstanding refund claims for prior tax years. Therefore, we had a net receivable recorded with respect to prior years' income tax matters in the accompanying consolidated balance sheets. Additionally, we have recognized a receivable for interest of $23, $27 and $32 million for the recognized tax benefits associated with outstanding refund claims as of December 31, 2012, 2011 and 2010, respectively. Our continuing practice is to recognize interest and penalties associated with income tax matters as a component of income tax expense.

We file income tax returns in the U.S. federal jurisdiction, most U.S. state and local jurisdictions, and many non-U.S. jurisdictions. We have substantially resolved all U.S. federal income tax matters for tax years prior to 2005. During the fourth quarter of 2010, we received a refund of $139 million as a result of the resolution of tax years 2003 through 2004 with the IRS Appeals Office. We have filed all required U.S. state and local returns reporting the result of the resolution of the U.S. federal income tax audit of the tax years 2003 and 2004. A limited number of U.S. state and local matters are the subject of ongoing audits, administrative appeals or litigation.

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In June 2011, we received an IRS Revenue Agent Report (RAR) covering income taxes for tax years 2005 through 2007, in addition to the excise tax matters described in note 8. The income tax RAR proposed adjustments related to the value of acquired software and intangibles, research credit expenditures, and the amount of deductible costs associated with our British Pound Sterling Notes exchange offer completed in May 2007. Receipt of the RAR represents only the conclusion of the examination process. We disagree with some of the proposed adjustments related to these matters. Therefore, we filed protests and, in the third quarter of 2011, the IRS responded to our protests and forwarded the case to IRS Appeals.

We expect to begin discussions of these income tax matters with IRS Appeals within the next twelve months. It should be noted, however, that the ultimate resolution of these matters will result in a refund to UPS - even according to the adjustments proposed by the IRS.

At this time, we do not believe the ultimate resolution of these income tax matters will have a material effect on our financial condition, results of operations, or liquidity.

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

NOTE 13. EARNINGS PER SHARE

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

	2012	2011	2010
Numerator:			
Net income attributable to common shareowners	$807	$3,804	$3,338
Denominator:			
Weighted average shares	957	977	991
Deferred compensation obligations	1	2	2
Vested portion of restricted shares	2	2	1
Denominator for basic earnings per share	960	981	994
Effect of dilutive securities:			
Restricted performance units	3	3	3
Restricted stock units	5	6	6
Stock options	1	1	—
Denominator for diluted earnings per share	969	991	1,003
Basic earnings per share	$0.84	$3.88	$3.36
Diluted earnings per share	$0.83	$3.84	$3.33

Diluted earnings per share for the years ended December 31, 2012, 2011, and 2010 exclude the effect of 2.6, 7.4 and 11.1 million shares, respectively, of common stock that may be issued upon the exercise of employee stock options because such effect would be antidilutive.

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NOTE 14. DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT

Risk Management Policies

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

Credit Risk Management

The forward contracts, swaps and options discussed below contain an element of risk that the counterparties may be unable to meet the terms of the agreements. However, we minimize such risk exposures for these instruments by limiting the counterparties to banks and financial institutions that meet established credit guidelines, and monitoring counterparty credit risk to prevent concentrations of credit risk with any single counterparty.

We have agreements with substantially all of our active counterparties containing early termination rights and/or bilateral collateral provisions whereby cash is required whenever the net fair value of derivatives associated with those counterparties exceed specific thresholds. Events, such as a credit rating downgrade (depending on the ultimate rating level) would typically require an increase in the amount of collateral required of the counterparty and/or allow us to take additional protective measures such as early termination of trades. At December 31, 2012, we held cash collateral of $59 million under these agreements.

In connection with the agreements described above, we could also be required to provide additional collateral or terminate transactions with certain counterparties in the event of a downgrade of our debt rating. The amount of additional collateral is a fixed incremental amount. At December 31, 2012 the aggregate fair value of the instruments covered by these contractual features that were in a net liability position was $129 million; however, we were not required to post any collateral with our counterparties as of that date.

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

Accounting Policy for Derivative Instruments

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

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

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

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

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UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
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Types of Hedges
Commodity Risk Management
Currently, the fuel surcharges that we apply to our domestic and international package and LTL services are the primary means of reducing the risk of adverse fuel price changes on our business. We periodically enter into option contracts on energy commodity products to manage the price risk associated with forecasted transactions involving refined fuels, principally jet-A, diesel and unleaded gasoline. The objective of the hedges is to reduce the variability of cash flows, due to changing fuel prices, associated with the forecasted transactions involving those products. We designate and account for these contracts as cash flow hedges of the underlying forecasted transactions involving these fuel products and, therefore, the resulting gains and losses from these hedges are recognized as a component of fuel expense or revenue when the underlying transactions occur.
Foreign Currency Risk Management
To protect against the reduction in value of forecasted foreign currency cash flows from our international package business, we maintain a foreign currency cash flow hedging program. Our most significant foreign currency exposures relate to the Euro, the British Pound Sterling, Canadian Dollar, Chinese Renminbi and Hong Kong Dollar. We hedge portions of our forecasted revenue denominated in foreign currencies with option contracts. We have designated and account for these contracts as cash flow hedges of anticipated foreign currency denominated revenue and, therefore, the resulting gains and losses from these hedges are recognized as a component of international package revenue when the underlying sales transactions occur.
We also hedge portions of our anticipated cash settlements of intercompany transactions subject to foreign currency remeasurement using foreign currency forward contracts. We have designated and account for these contracts as cash flow hedges of forecasted foreign currency denominated transactions, and therefore the resulting gains and losses from these hedges are recognized as a component of other operating expense when the underlying transactions are subject to currency remeasurement.
We have foreign currency denominated debt obligations and capital lease obligations associated with our aircraft. For some of these debt obligations and leases, we hedge the foreign currency denominated contractual payments using cross-currency interest rate swaps, which effectively convert the foreign currency denominated contractual payments into U.S. Dollar denominated payments. We have designated and account for these swaps as cash flow hedges of the forecasted contractual payments and, therefore, the resulting gains and losses from these hedges are recognized in the statements of consolidated income when the currency remeasurement gains and losses on the underlying debt obligations and leases are incurred.
Interest Rate Risk Management
Our indebtedness under our various financing arrangements creates interest rate risk. We use a combination of derivative instruments, including interest rate swaps and cross-currency interest rate swaps, as part of our program to manage the fixed and floating interest rate mix of our total debt portfolio and related overall cost of borrowing. The notional amount, interest payment and maturity dates of the swaps match the terms of the associated debt being hedged. Interest rate swaps allow us to maintain a target range of floating rate debt within our capital structure.
We have designated and account for interest rate swaps that convert fixed rate interest payments into floating rate interest payments as hedges of the fair value of the associated debt instruments. Therefore, the gains and losses resulting from fair value adjustments to the interest rate swaps and fair value adjustments to the associated debt instruments are recorded to interest expense in the period in which the gains and losses occur. We have designated and account for interest rate swaps that convert floating rate interest payments into fixed rate interest payments as cash flow hedges of the forecasted payment obligations. The gains and losses resulting from fair value adjustments to the interest rate swap are recorded to AOCI.
We periodically hedge the forecasted fixed-coupon interest payments associated with anticipated debt offerings, using forward starting interest rate swaps, interest rate locks or similar derivatives. These agreements effectively lock a portion of our interest rate exposure between the time the agreement is entered into and the date when the debt offering is completed, thereby mitigating the impact of interest rate changes on future interest expense. These

derivatives are settled commensurate with the issuance of the debt, and any gain or loss upon settlement is amortized as an adjustment to the effective interest yield on the debt.

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Outstanding Positions

The notional amounts of our outstanding derivative positions were as follows as of December 31, 2012 and 2011 (in millions):

		2012	2011
Currency Hedges:			
Euro	EUR	1,783	1,685
British Pound Sterling	GBP	797	870
Canadian Dollar	CAD	341	318
United Arab Emirates Dirham	AED	551	—
Malaysian Ringgit	MYR	500	—
Interest Rate Hedges:			
Fixed to Floating Interest Rate Swaps	USD	7,274	6,424
Floating to Fixed Interest Rate Swaps	USD	781	791
Interest Rate Basis Swaps	USD	2,500	—

As of December 31, 2012, we had no outstanding commodity hedge positions. The maximum term over which we are hedging exposures to the variability of cash flow is 37 years.

Balance Sheet Recognition

The following table indicates the location on the balance sheet in which our derivative assets and liabilities have been recognized, and the related fair values of those derivatives as of December 31, 2012 and 2011 (in millions). The table is segregated between those derivative instruments that qualify and are designated as hedging instruments and those that are not, as well as by type of contract and whether the derivative is in an asset or liability position.

Asset Derivatives	Balance Sheet Location	Fair Value Hierarchy Level	2012	2011
Derivatives designated as hedges:				
Foreign exchange contracts	Other current assets	Level 2	$27	$164
Interest rate contracts	Other current assets	Level 2	1	—
Foreign exchange contracts	Other non-current assets	Level 2	14	—
Interest rate contracts	Other non-current assets	Level 2	420	401
Derivatives not designated as hedges:				
Foreign exchange contracts	Other current assets	Level 2	3	2
Interest rate contracts	Other non-current assets	Level 2	101	82
Total Asset Derivatives			$566	$649

Liability Derivatives	Balance Sheet Location	Fair Value Hierarchy Level	2012	2011
Derivatives designated as hedges:				
Foreign exchange contracts	Other non-current liabilities	Level 2	103	185
Interest rate contracts	Other non-current liabilities	Level 2	14	13
Derivatives not designated as hedges:				
Foreign exchange contracts	Other current liabilities	Level 2	1	—
Interest rate contracts	Other non-current liabilities	Level 2	41	10
Total Liability Derivatives			$159	$208

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Explanation of Responses:

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UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
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Income Statement Recognition

The following table indicates the amount and location in the statements of consolidated income in which derivative gains and losses, as well as the related amounts reclassified from AOCI, have been recognized for those derivatives designated as cash flow hedges for the years ended December 31, 2012 and 2011 (in millions):

Derivative Instruments in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	
	2012	2011		2012	2011
Interest rate contracts	$(71)	$(6)	Interest Expense	$(22)	$(19)
Foreign exchange contracts	84	(85)	Interest Expense	24	13
Foreign exchange contracts	(5)	5	Other Operating Expense	—	—
Foreign exchange contracts	(76)	35	Revenue	61	(101)
Commodity contracts	—	9	Fuel Expense	—	9
Total	$(68)	$(42)		$63	$(98)

As of December 31, 2012, $58 million of pre-tax losses related to cash flow hedges that are currently deferred in AOCI are expected to be reclassified to income over the 12 month period ended December 31, 2013. The actual amounts that will be reclassified to income over the next 12 months will vary from this amount as a result of changes in market conditions.

The amount of ineffectiveness recognized in income on derivative instruments designated in cash flow hedging relationships was immaterial for the years ended December 31, 2012, 2011 and 2010.

The following table indicates the amount and location in the statements of consolidated income in which derivative gains and losses, as well as the associated gains and losses on the underlying exposure, have been recognized for those derivatives designated as fair value hedges for the years ended December 31, 2012 and 2011 (in millions):

Derivative Instruments in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income		Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income	
		2012	2011			2012	2011
Interest rate contracts	Interest Expense	$20	$320	Fixed-Rate Debt and Capital Leases	Interest Expense	$(20)	$(320)

Additionally, we maintain some foreign exchange forward and interest rate swap contracts that are not designated as hedges. These foreign exchange forward contracts are intended to provide an economic offset to foreign currency remeasurement risks for certain assets and liabilities in our consolidated balance sheets. These interest rate swap contracts are intended to provide an economic hedge of a portfolio of interest bearing receivables. The income statement impact of these hedges was not material for any period presented.

We also periodically terminate interest rate swaps and foreign currency options by entering into offsetting swap and foreign currency positions with different counterparties. As part of this process, we de-designate our original swap and foreign currency contracts. These transactions provide an economic offset that effectively eliminates the effects of changes in market valuation.

We have entered into several interest rate basis swaps, which effectively convert cash flows based on variable LIBOR-based interest rates to cash flows based on the prevailing federal funds interest rate. These swaps are not designated as hedges, and all amounts related to fair value changes and settlements are recorded to interest expense in the statements of consolidated income.

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UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
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The following is a summary of the amounts recorded in the statements of consolidated income related to fair value changes and settlements of these foreign currency forward and interest rate swap contracts not designated as hedges for the years ended December 31, 2012 and 2011 (in millions):

Derivative Instruments Not Designated in Hedging Relationships	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income 2012	2011
Foreign exchange contracts	Revenue	$2	$—
Foreign exchange contracts	Other Operating Expenses	19	2
Foreign exchange contracts	Investment Income	(22)	—
Interest rate contracts	Interest Expense	(12)	(8)
Total		$(13)	$(6)

Fair Value Measurements

Our foreign currency, interest rate and energy derivatives are largely comprised of over-the-counter derivatives, which are primarily valued using pricing models that rely on market observable inputs such as yield curves, currency exchange rates and commodity forward prices, and therefore are classified as Level 2. The fair values of our derivative assets and liabilities as of December 31, 2012 and 2011 by hedge type are as follows (in millions):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
2012				
Assets				
Foreign Exchange Contracts	$ —	$44	$—	$44
Interest Rate Contracts	—	522	—	522
Total	$ —	$566	$—	$566
Liabilities				
Foreign Exchange Contracts	$ —	$104	$—	$104
Interest Rate Contracts	—	55	—	55
Total	$ —	$159	$—	$159

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
2011				
Assets				
Foreign Exchange Contracts	$ —	$166	$—	$166
Interest Rate Contracts	—	483	—	483
Total	$ —	$649	$—	$649
Liabilities				
Foreign Exchange Contracts	$ —	$185	$—	$185
Interest Rate Contracts	—	23	—	23
Total	$ —	$208	$—	$208

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UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
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NOTE 15. RESTRUCTURING COSTS AND BUSINESS DISPOSITIONS
We have incurred restructuring costs associated with the termination of employees, facility consolidations and other costs directly related to restructuring initiatives. These initiatives have resulted from the integration of acquired companies, as well as restructuring activities associated with cost containment and operational efficiency programs. Additionally, we have sold or shut-down certain non-core business units in 2010, and recorded gains or losses upon the sale, as well as costs associated with each transaction.
Supply Chain & Freight—Germany
In February 2010, we completed the sale of a specialized transportation and express freight business in Germany within our Supply Chain & Freight segment. As part of the sale transaction, we incurred certain costs associated with employee severance payments, other employee benefits, transition services, and leases on operating facilities and equipment. Additionally, we provided a guarantee for a period of two years from the date of sale for certain employee benefit payments being assumed by the buyer. We recorded a pre-tax loss of $51 million ($47 million after-tax) for this transaction in 2010, which included the costs associated with the sale transaction and the fair value of the guarantee. This loss is recorded in the caption “other expenses” in the statements of consolidated income.
Supply Chain & Freight—United States
In December 2010, we completed the sale of our UPS Logistics Technologies, Inc. business unit, which produced transportation routing and fleet management systems. We recognized a $71 million pre-tax gain on the sale ($44 million after tax), which is included in the caption “other expenses” in the consolidated income statement, and is included in the results of our Supply Chain & Freight segment. The operating results of the UPS Logistics Technologies, Inc business unit were not material to our consolidated or segment operating results in any of the periods presented.
U.S. Domestic Package Restructuring
In an effort to improve performance in the U.S. Domestic Package segment, we announced a program to streamline our domestic management structure in January 2010. As part of this restructuring, we reduced the number of domestic districts and regions in our U.S. small package operation in order to better align our operations geographically and allow more local decision-making and resources to be deployed for our customers. Effective in April 2010, we reduced our U.S. regions from five to three and our U.S. districts from 46 to 20. The restructuring eliminated approximately 1,800 management and administrative positions in the U.S. Approximately 1,100 employees were offered voluntary severance packages, while other impacted employees received severance benefits based on length of service, and access to support programs. We recorded a pre-tax charge of $98 million ($64 million after-tax) in the first quarter of 2010 related to the costs of this program, which reflects the value of voluntary retirement benefits, severance benefits and unvested stock compensation. During the remainder of 2010, we incurred additional costs related to the relocation of employees and other restructuring activities, however those costs were offset by savings from the staffing reductions.
NOTE 16. SUBSEQUENT EVENTS
On January 30, 2013, the European Commission issued a formal decision prohibiting our proposed acquisition of TNT Express N.V. ("TNT Express"). As a result of the prohibition by the European Commission, the condition of our offer requiring European Union competition clearance was not fulfilled, and our proposed acquisition of TNT Express could not be completed. Given this outcome, UPS and TNT Express entered a separate agreement to terminate the merger protocol, and we withdrew our formal offer for TNT Express. Under this termination agreement, we have paid a break-up fee to TNT Express of €200 million (approximately $268 million) in the first quarter of 2013.
In January 2013, we purchased the noncontrolling interest in our joint venture that operates in the Middle East, Turkey, and portions of the Central Asia region (see note 9), for $70 million. After this transaction, we own 100% of this entity.

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

NOTE 17. QUARTERLY INFORMATION (unaudited)

Our revenue, segment operating profit, net income, basic and diluted earnings per share on a quarterly basis are presented below (in millions, except per share amounts):

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2012	2011	2012	2011	2012	2011	2012	2011
Revenue:								
U.S. Domestic Package	$8,004	$7,543	$8,058	$7,737	$7,861	$7,767	$8,933	$8,670
International Package	2,966	2,900	3,014	3,139	2,943	3,057	3,201	3,153
Supply Chain & Freight	2,166	2,139	2,277	2,315	2,267	2,342	2,437	2,343
Total revenue	13,136	12,582	13,349	13,191	13,071	13,166	14,571	14,166
Operating profit (loss):								
U.S. Domestic Package	995	880	1,134	997	129	1,046	(1,799)	841
International Package	408	453	454	505	449	417	(442)	334
Supply Chain & Freight	166	139	202	243	188	203	(541)	22
Total operating profit (loss)	1,569	1,472	1,790	1,745	766	1,666	(2,782)	1,197
Net income (loss)	$970	$915	$1,116	$1,092	$469	$1,072	$(1,748)	$725
Net income (loss) per share:								
Basic	$1.01	$0.92	$1.16	$1.11	$0.49	$1.10	$(1.83)	$0.75
Diluted	$1.00	$0.91	$1.15	$1.09	$0.48	$1.09	$(1.83)	$0.74

Operating profit for the quarter ended September 30, 2012 was impacted by a charge for the establishment of a withdrawal liability related to our withdrawal from the New England Teamsters and Trucking Industry Pension Fund, a multiemployer pension plan. This charge reduced the operating profit for the U.S. Domestic Package segment by $896 million, net income by $559 million and basic and diluted earnings per share by $0.58.

Operating profit for the quarter ended December 31, 2012 was impacted by a mark-to-market loss on our pension and postretirement benefit plans related to the remeasurement of plan assets and liabilities recognized outside of a 10% corridor of $4.831 billion (allocated as follows—U.S. Domestic Package $3.177 billion, International Package $941 million, Supply Chain & Freight $713 million). This loss reduced net income by $3.023 billion, and basic and diluted earnings per share by $3.16.

Operating profit for the quarter ended June 30, 2011 was impacted by gains and losses on certain real estate transactions, including a $15 million loss in the U.S. Domestic Package segment and a $48 million gain in the Supply Chain & Freight segment. The combined impact of these transactions increased net income by $20 million, and basic and diluted earnings per share by $0.02.

Operating profit for the quarter ended December 31, 2011 was impacted by a mark-to-market loss on our pension and postretirement benefit plans related to the remeasurement of plan assets and liabilities recognized outside of a 10% corridor of $827 million (allocated as follows—U.S. Domestic Package $479 million, International Package $171 million, Supply Chain & Freight $177 million). This loss reduced net income by $527 million, and basic and diluted earnings per share by $0.54.

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
None.

Item 9A. Controls and Procedures
Evaluation of Disclosure Controls and Procedures:
As of the end of the period covered by this report, management, including our chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures and internal controls over financial reporting. Based upon, and as of the date of, the evaluation, our chief executive officer and chief financial officer concluded that the disclosure controls and procedures and internal controls over financial reporting were effective to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported as and when required and is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.
Changes in Internal Control over Financial Reporting:
There were no changes in the Company’s internal controls over financial reporting during the quarter ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.
Management’s Report on Internal Control Over Financial Reporting:
UPS management is responsible for establishing and maintaining adequate internal controls over financial reporting for United Parcel Service, Inc. and its subsidiaries (the “Company”). Based on the criteria for effective internal control over financial reporting established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, management has assessed the Company’s internal control over financial reporting as effective as of December 31, 2012. The independent registered public accounting firm of Deloitte & Touche LLP, as auditors of the consolidated balance sheets of United Parcel Service, Inc. and its subsidiaries as of December 31, 2012 and the related consolidated statements of income, comprehensive income and cash flows for the year ended December 31, 2012, has issued an attestation report on the Company’s internal control over financial reporting, which is included herein.
/s/ United Parcel Service, Inc.
February 28, 2013

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Report of Independent Registered Public Accounting Firm
Board of Directors and Shareowners
United Parcel Service, Inc.
Atlanta, Georgia

We have audited the internal control over financial reporting of United Parcel Service, Inc. and subsidiaries (the "Company") as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2012 of the Company and our report dated February 28, 2013 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP
Atlanta, Georgia
February 28, 2013

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Item 9B. Other Information
None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance
Executive Officers of the Registrant

Name and Office	Age	Principal Occupation and Employment For the Last Five Years
David P. Abney Senior Vice President and Chief Operating Officer	57	Senior Vice President and Chief Operating Officer (2007 – present), President, UPS Airlines (2007 – 2008), Senior Vice President and President, UPS International (2003 – 2007).
David A. Barnes Senior Vice President and Chief Information Officer	57	Senior Vice President and Chief Information Officer (2005 – present).
Daniel J. Brutto Senior Vice President and President, UPS International	56	Senior Vice President and President, UPS International (2008 – present), President, Global Freight Forwarding (2006 – 2007), Corporate Controller (2004 – 2006).
D. Scott Davis Chairman and Chief Executive Officer	61	Chairman and Chief Executive Officer (2008 – present), Vice Chairman (2006 – 2007), Senior Vice President, Chief Financial Officer and Treasurer (2001 – 2007), Director (2006 – present).
Alan Gershenhorn Senior Vice President	54	Senior Vice President, Worldwide Sales, Marketing and Strategy (2011 – present), Senior Vice President, Worldwide Sales and Marketing (2008 – 2010), Senior Vice President and President, UPS International (2007), President, UPS Supply Chain Solutions – Asia and Europe (2006).
Myron Gray Senior Vice President	55	Senior Vice President, U.S. Operations (2009 – present), Vice President, Americas Region (2008 – 2009), Vice President, North Central Region (2004 – 2008).
Kurt P. Kuehn Senior Vice President and Chief Financial Officer	58	Senior Vice President and Chief Financial Officer (2008 – present), Treasurer (2008 – 2010), Senior Vice President, Worldwide Sales and Marketing (2004 – 2007).
Teri P. McClure Senior Vice President, General Counsel and Corporate Secretary	49	Senior Vice President of Legal, Compliance and Public Affairs, General Counsel and Corporate Secretary (2006 – present), Corporate Legal Department Manager (2005 – 2006).
John J. McDevitt Senior Vice President	54	Senior Vice President, Human Resources and Labor Relations (2012 – Present), Senior Vice President, Global Transportation Services and Labor Relations (2005 – 2011).

Christine M. Owens Senior Vice President	57	Senior Vice President, Communications and Brand Management (2005 – present).

Information about our directors is presented under the caption "Election of Directors" in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 2, 2013 and is incorporated herein by reference.
Information about our Audit Committee is presented under the caption "Election of Directors—Committees of the Board of Directors—Audit Committee" in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 2, 2013 and is incorporated herein by reference.

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Information about our Code of Business Conduct is presented under the caption “Where You Can Find More Information” in Part I, Item 1 of this report.
Information about our compliance with Section 16 of the Exchange Act of 1934, as amended, is presented under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 2, 2013 and is incorporated herein by reference.

Item 11. Executive Compensation

Information about executive compensation is presented under the captions “Compensation Discussion and Analysis,” “Compensation of Executive Officers,” “Compensation of Directors,” “Report of the Compensation Committee” and “Compensation Committee Interlocks and Insider Participation” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 2, 2013 and is incorporated herein by reference.

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

Information about security ownership is presented under the caption “Beneficial Ownership of Common Stock” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 2, 2013 and is incorporated herein by reference.
Information about our equity compensation plans is presented under the caption “Equity Compensation Plans” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 2, 2013 and is incorporated herein by reference.

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

Information about transactions with related persons is presented under the caption “Related Person Transactions” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 2, 2013 and is incorporated herein by reference.

Information about director independence is presented under the caption “Election of Directors—Director Independence” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 2, 2013 and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

Information about aggregate fees billed to us by our principal accountant is presented under the caption “Principal Accounting Firm Fees” in our definitive Proxy Statement for the Annual Meetings of Shareowners to be held on May 2, 2013 and is incorporated herein by reference.

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PART IV

Item 15. Exhibits and Financial Statement Schedules
(a) 1. Financial Statements.
See Item 8 for the financial statements filed with this report.
2. Financial Statement Schedules.
None.
3. List of Exhibits.
See the Exhibit Index for a list of the exhibits incorporated by reference into or filed with this report.
(b) Exhibits required by Item 601 of Regulation S-K.
See the Exhibit Index for a list of the exhibits incorporated by reference into or filed with this report.
(c) Financial Statement Schedules.
None.

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SIGNATURES

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

UNITED PARCEL SERVICE, INC.
(REGISTRANT)

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

Date: February 28, 2013

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

Signature	Title	Date
/S/ F. DUANE ACKERMAN F. Duane Ackerman	Director	February 28, 2013
/S/ MICHAEL J. BURNS Michael J. Burns	Director	February 28, 2013
/S/ D. SCOTT DAVIS D. Scott Davis	Chairman, Chief Executive Officer and Director (Principal Executive Officer)	February 28, 2013
/S/ STUART E. EIZENSTAT Stuart E. Eizenstat	Director	February 28, 2013
/S/ MICHAEL L. ESKEW Michael L. Eskew	Director	February 28, 2013
/S/ WILLIAM R. JOHNSON William R. Johnson	Director	February 28, 2013
/S/ CANDACE B. KENDLE Candace B. Kendle	Director	February 28, 2013
/S/ KURT P. KUEHN Kurt P. Kuehn	Chief Financial Officer (Principal Financial and Accounting Officer)	February 28, 2013
/S/ ANN M. LIVERMORE	Director	February 28, 2013

Ann M. Livermore

/S/ RUDY MARKHAM Rudy Markham	Director	February 28, 2013
/S/ CLARK T. RANDT, JR. Clark T. Randt, Jr.	Director	February 28, 2013
/S/ JOHN W. THOMPSON John W. Thompson	Director	February 28, 2013
/S/ CAROL B. TOMÉ Carol B. Tomé	Director	February 28, 2013
/S/ KEVIN M. WARSH Kevin M. Warsh	Director	February 28, 2013

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EXHIBIT INDEX

Exhibit No.		Description
2.1	—	Agreement and Plan of Merger, dated as of September 22, 1999, among United Parcel Service of America, Inc., United Parcel Service, Inc. and UPS Merger Subsidiary, Inc. (incorporated by reference to Form S-4 (No. 333-83349), filed on July 21, 1999, as amended).
2.2	—	Merger Protocol, dated as of March 19, 2012, between United Parcel Service, Inc. and TNT Express N.V. (incorporated by reference to Form 8-K, filed on March 19, 2012).
†2.3	—	Termination Agreement, dated as of January 22, 2013, between United Parcel Service, Inc. and TNT Express N.V.
3.1	—	Form of Restated Certificate of Incorporation of United Parcel Service, Inc. (incorporated by reference to Exhibit 3.2 to Form 8-K filed on May 12, 2010).
3.2	—	Amended and Restated Bylaws of United Parcel Service, Inc. as of May 6, 2010 (incorporated by reference to Exhibit 3.1 to Form 8-K, filed on May 12, 2010).
4.1	—	Indenture relating to 8 3/8% Debentures due April 1, 2020 (incorporated by reference to Exhibit 4(c) to Registration Statement No. 33-32481, filed December 7, 1989).
4.2	—	Indenture relating to Exchange Offer Notes Due 2030 (incorporated by reference to Exhibit T-3C to Form T-3 filed December 18, 1997).
4.3	—	Indenture relating to $2,000,000,000 of debt securities (incorporated by reference to Exhibit 4.1 to Pre-Effective Amendment No. 1 to Form S-3 (No. 333-08369), filed on January 26, 1999).
4.4	—	Form of Supplemental Indenture relating to $2,000,000,000 of debt securities (incorporated by reference to Exhibit 4.2 to Post-Effective Amendment No. 1 to Form S-3 (No. 333-08369-01), filed on March 15, 2000).
4.5	—	Form of Second Supplemental Indenture relating to $2,000,000,000 of debt securities (incorporated by reference to Exhibit 4 to Form 10-Q for the Quarter Ended September 30, 2001).
4.6	—	Form of Indenture relating to $2,000,000,000 of debt securities (incorporated by reference to Exhibit 4.1 to Form S-3 (No. 333-108272), filed on August 27, 2003).
4.7	—	Form of Note for 4.50% Senior Notes due January 15, 2013 (incorporated by reference to Exhibit 4.1 to Form 8-K filed on January 15, 2008).
4.8	—	Form of Note for 5.50% Senior Notes due January 15, 2018 (incorporated by reference to Exhibit 4.2 to Form 8-K filed on January 15, 2008).
4.9	—	Form of Note for 6.20% Senior Notes due January 15, 2038 (incorporated by reference to Exhibit 4.3 to Form 8-K filed on January 15, 2008).
4.10	—	

	Form of Note for 3.875% Senior Notes due April 1, 2014 (incorporated by reference to Exhibit 4.1 to Form 8-K filed on March 24, 2009).
4.11	Form of Note for 5.125% Senior Notes due April 1, 2019 (incorporated by reference to Exhibit 4.2 to Form 8-K filed on March 24, 2009).
4.12	Form of Note for 3.125% Senior Notes due January 15, 2021 (incorporated by reference to Exhibit 4.1 to Form 8-K filed on November 12, 2010).
4.13	Form of Note for 4.875% Senior Notes due November 15, 2040 (incorporated by reference to Exhibit 4.2 to Form 8-K filed on November 12, 2010).
4.14	Form of Note for 1.125% Senior Notes due October 1, 2017 (incorporated by reference to Exhibit 4.1 to Form 8-K filed on September 27, 2012).
4.15	Form of Note for 2.450% Senior Notes due October 1, 2022 (incorporated by reference to Exhibit 4.2 to Form 8-K filed on September 27, 2012).
4.16	Form of Note for 3.625% Senior Notes due October 1, 2042 (incorporated by reference to Exhibit 4.3 to Form 8-K filed on September 27, 2012).
10.1	UPS Retirement Plan, as Amended and Restated, effective January 1, 2010 (incorporated by reference to Exhibit 10.2 to the 2009 Annual Report on Form 10-K).

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(1) Amendment No. 1 to the UPS Retirement Plan (incorporated by reference to Exhibit 10.2(1) to the 2010 Annual Report on Form 10-K).

(2) Amendment No. 2 to the UPS Retirement Plan (incorporated by reference to Exhibit 10.1(2) to the 2011 Annual Report on Form 10-K).

(3) Amendment No. 3 to the UPS Retirement Plan (incorporated by reference to Exhibit 10.1(3) to the 2011 Annual Report on Form 10-K).

†(4) Amendment No. 4 to the UPS Retirement Plan.

†(5) Amendment No. 5 to the UPS Retirement Plan.

10.2 — UPS Savings Plan, as Amended and Restated (incorporated by reference to Exhibit 10.3 to 2008 Annual Report on Form 10-K).

(1) Amendment No. 1 to the UPS Savings Plan (incorporated by reference to Exhibit 10.3(1) to the 2009 Annual Report on Form 10-K).

(2) Amendment No. 2 to the UPS Savings Plan (incorporated by reference to Exhibit 10.3(2) to the 2009 Annual Report on Form 10-K).

(3) Amendment No. 3 to the UPS Savings Plan (incorporated by reference to Exhibit 10.3(3) to the 2010 Annual Report on Form 10-K).

(4) Amendment No. 4 to the UPS Savings Plan (incorporated by reference to Exhibit 10.2(4) to the 2011 Annual Report on Form 10-K).

(5) Amendment No. 5 to the UPS Savings Plan (incorporated by reference to Exhibit 10.2(5) to the 2011 Annual Report on Form 10-K).

†(6) Amendment No. 6 to the UPS Savings Plan.

10.3 — Credit Agreement (364-Day Facility) dated April 12, 2012 among United Parcel Service, Inc., the initial lenders named therein, Citigroup Global Markets Inc. and J.P. Morgan Securities LLC as joint lead arrangers and joint bookrunners, Barclays Capital and BNP Paribas Securities Corp. as co-lead arrangers, Barclays Bank PLC and BNP Paribas as co-documentation agents, Citibank, N.A. as administrative agent, and JPMorgan Chase Bank, N.A. as syndication agent (incorporated by reference to Exhibit 10.1 to Form 10-Q for the Quarter Ended March 31, 2012).

10.4 — Credit Agreement (5-Year Facility) dated April 12, 2012 among United Parcel Service, Inc., the initial lenders named therein, Citigroup Global Markets Inc. and J.P. Morgan Securities LLC as joint lead arrangers and joint bookrunners, Barclays Capital and BNP Paribas Securities Corp. as co-lead arrangers, Barclays Bank PLC and BNP Paribas as co-documentation agents, Citibank, N.A. as administrative agent, and JPMorgan Chase Bank, N.A. as syndication agent (incorporated by reference to Exhibit 10.2 to Form 10-Q for the Quarter Ended March 31, 2012).

†10.5 — UPS Excess Coordinating Benefit Plan, as amended and restated.

10.6 — United Parcel Service, Inc. 2009 Omnibus Incentive Compensation Plan (incorporated by reference to Annex II to the Definitive Proxy Statement, filed on March 13, 2009).

(1) Form of Long-Term Incentive Performance Award Agreement (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2011).

(2) Form of Non-Management Director Restricted Stock Unit Award (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2010).

(3) UPS Management Incentive Program Terms and Conditions effective as of January 1, 2011 (incorporated by reference to Exhibit 10.10(3) to the 2010 Annual Report on Form 10-K).

(4) UPS Stock Option Program Terms and Conditions effective as of January 1, 2012 (incorporated by reference to Exhibit 10.7(4) to the 2011 Annual Report on Form 10-K).

(5) UPS Long-Term Incentive Performance Program Terms and Conditions effective as of January 1, 2012 (incorporated by reference to Exhibit 10.7(5) to the 2011 Annual Report on Form 10-K).

10.7 — Form of UPS Deferred Compensation Plan (incorporated by reference to Exhibit 10.11 to the 2010 Annual Report on Form 10-K).

†(1) Amendment No. 1 to the UPS Deferred Compensation Plan.

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10.8	—	United Parcel Service, Inc. Nonqualified Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to the registration statement on Form S-8 (No. 333-34054), filed on April 5, 2000).
10.9	—	Discounted Employee Stock Purchase Plan, as amended and restated, effective October 1, 2002.
		(1) Amendment No. 1 to the Discounted Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.12(1) to the 2005 Annual Report on Form 10-K).
		(2) Amendment No. 2 to the Discounted Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.13(2) to the 2009 Annual Report on Form 10-K).
		†(3) Amendment No. 3 to the Discounted Employee Stock Purchase Plan.
10.10	—	2012 Omnibus Incentive Compensation Plan (incorporated by reference to Annex A to the proxy statement filed on March 12, 2012).
11	—	Statement regarding Computation of per Share Earnings (incorporated by reference to note 13 to Part I, Item 8 “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K).
†12	—	Ratio of Earnings to Fixed Charges.
†18	—	Letter on Change in Accounting Principles.
†21	—	Subsidiaries of the Registrant.
†23	—	Consent of Deloitte & Touche LLP.
†31.1	—	Certificate of Chief Executive Officer Pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
†31.2	—	Certificate of Chief Financial Officer Pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
†32.1	—	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
†32.2	—	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
††101	—	The following financial information from the Annual Report on Form 10-K for the year ended December 31, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to the Consolidated Financial Statements.

† Filed herewith.
†† Furnished electronically herewith.

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