



August 12, 2010

The Honorable Bob Lynn
Alaska State Legislature
716 W. 4th Ave. #650
Anchorage, AK 99501

Dear Representative Lynn:

Thank you for your letter regarding UPS's difficult decision to furlough 300 of our pilots nationwide. Your concern is certainly one we share during these challenging times. We understand the impact of any temporary layoff on our people and on company stakeholders, including some of your constituents.

UPS has enjoyed a successful partnership with the state of Alaska for many years, and we anticipate it will continue for many more years to come. The current pilot furlough, as unfortunate as it is for all of us, is a short-term situation. We intend to bring these pilots back into service as soon as sustained business conditions warrant.

Specifically, in Anchorage we will maintain the same number of flights and therefore, will need at least the same number of pilots to crew those planes. No jobs are being eliminated or outsourced in Alaska. Any junior pilot who is furloughed is being replaced by a more senior pilot from one of UPS's other domiciles. This follows the union negotiated contract that any furlough is carried out according to a union-based reverse seniority process.

The decisions being made are in the long-term interests of our company. I urge you to share that long-term view and to work with us on ways to grow our business in Alaska.

Our pilot furlough is not an action we take lightly. In fact, we only reached this decision after 14 months of negotiations (Dec. 2008 to Feb. 2010) with our pilots' union in an extraordinary attempt to jointly find a solution that would have allowed us to avoid a furlough. Simply stated, we have more pilots than we need to operate our airline division.

The following factors are some of the reasons for this disparity:

1. We are flying 48 fewer aircraft (214 vs. 262) than we were at our peak in 2003. We have permanently retired our older aircraft requiring three-person crews (B727s, DC-8s and B747 classics) in favor of larger, more efficient and environmentally-friendly, two-pilot planes (B767s, B747-400s and MD-11s). Our investment in these US-made airplanes creates a situation that requires fewer crewmembers.
2. Due to the recent economic recession impacting the demand for our services, and the increased capacity of our newer aircraft, we are flying 15 percent fewer block hours

(essentially the amount of time our planes are actually in flight) than we were in 2007. This reduction in block hours requires fewer crew hours, and thus, fewer crewmembers.

3. The FAA's 2007 "retirement age 65" ruling has resulted in hundreds of pilots remaining on the payroll who previously would have been required to retire at age 60. This regulation has prevented us from adjusting our crew member base by previously-planned, natural attrition through retirement.

UPS has long been an economic engine for Alaska. Beginning with our initial investment of \$3.5 million in 1990 to make Anchorage our connection to Asia, we have continued to grow and invest heavily in your state. Over the past five years we have spent \$12 million on ramp construction, and just recently completed \$42 million in capital improvement projects for our pilot training center, a new aircraft maintenance facility and expanded sorting facilities.

We are Anchorage's top airline in terms of landed weight, generating an average of \$4.4 million annually in landing fees the last three years. In addition to the 1,000 people that we employ in Alaska with a payroll of more than \$108 million, we pay \$1.2 million per year in property tax, \$300,000 per year in fuel taxes, and \$90,000 per year in hotel taxes.

I hope this information helps to put our furlough in perspective. Additionally, I offer these responses to answer specific questions that have been asked of us by you and others.

- *What support is UPS providing furloughed pilots?*

Going beyond our contractual obligations, UPS is offering to pay our pilots for sick time they have accrued. These payments will be in the range of \$20,000 per crewmember. We are also meeting with affected employees to ensure they have access to the company resources available to them while they are away from UPS.

- *When does UPS plan to rehire the furloughed pilots, especially as cargo volumes continue to increase at ANC?*

We want to be clear that these pilots are being furloughed and not outsourced, as some media reports and print ads have tried to insinuate. We also plan to bring our pilots back as quickly as sustained business conditions warrant. As demonstrated by our last three earnings announcements, we believe the economic recovery has begun. However, we believe it is still fragile and we plan to proceed cautiously for the foreseeable future. It is important to appreciate that market economics aside; we are flying fewer aircraft on fewer block hours. We do not anticipate the need for the same level of pilots as we have had in the past.

- *What is UPS doing to encourage the replacement pilots to relocate to Alaska?*

We will maintain the same number of flights in Anchorage, and therefore, will need the same number of pilots to crew those planes. Accordingly, there will be no net change to the crews needed to serve our operation in Anchorage. In addition, our current contract provides for relocation packages for crewmembers transferring to Anchorage. Also, please remember that we fully intend to bring our furloughed pilots back to UPS and Anchorage.

What is UPS doing to encourage replacement pilots to participate in the Anchorage community?

Rest assured, UPS is fully vested in the Anchorage community, as our \$108 million Alaskan payroll and \$60 million investment in infrastructure at Ted Stevens International Airport attests.

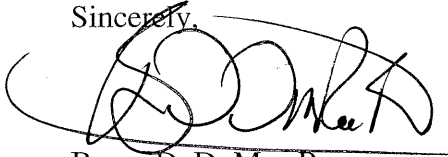
In addition, UPS supports the American Heart Association and United Way in Alaska and for many years has volunteered monthly at Bean's Café serving lunch to the homeless.

- *What is UPS doing to increase its participation in the Anchorage community?*

UPS has enjoyed a successful partnership with the state of Alaska as well as the city of Anchorage for many years. We are Anchorage's top airline in terms of landed weight, generating an average of \$4.4 million annually in landing fees the last three years. In addition to the 1,000 people that we employ in Alaska, we pay \$1.2 million per year in property tax, \$300,000 per year in fuel taxes, and \$90,000 per year in hotel taxes.

Thank you for your concern on this matter, Representative Lynn. We look forward to working with you to advance our mutual interests.

Sincerely,



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I'm at your service