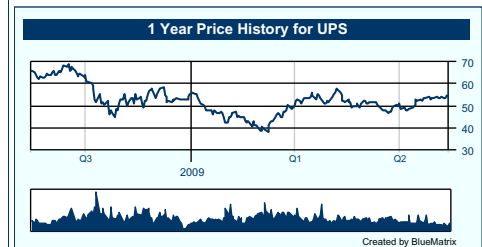


August 14, 2009

| Changes | From (Previous) | To (Current) | |
|-------------------------|--------------------|-----------------|--------------|
| Rating | -- | Hold | |
| FY09E EPS (Net) | -- | \$2.14 | |
| FY10E EPS (Net) | -- | \$2.80 | |
| Stock Data | | | |
| Price (08/14/09): | | \$53.13 | |
| 52-Week Range: | | \$70 – \$38 | |
| Market Cap.(mm): | | \$53,342.5 | |
| Shr.O/S-Diluted (mm): | | 1,004.0 | |
| Enterprise Val. (mm): | | \$61,461.0 | |
| Avg Daily Vol (3 Mo): | | 4,789,045 | |
| LT Debt/Total Cap.: | | 49.7% | |
| Net Cash/Share: | | \$4.33 | |
| Dividend: | | \$1.80 | |
| Yield (%): | | 3.4% | |
| Book Value/Share: | | \$6.75 | |
| S&P Index: | | 995.00 | |
| <i>Intraday 8/14/09</i> | | | |
| EPS (Net) | 2008A | 2009E | 2010E |
| 1Q | \$0.87A | \$0.52A | \$0.55 |
| 2Q | 0.85A | 0.49A | 0.71 |
| 3Q | 0.96A | 0.52 | 0.73 |
| 4Q | 0.83A | 0.61 | 0.81 |
| FY Dec | \$3.50A | \$2.14 | \$2.80 |
| P/E | 15.2x | 24.8x | 19.0x |
| Revenue (Net) | \$51.49B | \$45.26B | \$47.55B |
| EV/Revenue | 1.2x | 1.4x | 1.3x |



UPS Airline Mechanics Union Calling for Strike Vote; Likely No Big Deal

David G. Ross, CFA (443) 224-1316 dross@stifel.com

John G. Larkin, CFA (443) 224-1315 jglarkin@stifel.com

Company Update

- The designated bargaining representative of the approximately 1,400 UPS aircraft mechanics - Teamsters Local 2727 in Louisville, KY - announced today that it is calling for a strike vote by its members, expected on September 14th.
- The union and UPS have been negotiating for a new labor contract since November 2006 when the contract became amendable without coming to an agreement. The union claims the parties are now at an impasse.
- The key areas of disagreement appear to be around the Teamsters' consistent demands for no health care co-pay and the union's desire for protection from outsourcing mechanics' work outside the U.S. The wage increase is also being debated, but we do not believe that is as important as the first two issues.
- *Timeline of the strike process* - 1) votes are expected to be counted September 14th, 2) if "yes," the National Mediation Board (under the Railway Labor Act) requires a 30-day cooling off period for the parties to come back to the table to continue discussions, 3) if no agreement has been reached at the end of the cooling off period, the workers may strike (as early as mid-October).
- We doubt the workers ultimately go on strike. Given that October/November is the start of peak season for UPS, we think the company will likely reach an agreement to avoid a strike.
- While it is a difficult economy to be asking for wage and benefit increases, UPS is not in the best bargaining position, in our view, as an extremely profitable company with better margins than its closest competitor.
- We should note a "yes" vote does not ensure a strike. If the mechanics do strike, though, we believe it could potentially disrupt activity heading into the company's busiest shipping period of the year. A strike could have a material impact on near-term financials, whereas we do not see a new agreement as having a material impact.
- We are maintaining our Hold rating on the shares of UPS mainly due to valuation and our expectation for a gradual, rather than sharp, economic recovery in the U.S. and globally.

Company Description

United Parcel Service, Inc. is the largest integrated package delivery network in the world. The company delivers 15.5 million packages per day globally and is the largest player in the package market in the United States, the largest package market in the world. The company is endeavoring to leverage its strong positioning (brand awareness, reputation for providing high-quality service, sales penetration and technology platforms) in the package market to provide its customers with competitive advantage through creative yet practical logistics solutions on a global basis.



Equity Comps - Transportation

Comparative Valuation Matrix

(figures in \$US millions, except per share amounts)

| Company name (Ticker) | Rating | Price 8/14/2009 | Diluted S/O | Market cap. | Total Debt | Cash & equiv. | TEV ^(a) | Equity value as a multiple of | | | | Enterprise value as a multiple of | | | | | Div. Yield | 2009E FCF Yield | | | | |
|-----------------------------------------------|---------------|--------------------|----------------|-----------------|-----------------|------------------|--------------------|-------------------------------|----------------------|----------------------|----------------------|-----------------------------------|-----------------|---------------|-------------------------------|--------------|---------------|--------------------|--------------|-------------|-------------|-----------------------------|
| | | | | | | | | Book value | 2009E ^(b) | | | TTM Revenue | 2009E EBITDA | TTM EBITDA | TTM EBITDAR ^(c) | TTM EBIT | | | TTM ROA | TTM ROE | TTM ROIC | PEG ratio ^(d) |
| | | | | | | | | | 2009E ^(b) | 2010E ^(b) | 2011E ^(b) | | | | | | | | | | | |
| Asset-Based Logistics | | | | | | | | | | | | | | | | | | | | | | |
| Con-way (CNW) | Buy | 45.91 | 51.2 | 2,350.7 | 935.3 | 284.6 | 3,001.4 | 38.3x | 20.4x | 13.9x | 3.3x | 0.7x | 8.2x | 9.4x | 8.3x | 23.8x | 1.7% | 6.2% | 4.7% | 2.94 | 0.8% | 7.3% |
| FedEx Corp. (FDX) | Hold | 65.65 | 311.7 | 20,464.6 | 2,583.0 | 2,292.0 | 20,755.6 | 29.2x | 18.2x | 13.8x | 1.5x | 0.6x | 6.4x | 7.6x | 6.6x | 27.8x | 4.7% | 8.3% | 7.4% | 2.43 | 0.7% | 0.8% |
| Ryder System (R) | Hold | 39.00 | 58.1 | 2,264.0 | 2,712.3 | 104.5 | 4,871.8 | 24.2x | 17.3x | 12.6x | 1.6x | 0.9x | 4.0x | 3.7x | 3.7x | 11.3x | 2.4% | 10.2% | 5.3% | 2.20 | 2.5% | 24.8% |
| United Parcel Service (UPS) | Hold | 53.13 | 995.0 | 52,866.4 | 12,083.0 | 4,346.0 | 60,603.4 | 24.8x | 19.0x | 15.4x | 7.8x | 1.3x | 10.9x | 9.5x | 9.0x | 13.1x | 7.9% | 30.6% | 14.7% | 1.46 | 3.3% | 3.5% |
| | Min | | | 2,264.0 | 935.3 | 104.5 | 3,001.4 | 24.2x | 17.3x | 12.6x | 1.5x | 0.6x | 4.0x | 3.7x | 3.7x | 11.3x | 1.7% | 6.2% | 4.7% | 1.46 | 0.7% | 0.8% |
| | Mean | | | 19,486.5 | 4,578.4 | 1,756.8 | 22,308.1 | 29.1x | 18.7x | 13.9x | 3.6x | 0.9x | 7.4x | 7.5x | 6.9x | 19.0x | 4.2% | 13.8% | 8.0% | 2.26 | 1.8% | 9.1% |
| | Median | | | 11,407.7 | 2,647.6 | 1,288.3 | 12,813.7 | 27.0x | 18.6x | 13.8x | 2.5x | 0.8x | 7.3x | 8.5x | 7.4x | 18.5x | 3.6% | 9.3% | 6.3% | 2.32 | 1.7% | 5.4% |
| | Max | | | 52,866.4 | 12,083.0 | 4,346.0 | 60,603.4 | 38.3x | 20.4x | 15.4x | 7.8x | 1.3x | 10.9x | 9.5x | 9.0x | 27.8x | 7.9% | 30.6% | 14.7% | 2.94 | 3.3% | 24.8% |
| Stifel Nicolaus Transportation Average | | | | 5,033.1 | 1,446.4 | 291.2 | 6,191.6 | 32.7x | 20.0x | 14.9x | 2.5x | 1.6x | 10.2x | 9.5x | 8.2x | 15.9x | 3.9% | 8.3% | 7.5% | 2.32 | 1.0% | 6.1% |

Pricing is intraday 8/14/09

(a) Total Enterprise Value = Market Capitalization of Equity + Total Debt - Cash + Market Value of Minority Interest

(b) Stifel Nicolaus estimates for those rated and First Call mean estimates for unrated securities

(c) Enterprise value adjusted to include the capitalization of off balance sheet operating leases with lease expense (or rent expense) being added back to EBITDA for the valuation multiple calculation

(d) 2009E P/E divided by First Call mean or Stifel Nicolaus estimated long-term growth rate

Excludes non-recurring items

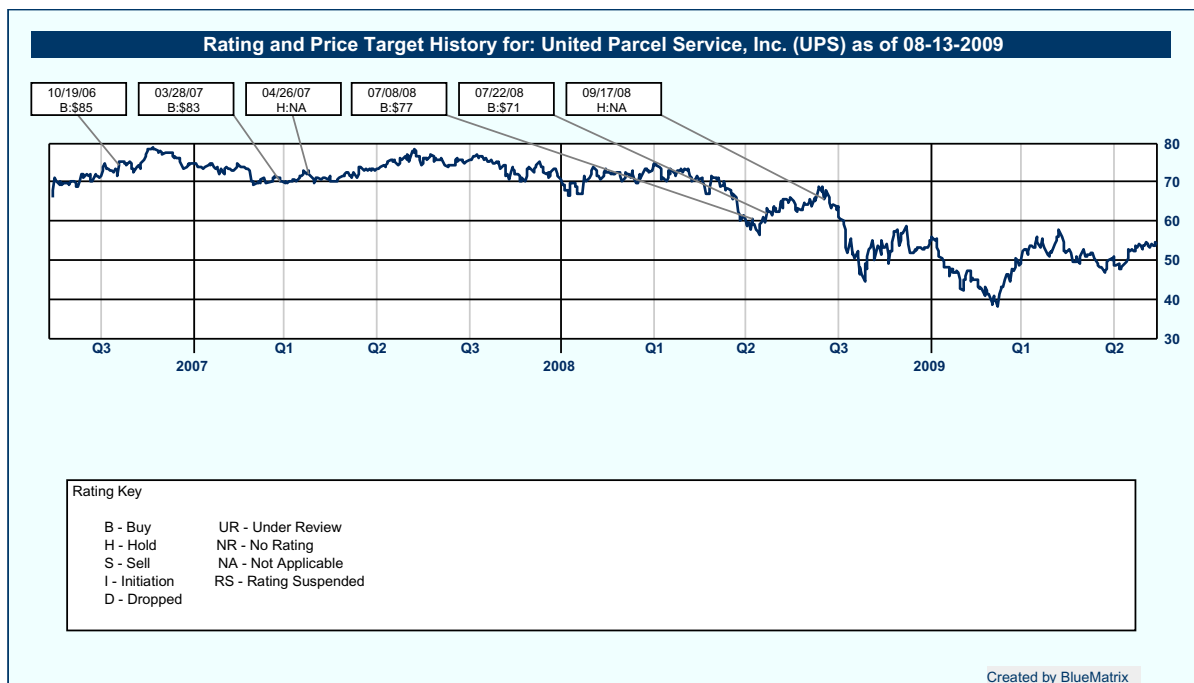
Calculations may vary due to rounding

Source: Company data, First Call, and Stifel Nicolaus estimates

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For a price chart with our ratings and target price changes for UPS go to <http://sf.bluematrix.com/bluematrix/Disclosure?ticker=UPS>

Stifel, Nicolaus & Company, Inc. expects to receive or intends to seek compensation for investment banking services from United Parcel Service, Inc. in the next 3 months.

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Our investment rating system is three tiered, defined as follows:

BUY -We expect this stock to outperform the S&P 500 by more than 10% over the next 12 months. For higher-yielding equities such as REITs and Utilities, we expect a total return in excess of 12% over the next 12 months.

HOLD -We expect this stock to perform within 10% (plus or minus) of the S&P 500 over the next 12 months. A Hold rating is also used for those higher-yielding securities where we are comfortable with the safety of the dividend, but believe that upside in the share price is limited.

SELL -We expect this stock to underperform the S&P 500 by more than 10% over the next 12 months and believe the stock could decline in value.

Of the securities we rate, 36% are rated Buy, 60% are rated Hold, and 4% are rated Sell.

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