

BEFORE THE  
POSTAL RATE COMMISSION

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

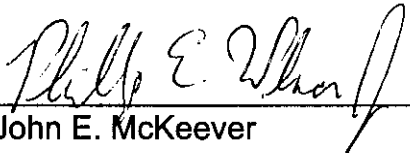
POSTAL RATE AND FEE CHANGES, 2000

DOCKET NO. R2000-1

THIRD SET OF INTERROGATORIES AND REQUEST FOR  
PRODUCTION OF DOCUMENTS FROM UNITED PARCEL SERVICE  
TO UNITED STATES POSTAL SERVICE WITNESS ROBINSON  
(UPS/USPS-T34-3 through 4)  
(February 14, 2000)

Pursuant to the Commission's Rules of Practice, United Parcel Service hereby serves the following interrogatories and request for production of documents directed to United States Postal Service witness Robinson: UPS/USPS-T34-3 through 4.

Respectfully submitted,



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Of Counsel.

INTERROGATORIES OF UNITED PARCEL SERVICE  
TO UNITED STATES POSTAL SERVICE WITNESS ROBINSON

UPS/USPS-T34-3. Please refer to pages 12 through 15 of your testimony, where you discuss the contract between Emery Worldwide Airlines ("Emery") and the Postal Service pursuant to which Emery provides mail processing, surface transportation, and air transportation for Priority Mail. Refer also to page 2 of Attachment A, an analyst's report discussing the Postal Service's contract with Emery for Priority Mail services, which indicates that beginning in the third quarter of 1999 Emery "began being paid a provisional rate for its services." Attachment A, CNF Transportation Reports Third Consecutive Year of Record Earnings; Net Income Up 39 Percent in 1999, at 2 (visited Feb. 1, 2000)  
<<http://www.businesswire.com/webbox/bw.013100/200310630.htm>>.

- (a) What is the amount of the "provisional rate" the Postal Service is now paying Emery?
- (b) How does the provisional rate compare to the rate or rates paid in Fiscal Year 1998?
- (c) Is the provisional rate reflected in the Postal Service's Test Year estimate of Priority Mail costs?
- (d) To what extent does the Postal Service's estimate of Test Year 2001 costs for the Emery contract reflect any change or changes in rate under the contract from Fiscal Year 1998 to the rate expected to be paid in the test year?
- (e) Under the contract as currently in effect, what rate or rates will the Postal Service pay Emery in the test year?

INTERROGATORIES OF UNITED PARCEL SERVICE  
TO UNITED STATES POSTAL SERVICE WITNESS ROBINSON

UPS/USPS-T34-4. Please refer to page 2 of Attachment A, an analyst's report discussing the Postal Service's contract with Emery, which states that Emery "has recognized \$123.7 million in unbilled revenue to date" in relation to the Priority Mail contract. Attachment A, CNF Transportation Reports Third Consecutive Year of Record Earnings; Net Income Up 39 Percent in 1999, at 2 (visited Feb. 1, 2000) <<http://www.businesswire.com/webbox/bw.013100/200310630.htm>>. Is the Postal Service obligated to pay Emery this \$123.7 million in unbilled revenue? If so, when?

BW0630 JAN 31, 2000

15:31 PACIFIC

18:31 EASTERN

**(BW)(CA-CNF-TRANSPORTATION)(CNF) CNF Transportation Reports Third Consecutive Year of Record Earnings; Net Income Up 39 Percent in 1999**

Business Editors

PALO ALTO, Calif.--(BUSINESS WIRE)--Jan. 31, 2000--CNF Transportation reported today that 1999 revenues, operating income and net income for common shareholders were the best in the company's history. Net income was up 39 percent, operating income rose 24 percent and revenues grew 13 percent.

Net income for common shareholders was \$182.3 million, or \$3.78 per share (\$3.35 diluted) compared with earnings of \$130.8 million, or \$2.74 per share (\$2.45 diluted) in 1998. Common shareholder net income in 1999 included non-recurring gains totaling 37 cents per diluted share for the following: the sale of securities in the fourth quarter; the sale of the company's wholesale truck parts operation in the second quarter; and the settlement of a lawsuit in the first quarter. Excluding the non-recurring gains, earnings per diluted share for 1999 were a record at \$2.98, up 22 percent.

The company's revenue in 1999 was \$5.59 billion and operating income was \$359.1 million. The effective tax rate for the year was 43.5 percent.

In the fourth quarter, the company also reported record net income for common shareholders of \$53.1 million, or \$1.10 per share (97 cents diluted), up 63 percent from net income for common shareholders of \$32.6 million, or 68 cents per share (61 cents diluted) in the same quarter a year ago. Net income in the fourth quarter included a non-recurring gain of 9 cents per diluted share for the sale of the securities.

Revenues in the quarter totaled \$1.57 billion, up 14 percent from the fourth quarter of 1998, while operating income increased 31 percent to \$95.4 million.

"We finished 1999 with record earnings and excellent momentum for 2000 in each of our core businesses," said Gregory L. Quesnel, president and chief executive officer. "We were once again able to grow net income faster than revenues. Our successful financial results are due to the Con-Way group having another excellent, industry-leading performance; Emery Worldwide having four consecutive quarters of improvement including a very good fourth quarter; and Menlo Logistics in 1999 having its best year ever.

"The CNF group of companies benefited from a strong economy in North America and Europe and an improving economy in Asia," said Quesnel. "Demand for premium, supply chain management services is growing substantially and that provides stable prices. CNF is well positioned to benefit as more and more companies, and customers, recognize that management of supply chain services is not only desirable, but a crucial competitive advantage."

Concerning the company's postal contract operations, Quesnel said that, "The company continues to book break-even results for operations of our Priority Mail contract, which represents less than 10 percent of our total revenue. Negotiations continue on a daily basis to resolve our differences under the contract with the U.S. Postal Service."

Con-Way Transportation Services had record fourth quarter operating income of \$57.1 million, up 15 percent from the \$49.7 million earned in the same quarter a year ago excluding a non-recurring gain of \$2.1 million in the fourth quarter of 1998 for closure of a containerized freight operation. Con-Way, which operates less-than-truckload, truckload, logistics, warehouse and time-definite delivery services, had operating income in the fourth quarter of 1999 that also included approximately \$2 million in start-up costs for Con-Way Integrated Services, a new logistics and multi-client warehousing business.

For full-year 1999, Con-Way had operating income of \$228.8 million, up 11 percent from 1998.

Con-Way's fourth quarter 1999 revenues were \$490.6 million, up 15 percent from \$427.2 million in the same period a year ago. Revenue for the full year 1999 was a record \$1.88 billion, up 12 percent compared with 1998.

Total Con-Way regional carrier tonnage increased 8.5 percent in the fourth quarter from fourth quarter 1998 while LTL tonnage rose 8.2 percent. For the year, total tonnage increased 7.0 percent and LTL tonnage grew 7.1 percent.

Emery Worldwide reported fourth quarter operating income of \$32.0 million, more than doubling its operating income in the fourth quarter of 1998. For the full-year 1999, Emery had operating income of \$75.5 million, up 17 percent from 1998.

Revenues in the fourth quarter for Emery Worldwide increased 13 percent to \$675.8 million. For 1999, Emery revenues were \$2.41 billion, up 9 percent.

North American air freight revenue was essentially flat in the fourth quarter from the prior year's fourth quarter and international air freight revenue grew 26 percent. North American air freight tonnage decreased 6.6 percent in the quarter while international tonnage rose 21.6 percent. North American air freight yield increased 6.9 percent and international air freight yield increased 3.5 percent for the quarter.

For the full-year 1999, Emery's North American air freight revenue was down less than 1 percent and international air freight revenue increased 13 percent. North American air freight tonnage in 1999 decreased 5.7 percent while international tonnage grew 10.2 percent. North American air freight yield increased 5.3 percent and international air freight yield increased 2.4 percent in 1999.

Menlo Logistics' fourth quarter operating income was \$6.1 million, an increase of 20 percent from the same quarter a year ago. For the full-year 1999, Menlo's operating income was \$22.3 million, up 14 percent. Fourth quarter revenue for Menlo was a record \$195.2 million and full-year revenue for 1999 was \$716.0 million, up 22 percent.

CNF's "Other" operations had operating income of \$183,000 in the fourth quarter and income of \$32.5 million for full-year 1999. Full-year operating income in the "Other" segment includes the non-recurring gains for the sale of the company's wholesale truck parts operation, the settlement of the lawsuit, income from the operations of the Postal contract in the first and second quarters and income from the operations of Road Systems, a trailer manufacturing company.

The Priority Mail contract recorded break-even results in the fourth quarter on revenue of \$200.9 million, up 19 percent from the same quarter a year ago.

As previously announced, the company is in aggressive negotiations with the U.S. Postal Service to resolve pricing and operational issues involving the Priority Mail contract. While every attempt is being made to conclude the negotiations in a beneficial manner, the company will pursue litigation should negotiations fail.

Beginning in the third quarter of 1999, the company began being paid a provisional rate for its services that is below its cost of operating under the contract. Therefore, in accordance with generally accepted accounting principles, the company is recognizing unbilled revenues sufficient only to recover costs. No profit has been recognized since the second quarter of 1999. The company recognized \$63.6 million in unbilled revenue in the fourth quarter and has recognized \$123.7 million in unbilled revenue to date.

CNF Transportation (NYSE:CNF) is a \$5.6 billion management company of global supply chain services with businesses in regional trucking, air freight, ocean freight, customs brokerage, global logistics management and trailer manufacturing.

Certain statements in this news release, including statements regarding anticipated earnings, constitute "forward looking statements" and are subject to a number of risks and uncertainties, and should not be relied upon as predictions of future events. The factors discussed above and in Item 7 of the company's 1998 Annual Report on Form 10-K as well as other filings with the Securities and Exchange Commission, could cause actual results and other matters to differ materially from those in such forward looking statements. As a result, no assurance can be given as to future results of operations or financial condition.

CNF TRANSPORTATION INC.  
CONDENSED STATEMENTS OF CONSOLIDATED INCOME  
(Dollars in thousands except per share amounts)

Three Months Ended  
December 31,

	359,100	290,518
OTHER EXPENSE, NET	(21,978)	(40,107)
Income before income taxes	337,122	250,411
Income taxes	146,648	111,433
Net Income	190,474	138,978
Preferred stock dividends	8,218	8,169
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$ 182,256	\$ 130,809
Average Common Shares Outstanding		
Basic	48,189,618	47,659,745
Diluted (1)	56,019,317	55,514,318
EARNINGS PER COMMON SHARE		
Basic	\$ 3.78	\$ 2.74
Diluted (1)	\$ 3.35	\$ 2.45

(1) Includes the dilutive effect of stock options, Series B (TASP) preferred stock and Series A "TECONS" convertible preferred stock of subsidiary trust.

CNF TRANSPORTATION INC.  
CONDENSED BALANCE SHEETS  
(Dollars in thousands)

	Year Ended December 31,	
	1999	1998
ASSETS		
Current assets	\$1,200,233	\$1,100,361
Property, plant and equipment, net	1,131,034	984,476
Other assets	717,743	604,575
	=====	=====
Total Assets	\$3,049,010	\$2,689,412
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	\$1,049,154	\$ 900,630
Long-term debt and guarantees	433,446	467,635
Other long-term liabilities and deferred credits	473,462	419,792
Preferred stock - Subsidiary Trust	125,000	125,000
Shareholders' equity	967,948	776,355
Total Liabilities and Shareholders' Equity	\$3,049,010	\$2,689,412

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CONTACT: CNF Transportation  
J.R. Allen, 650/494-2900

KEYWORD: CALIFORNIA  
INDUSTRY KEYWORD: TRANSPORTATION EARNINGS

	1999	1998
REVENUES		
Con-Way Transportation Services	\$ 490,632	\$ 427,173
Emery Worldwide	675,825	598,939
Menlo Logistics	195,164	155,732
Other	205,838	187,616
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	\$ 1,567,459	\$ 1,369,460
OPERATING INCOME		
Con-Way Transportation Services	\$ 57,105	\$ 51,788
Emery Worldwide	31,987	12,974
Menlo Logistics	6,128	5,090
Other	183	2,815
	-----	-----
	95,403	72,667
OTHER INCOME (EXPENSE), NET		
	2,313	(10,093)
Income before income taxes		
	97,716	62,574
Income taxes		
	42,506	27,845
Net income		
	55,210	34,729
Preferred stock dividends		
	2,093	2,091
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS		
	\$ 53,117	\$ 32,638
Average Common Shares Outstanding		
Basic	48,362,275	47,815,891
Diluted (1)	55,941,613	55,430,553
EARNINGS PER COMMON SHARE		
Basic	\$ 1.10	\$ 0.68
Diluted (1)	\$ 0.97	\$ 0.61

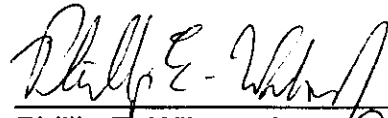
(1) Includes the dilutive effect of stock options, Series B (TASP) preferred stock and Series A "TECONS" convertible preferred stock of subsidiary trust.

CNF TRANSPORTATION INC.  
 CONDENSED STATEMENTS OF CONSOLIDATED INCOME  
 (Dollars in thousands except per share amounts)

	Year Ended December 31,	
	1999	1998
REVENUES		
Con-Way Transportation Services	\$ 1,878,216	\$ 1,683,991
Emery Worldwide	2,408,416	2,203,474
Menlo Logistics	716,008	586,835
Other	590,170	467,190
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	\$ 5,592,810	\$ 4,941,490
OPERATING INCOME (LOSS)		
Con-Way Transportation Services	\$ 228,820	\$ 206,945
Emery Worldwide	75,514	64,299
Menlo Logistics	22,255	19,459
Other	32,511	(185)
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CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document by first class mail, postage prepaid, in accordance with Section 12 of the Commission's Rules of Practice.



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Phillip E. Wilson, Jr.  
Attorney for United Parcel Service

Dated: February 14, 2000  
Philadelphia, Pa.