UNION PACIFIC CORP
Form 10-Q
October 21, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2011

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission File Number 1-6075

UNION PACIFIC CORPORATION

(Exact name of registrant as specified in its charter)

UTAH	**13-2626465**
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization) Identification No.)

1400 DOUGLAS STREET, OMAHA, NEBRASKA

(Address of principal executive offices)

68179

(Zip Code)

(402) 544-5000

(Registrant s telephone number, including area code)

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

þ Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

þ Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

¨ Yes þ No

As of October 14, 2011, there were 483,076,978 shares of the Registrant s Common Stock outstanding.

Table of Contents

TABLE OF CONTENTS

UNION PACIFIC CORPORATION

AND SUBSIDIARY COMPANIES

PART I. FINANCIAL INFORMATION

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

Condensed Consolidated Statements of Income (Unaudited)

Union Pacific Corporation and Subsidiary Companies

Millions, Except Per Share Amounts,

for the Three Months Ended September 30,		***2011***		*2010*
Operating revenues:				
Freight revenues	**$**	**4,836**	$	4,187
Other revenues		**265**		221
Total operating revenues		**5,101**		4,408
Operating expenses:				
Compensation and benefits		**1,193**		1,092
Fuel		**916**		608
Purchased services and materials		**506**		465
Depreciation		**408**		372
Equipment and other rents		**293**		292
Other		**207**		178
Total operating expenses		**3,523**		3,007
Operating income		**1,578**		1,401
Other income (Note 6)		**17**		25
Interest expense		**(142)**		(153)
Income before income taxes		**1,453**		1,273
Income taxes		**(549)**		(495)
Net income	**$**	**904**	$	778
Share and Per Share (Note 8):				
Earnings per share - basic	**$**	**1.87**	$	1.58
Earnings per share - diluted	**$**	**1.85**	$	1.56
Weighted average number of shares - basic		**484.2**		493.0
Weighted average number of shares - diluted		**488.1**		497.7
Dividends declared per share	**$**	**0.475**	$	0.33

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

Table of Contents

Condensed Consolidated Statements of Income (Unaudited)

Union Pacific Corporation and Subsidiary Companies

Millions, Except Per Share Amounts, for the Nine Months Ended September 30,	***2011***	*2010*
Operating revenues:		
Freight revenues	**$ 13,679**	$ 11,898
Other revenues	**770**	657
Total operating revenues	**14,449**	12,555
Operating expenses:		
Compensation and benefits	**3,526**	3,202
Fuel	**2,646**	1,799
Purchased services and materials	**1,497**	1,369
Depreciation	**1,204**	1,107
Equipment and other rents	**878**	864
Other	**591**	546
Total operating expenses	**10,342**	8,887
Operating income	**4,107**	3,668
Other income (Note 6)	**58**	45
Interest expense	**(431)**	(460)
Income before income taxes	**3,734**	3,253
Income taxes	**(1,406)**	(1,248)
Net income	**$ 2,328**	$ 2,005
Share and Per Share (Note 8):		
Earnings per share - basic	**$ 4.78**	$ 4.01
Earnings per share - diluted	**$ 4.74**	$ 3.98
Weighted average number of shares - basic	**487.4**	499.8
Weighted average number of shares - diluted	**491.5**	504.3
Dividends declared per share	**$ 1.33**	$ 0.93

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

Table of Contents

Condensed Consolidated Statements of Financial Position (Unaudited)

Union Pacific Corporation and Subsidiary Companies

Millions, Except Share and Per Share Amounts		***Sep. 30, 2011***		*Dec. 31, 2010*
Assets				
Current assets:				
Cash and cash equivalents	**$**	**1,647**	$	1,086
Accounts receivable, net (Note 10)		**1,424**		1,184
Materials and supplies		**607**		534
Current deferred income taxes (Note 7)		**305**		261
Other current assets		**231**		367
Total current assets		**4,214**		3,432
Investments		**1,171**		1,137
Net properties (Note 11)		**39,425**		38,253
Other assets		**256**		266
Total assets	**$**	**45,066**	$	43,088
Liabilities and Common Shareholders Equity				
Current liabilities:				
Accounts payable and other current liabilities (Note 12)	**$**	**3,082**	$	2,713
Debt due within one year (Note 14)		**642**		239
Total current liabilities		**3,724**		2,952
Debt due after one year (Note 14)		**8,765**		9,003
Deferred income taxes (Note 7)		**12,290**		11,557
Other long-term liabilities		**1,722**		1,813
Commitments and contingencies (Note 16)				
Total liabilities		**26,501**		25,325
Common shareholders equity:				
Common shares, $2.50 par value, 800,000,000 authorized; 554,276,375 and 553,931,181 issued; 483,366,930 and 491,565,880 outstanding, respectively		**1,386**		1,385
Paid-in-surplus		**4,020**		3,985
Retained earnings		**18,833**		17,154
Treasury stock		**(4,942)**		(4,027)
Accumulated other comprehensive loss (Note 9)		**(732)**		(734)
Total common shareholders equity		**18,565**		17,763

Total liabilities and common shareholders equity	**$**	**45,066**	$	43,088

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

Table of Contents

Condensed Consolidated Statements of Cash Flows (Unaudited)

Union Pacific Corporation and Subsidiary Companies

Millions, for the Nine Months Ended September 30,		***2011***		*2010*
Operating Activities				
Net income	**$**	**2,328**	$	2,005
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation		**1,204**		1,107
Deferred income taxes and unrecognized tax benefits		**721**		433
Net gain on non-operating asset dispositions		**(11)**		(12)
Other operating activities, net		**(100)**		(165)
Changes in current assets and liabilities:				
Accounts receivable, net (Note 10)		**(240)**		(631)
Materials and supplies		**(73)**		(29)
Other current assets		**136**		(44)
Accounts payable and other current liabilities		**369**		56
Cash provided by operating activities		**4,334**		2,720
Investing Activities				
Capital investments		**(2,218)**		(1,686)
Proceeds from asset sales		**51**		45
Acquisition of equipment pending financing		**(85)**		-
Proceeds from sale of assets financed		**85**		-
Other investing activities, net		**(74)**		(32)
Cash used in investing activities		**(2,241)**		(1,673)
Financing Activities				
Common share repurchases (Note 17)		**(1,036)**		(1,019)
Dividends paid		**(607)**		(438)
Debt issued (Note 14)		**486**		894
Debt exchange		**(272)**		(98)
Debt repaid		**(188)**		(933)
Other financing activities, net		**85**		55
Cash used in financing activities		**(1,532)**		(1,539)
Net change in cash and cash equivalents		**561**		(492)
Cash and cash equivalents at beginning of year		**1,086**		1,850
Cash and cash equivalents at end of period	**$**	**1,647**	$	1,358
Supplemental Cash Flow Information				
Non-cash investing and financing activities:				
Cash dividends declared but not yet paid	**$**	**225**	$	159
Capital lease financings		**154**		-
Capital investments accrued but not yet paid		**116**		66
Common shares repurchased but not yet paid		**-**		6
Cash paid for:				
Interest, net of amounts capitalized	**$**	**(495)**	$	(528)
Income taxes, net of refunds		**(274)**		(796)

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

Table of Contents

Condensed Consolidated Statements of Changes in Common Shareholders Equity (Unaudited)

Union Pacific Corporation and Subsidiary Companies

Millions	*Common Shares*	*Treasury Shares*	*Common Shares*	*Paid-in-Surplus*	*Retained Earnings*	*Treasury Stock*	*AOCI [a]*	*Total*
Balance at January 1, 2010	553.5	(48.5)	$ 1,384	$ 3,968	$ 15,027	$ (2,924)	$ (654)	$ 16,801
Comprehensive income:								
Net income			-	-	2,005	-	-	2,005
Other comp. income			-	-	-	-	5	5
Total comp. income (Note 9)								2,010
Conversion, stock option exercises, forfeitures, and other	0.4	1.8	1	16	-	99	-	116
Share repurchases (Note 17)	-	(14.1)	-	-	-	(1,025)	-	(1,025)
Cash dividends declared ($0.93 per share)	-	-	-	-	(466)	-	-	(466)
Balance at September 30, 2010	553.9	(60.8)	$ 1,385	$ 3,984	$ 16,566	$ (3,850)	$ (649)	$ 17,436
Balance at January 1, 2011	553.9	(62.3)	$ 1,385	$ 3,985	$ 17,154	$ (4,027)	$ (734)	$ 17,763
Comprehensive income:								
Net income			-	-	2,328	-	-	2,328
Other comp. income			-	-	-	-	2	2
Total comp. income (Note 9)								2,330
Conversion, stock option exercises, forfeitures, and other	0.4	2.3	1	35	-	121	-	157
Share repurchases (Note 17)	-	(10.9)	-	-	-	(1,036)	-	(1,036)
Cash dividends declared ($1.33 per share)	-	-	-	-	(649)	-	-	(649)
Balance at September 30, 2011	**554.3**	**(70.9)**	**$ 1,386**	**$ 4,020**	**$ 18,833**	**$ (4,942)**	**$ (732)**	**$ 18,565**

[a] AOCI = Accumulated Other Comprehensive Income/(Loss) (See Note 9)
The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For purposes of this report, unless the context otherwise requires, all references herein to the Corporation , UPC , we , us , and our mean U Pacific Corporation and its subsidiaries, including Union Pacific Railroad Company, which will be separately referred to herein as UPRR or the Railroad .

1. Basis of Presentation

Our Condensed Consolidated Financial Statements are unaudited and reflect all adjustments (consisting of normal and recurring adjustments) that are, in the opinion of management, necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Our Consolidated Statement of Financial Position at December 31, 2010, is derived from audited financial statements. This Quarterly Report on Form 10-Q should be read in conjunction with our Consolidated Financial Statements and notes thereto contained in our 2010 Annual Report on Form 10-K. The results of operations for the nine months ended September 30, 2011, are not necessarily indicative of the results for the entire year ending December 31, 2011.

The Condensed Consolidated Financial Statements are presented in accordance with GAAP as codified in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

2. Accounting Pronouncements

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (ASU 2011-05). ASU 2011-05 will require companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. The standard does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. This standard is effective for interim and annual periods beginning after December 15, 2011. Because this ASU impacts presentation only, it will have no effect on our financial condition, results of operations or cash flows.

3. Operations and Segmentation

The Railroad, along with its subsidiaries and rail affiliates, is our one reportable operating segment. Although revenue is analyzed by commodity group, we analyze the net financial results of the Railroad as one segment due to the integrated nature of our rail network. The following table provides freight revenue by commodity group:

	Three Months Ended September 30,		*Nine Months Ended September 30,*	
Millions	***2011***	*2010*	***2011***	*2010*
Agricultural	**$ 814**	$ 750	**$ 2,470**	$ 2,178
Automotive	**379**	309	**1,102**	948
Chemicals	**720**	629	**2,087**	1,808
Energy	**1,112**	922	**3,014**	2,602
Industrial Products	**863**	697	**2,356**	1,987
Intermodal	**948**	880	**2,650**	2,375
Total freight revenues	**4,836**	4,187	**13,679**	11,898
Other revenues	**265**	221	**770**	657
Total operating revenues	**$ 5,101**	$ 4,408	**$ 14,449**	$ 12,555

Although our revenues are principally derived from customers domiciled in the U.S., the ultimate points of origination or destination for some products transported are outside the U.S.

Table of Contents

4. Stock-Based Compensation

We have several stock-based compensation plans under which employees and non-employee directors receive stock options, nonvested retention shares, and nonvested stock units. We refer to the nonvested shares and stock units collectively as retention awards . We have elected to issue treasury shares to cover option exercises and stock unit vestings, while new shares are issued when retention shares are granted. Information regarding stock-based compensation appears in the table below:

Millions	*Three Months Ended September 30,* ***2011***	*2010*	*Nine Months Ended September 30,* ***2011***	*2010*
Stock-based compensation, before tax:				
Stock options	**$ 5**	$ 5	**$ 14**	$ 14
Retention awards	**17**	15	**51**	44
Total stock-based compensation, before tax	**$ 22**	$ 20	**$ 65**	$ 58
Excess tax benefits from equity compensation plans	**$ 4**	$ 14	**$ 71**	$ 25

Stock Options We estimate the fair value of our stock option awards using the Black-Scholes option pricing model. The table below shows the year-to-date weighted-average assumptions used for valuation purposes:

Weighted-Average Assumptions	***2011***	*2010*
Risk-free interest rate	**2.3%**	2.4%
Dividend yield	**1.6%**	1.8%
Expected life (years)	**5.3**	5.4
Volatility	**35.9%**	35.2%
Weighted-average grant-date fair value of options granted	**$ 28.45**	$ 18.26

The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant; the dividend yield is calculated as the ratio of dividends paid per share of common stock to the stock price on the date of grant; the expected life is based on historical and expected exercise behavior; and volatility is based on the historical volatility of our stock price over the expected life of the option.

A summary of stock option activity during the nine months ended September 30, 2011 is presented below:

	Shares (thous.)	*Weighted-Average Exercise Price*	*Weighted-Average Remaining Contractual Term*	*Aggregate Intrinsic Value (millions)*
Outstanding at January 1, 2011	9,815	$ 44.77	5.2 yrs.	$ 470
Granted	618	93.60	N/A	N/A
Exercised	(2,842)	38.29	N/A	N/A
Forfeited or expired	(51)	61.00	N/A	N/A
Outstanding at September 30, 2011	7,540	$ 51.10	5.5 yrs.	$ 238

Vested or expected to vest at September 30, 2011	7,451	$	50.90	5.4 yrs.	$	236
Options exercisable at September 30, 2011	5,897	$	46.22	4.6 yrs.	$	209

Stock options are granted at the closing price on the date of grant, have ten-year contractual terms, and vest no later than three years from the date of grant. None of the stock options outstanding at September 30, 2011 are subject to performance or market-based vesting conditions.

Table of Contents

At September 30, 2011, there was $20 million of unrecognized compensation expense related to nonvested stock options, which is expected to be recognized over a weighted-average period of 1.0 years. Additional information regarding stock option exercises appears in the table below:

	Three Months Ended September 30,		*Nine Months Ended September 30,*	
Millions	***2011***	*2010*	***2011***	*2010*
Intrinsic value of stock options exercised	**$ 11**	$ 45	**$ 176**	$ 71
Cash received from option exercises	**8**	40	**114**	74
Treasury shares repurchased for employee payroll taxes	**(3)**	(11)	**(44)**	(19)
Tax benefit realized from option exercises	**4**	17	**67**	27
Aggregate grant-date fair value of stock options vested	**-**	-	**19**	19

Retention Awards The fair value of retention awards is based on the closing price of the stock on the grant date. Dividends and dividend equivalents are paid to participants during the vesting periods.

Changes in our retention awards during the nine months ended September 30, 2011 were as follows:

	Shares (thous.)	*Weighted-Average Grant-Date Fair Value*
Nonvested at January 1, 2011	2,638	$ 54.01
Granted	528	93.68
Vested	(529)	48.63
Forfeited	(73)	57.72
Nonvested at September 30, 2011	2,564	$ 63.18

Retention awards are granted at no cost to the employee or non-employee director and vest over periods lasting up to four years. At September 30, 2011, there was $79 million of total unrecognized compensation expense related to nonvested retention awards, which is expected to be recognized over a weighted-average period of 1.8 years.

Performance Retention Awards In February 2011, our Board of Directors approved performance stock unit grants. Other than different performance targets, the basic terms of these performance stock units are identical to those granted in February 2009 and February 2010, including using annual return on invested capital (ROIC) as the performance measure. We define ROIC as net operating profit adjusted for interest expense (including interest on the present value of operating leases) and taxes on interest divided by average invested capital adjusted for the present value of operating leases.

Stock units awarded to selected employees under these grants are subject to continued employment for 37 months and the attainment of certain levels of ROIC. We expense the fair value of the units that are probable of being earned based on our forecasted ROIC over the 3-year performance period. We measure the fair value of these performance stock units based upon the closing price of the underlying common stock as of the date of grant, reduced by the present value of estimated future dividends. Dividend equivalents are paid to participants only after the units are earned.

The assumptions used to calculate the present value of estimated future dividends related to the February 2011 grant were as follows:

	2011
Dividend per share for the quarter	$ 0.38
Risk-free interest rate at date of grant	1.2%

Table of Contents

Changes in our performance retention awards during the nine months ended September 30, 2011 were as follows:

	Shares (thous.)	*Weighted-Average Grant-Date Fair Value*
Nonvested at January 1, 2011	1,151	$ 53.93
Granted	376	89.87
Vested	(195)	60.16
Forfeited	(128)	58.89
Nonvested at September 30, 2011	1,204	$ 63.62

At September 30, 2011, there was $38 million of total unrecognized compensation expense related to nonvested performance retention awards, which is expected to be recognized over a weighted-average period of 1.3 years. A portion of this expense is subject to achievement of the ROIC levels established for the performance stock unit grants.

5. Retirement Plans

Pension and Other Postretirement Benefits

Pension Plans We provide defined benefit retirement income to eligible non-union employees through qualified and non-qualified (supplemental) pension plans. Qualified and non-qualified pension benefits are based on years of service and the highest compensation during the latest years of employment, with specific reductions made for early retirements.

Other Postretirement Benefits (OPEB) We provide medical and life insurance benefits for eligible retirees. These benefits are funded as medical claims and life insurance premiums are paid.

Expense

Both pension and OPEB expense are determined based upon the annual service cost of benefits (the actuarial cost of benefits earned during a period) and the interest cost on those liabilities, less the expected return on plan assets. The expected long-term rate of return on plan assets is applied to a calculated value of plan assets that recognizes changes in fair value over a five-year period. This practice is intended to reduce year-to-year volatility in pension expense, but it can have the effect of delaying the recognition of differences between actual returns on assets and expected returns based on long-term rate of return assumptions. Differences in actual experience in relation to assumptions are not recognized in net income immediately, but are deferred and, if necessary, amortized as pension or OPEB expense.

The components of our net periodic pension cost were as follows:

	Three Months Ended September 30,		*Nine Months Ended September 30,*	
Millions	***2011***	*2010*	***2011***	*2010*
Service cost	**$ 11**	$ 6	**$ 33**	$ 28
Interest cost	**35**	37	**107**	107
Expected return on plan assets	**(45)**	(45)	**(135)**	(134)
Amortization of:				
Prior service cost	**1**	1	**2**	3
Actuarial loss	**17**	14	**52**	35
	$ 19	$ 13	**$ 59**	$ 39

Net periodic pension cost

11

Table of Contents

The components of our net periodic OPEB benefit were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Millions	***2011***	*2010*	***2011***	*2010*
Service cost	**$ 1**	$ -	**$ 2**	$ 1
Interest cost	**4**	5	**12**	13
Amortization of:				
Prior service (credit)	**(9)**	(11)	**(27)**	(33)
Actuarial loss	**3**	3	**10**	10
Net periodic OPEB benefit	**$ (1)**	$ (3)	**$ (3)**	$ (9)

Cash Contributions

For the nine months ended September 30, 2011, we made $100 million of cash contributions to the qualified pension plan. Any additional contributions in the fourth quarter will be based on cash generated from operations and financial market considerations. All contributions made to the qualified pension plan during the nine months ended September 30, 2011 were voluntary and were made with cash generated from operations. Our policy with respect to funding the qualified plans is to fund at least the minimum required by law and not more than the maximum amount deductible for tax purposes. At September 30, 2011, we do not have minimum funding requirements for 2011.

6. Other Income

Other income included the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Millions	***2011***	*2010*	***2011***	*2010*
Rental income	**$ 20**	$ 20	**$ 59**	$ 61
Net gain on non-operating asset dispositions	**6**	4	**11**	12
Interest income	**-**	1	**2**	3
Early extinguishment of debt	**-**	-	**-**	(16)
Non-operating environmental costs and other	**(9)**	-	**(14)**	(15)
Total	**$ 17**	$ 25	**$ 58**	$ 45

7. Income Taxes

Internal Revenue Service (IRS) examinations have been completed and settled for all years prior to 1999, and the statute of limitations bars any additional tax assessments. Interest calculations may remain open for years prior to 1999. In the second quarter of 2011, the IRS completed its examination and issued a notice of deficiency for tax years 2007 and 2008. The IRS has now completed its examinations and issued notices of deficiency for tax years 1999 through 2008. We disagree with many of their proposed adjustments, and we are at IRS Appeals for these years. Additionally, several state tax authorities are examining our state income tax returns for years 2003 through 2008.

In the second quarter of 2011, based on the IRS examination report for tax years 2007 and 2008, we increased our liability for uncertain tax benefits from $86 million at December 31, 2010 to $149 million at June 30, 2011. Most of this increase was a reclassification from our deferred income tax liability.

In the third quarter of 2011, we reached an agreement in principle with the IRS to resolve all of the issues related to tax years 1999 through 2004, except for calculations of interest. We anticipate signing a closing agreement with the IRS within the next 12 months. Once formalized, this agreement should result in an immaterial reduction of income tax expense. Based on this agreement in principle, we made a $45 million payment to partially cover the tax and interest due for these years. This payment, net of additional accruals for other tax years, reduced our liability for uncertain tax positions to $119 million at September 30, 2011. Of the $119 million, we classified $33 million as current. The majority of this amount relates to the anticipated resolution of tax years 1999 2004.

Table of Contents

In February 2011, Arizona enacted legislation that will decrease the state s corporate tax rate. This reduced our deferred tax expense by $14 million in the first quarter of 2011.

8. Earnings Per Share

The following table provides a reconciliation between basic and diluted earnings per share:

Millions, Except Per Share Amounts	*Three Months Ended September 30,* **2011**	*2010*	*Nine Months Ended September 30,* **2011**	*2010*
Net income	**$ 904**	$ 778	**$ 2,328**	$ 2,005
Weighted-average number of shares outstanding:				
Basic	**484.2**	493.0	**487.4**	499.8
Dilutive effect of stock options	**2.3**	3.3	**2.7**	3.2
Dilutive effect of retention shares and units	**1.6**	1.4	**1.4**	1.3
Diluted	**488.1**	497.7	**491.5**	504.3
Earnings per share basic	**$ 1.87**	$ 1.58	**$ 4.78**	$ 4.01
Earnings per share diluted	**$ 1.85**	$ 1.56	**$ 4.74**	$ 3.98
Stock options excluded as their inclusion would be antidilutive	**0.6**	-	**0.5**	0.4

9. Comprehensive Income

Comprehensive income was as follows:

Millions	*Three Months Ended September 30,* **2011**	*2010*	*Nine Months Ended September 30,* **2011**	*2010*
Net income	**$ 904**	$ 778	**$ 2,328**	$ 2,005
Other comprehensive income/(loss):				
Defined benefit plans	**(1)**	-	**-**	4
Foreign currency translation	**(12)**	(1)	**2**	-
Derivatives	**-**	-	**-**	1
Total other comprehensive income/(loss) [a]	**(13)**	(1)	**2**	5
Total comprehensive income	**$ 891**	$ 777	**$ 2,330**	$ 2,010

[a] Net of deferred taxes of $(7) million and $2 million during the three and nine months ended September 30, 2011, respectively, and $(1) million and $0 million during the three and nine months ended September 30, 2010, respectively.

The after-tax components of accumulated other comprehensive loss were as follows:

Millions		***Sep. 30, 2011***		*Dec. 31, 2010*
Defined benefit plans	**$**	**(703)**	$	(703)
Foreign currency translation		**(26)**		(28)
Derivatives		**(3)**		(3)
Total	**$**	**(732)**	$	(734)

10. Accounts Receivable

Accounts receivable includes freight and other receivables reduced by an allowance for doubtful accounts. The allowance is based upon historical losses, credit worthiness of customers, and current economic conditions. At both September 30, 2011 and December 31, 2010, our accounts receivable were reduced by $5 million. Receivables not expected to be collected in one year and the associated

Table of Contents

allowances are classified as other assets in our Condensed Consolidated Statements of Financial Position. At September 30, 2011 and December 31, 2010, receivables classified as other assets were reduced by allowances of $42 million and $51 million, respectively.

Receivables Securitization Facility Under the receivables securitization facility, the Railroad sells most of its accounts receivable to Union Pacific Receivables, Inc. (UPRI), a bankruptcy-remote subsidiary. UPRI may subsequently transfer, without recourse on a 364-day revolving basis, an undivided interest in eligible accounts receivable to investors. The total capacity to transfer undivided interests to investors under the facility was $600 million at September 30, 2011 and December 31, 2010. The value of the outstanding undivided interest held by investors under the facility was $100 million at September 30, 2011 and December 31, 2010, and is included in our Condensed Consolidated Statements of Financial Position as debt due after one year. The value of the undivided interest held by investors was supported by $1.2 billion and $960 million of accounts receivable at September 30, 2011, and December 31, 2010, respectively. At September 30, 2011, and December 31, 2010, the value of the interest retained by UPRI was $1.2 billion and $960 million, respectively. This retained interest is included in accounts receivable, net in our Condensed Consolidated Statements of Financial Position.

The value of the outstanding undivided interest held by investors could fluctuate based upon the availability of eligible receivables and is directly affected by changing business volumes and credit risks, including default and dilution. If default or dilution ratios increase one percent, the value of the outstanding undivided interest held by investors would not change as of September 30, 2011. Should our credit rating fall below investment grade, the value of the outstanding undivided interest held by investors would be reduced, and, in certain cases, the investors would have the right to discontinue the facility.

The Railroad collected approximately $4.9 billion and $4.3 billion during the three months ended September 30, 2011 and 2010, respectively, and $13.8 billion and $12.0 billion during the nine months ended September 30, 2011 and 2010, respectively. UPRI used certain of these proceeds to purchase new receivables under the facility.

The costs of the receivables securitization facility include interest, which will vary based on prevailing commercial paper rates, program fees paid to banks, commercial paper issuing costs, and fees for unused commitment availability. The costs of the receivables securitization facility are included in interest expense and were $1 million and $2 million for the three months ended September 30, 2011 and 2010, and $3 million and $5 million for the nine months ended September 30, 2011, and 2010, respectively.

The investors have no recourse to the Railroad s other assets except for customary warranty and indemnity claims. Creditors of the Railroad do not have recourse to the assets of UPRI.

In August 2011, the receivables securitization facility was renewed for an additional 364-day period at comparable terms and conditions.

Table of Contents

11. Properties

The following tables list the major categories of property and equipment, as well as the weighted-average composite depreciation rate for each category:

Millions, Except Percentages

As of September 30, 2011	*Cost*	*Accumulated Depreciation*	*Net Book Value*	*Depreciation Rate for 2011*
Land	$ 5,008	$ N/A	$ 5,008	N/A
Road:				
Rail and other track material [a]	12,332	4,552	7,780	3.3%
Ties	7,903	1,991	5,912	2.9%
Ballast	4,135	988	3,147	3.0%
Other [b]	13,846	2,499	11,347	2.6%
Total road	38,216	10,030	28,186	2.9%
Equipment:				
Locomotives	6,433	2,905	3,528	5.7%
Freight cars	1,918	1,048	870	3.5%
Work equipment and other	516	49	467	5.8%
Total equipment	8,867	4,002	4,865	5.2%
Technology and other	563	253	310	12.8%
Construction in progress	1,056	-	1,056	N/A
Total	$ 53,710	$ 14,285	$ 39,425	N/A

Millions, Except Percentages

As of December 31, 2010	*Cost*	*Accumulated Depreciation*	*Net Book Value*	*Depreciation Rate for 2010*
Land	$ 4,984	$ N/A	$ 4,984	N/A
Road:				
Rail and other track material [a]	11,992	4,458	7,534	3.1%
Ties	7,631	1,858	5,773	2.8%
Ballast	4,011	944	3,067	3.0%
Other [b]	13,634	2,376	11,258	2.5%
	37,268	9,636	27,632	2.8%

Total road				
Equipment:				
Locomotives	6,136	2,699	3,437	5.6%
Freight cars	1,886	1,040	846	3.6%
Work equipment and other	305	39	266	4.0%
Total equipment	8,327	3,778	4,549	5.1%
Technology and other	565	241	324	13.2%
Construction in progress	764	-	764	N/A
Total	$ 51,908	$ 13,655	$ 38,253	N/A

[a] Includes a weighted-average composite depreciation rate for rail in high-density traffic corridors.

[b] Other includes grading, bridges and tunnels, signals, buildings, and other road assets.

Table of Contents

12. Accounts Payable and Other Current Liabilities

Millions	***Sep. 30, 2011***	*Dec. 31, 2010*
Accounts payable	**$ 793**	$ 677
Income and other taxes	**567**	337
Accrued wages and vacation	**363**	357
Dividends and interest	**358**	383
Accrued casualty costs	**307**	325
Equipment rents payable	**93**	86
Other	**601**	548
Total accounts payable and other current liabilities	**$ 3,082**	$ 2,713

13. Financial Instruments

Strategy and Risk We may use derivative financial instruments in limited instances for other than trading purposes to assist in managing our overall exposure to fluctuations in interest rates and fuel prices. We are not a party to leveraged derivatives and, by policy, do not use derivative financial instruments for speculative purposes. Derivative financial instruments qualifying for hedge accounting must maintain a specified level of effectiveness between the hedging instrument and the item being hedged, both at inception and throughout the hedged period. We formally document the nature and relationships between the hedging instruments and hedged items at inception, as well as our risk-management objectives, strategies for undertaking the various hedge transactions, and method of assessing hedge effectiveness. Changes in the fair market value of derivative financial instruments that do not qualify for hedge accounting are charged to earnings. We may use swaps, collars, futures, and/or forward contracts to mitigate the risk of adverse movements in interest rates and fuel prices; however, the use of these derivative financial instruments may limit future benefits from favorable price movements.

Determination of Fair Value We determine the fair values of our derivative financial instrument positions based upon current fair values as quoted by recognized dealers or the present value of expected future cash flows.

Interest Rate Cash Flow Hedges We report changes in the fair value of cash flow hedges in accumulated other comprehensive loss until the hedged item affects earnings. At September 30, 2011 and December 31, 2010, we had reductions of $2 million and $3 million, respectively, recorded as an accumulated other comprehensive loss that is being amortized on a straight-line basis through September 30, 2014. As of September 30, 2011 and December 31, 2010, we had no interest rate cash flow hedges outstanding.

Earnings Impact Our use of derivative financial instruments had the following impact on pre-tax income for the nine months ended September 30:

Millions	***2011***	*2010*
Decrease in interest expense from interest rate hedging	**$ -**	$ 2
Increase in pre-tax income	**$ -**	$ 2

Fair Value of Financial Instruments The fair value of our short- and long-term debt was estimated using quoted market prices, where available, or current borrowing rates. At September 30, 2011, the fair value of total debt was $11 billion, approximately $1.6 billion more than the carrying value. At December 31, 2010, the fair value of total debt was $10.4 billion, approximately $1.2 billion more than the carrying value. At September 30, 2011 and December 31, 2010, approximately $303 million of fixed-rate debt securities contained call provisions that allow us to retire the debt instruments prior to final maturity, with the payment of fixed call premiums, or in certain cases, at par. The fair value of our cash equivalents approximates their carrying value due to the short-term maturities of these instruments.

16

Table of Contents

14. Debt

Credit Facilities During the second quarter of 2011, we replaced our $1.9 billion revolving credit facility, which would have expired in April 2012, with a new $1.8 billion facility that expires in May 2015 (the facility). The facility is based on substantially similar terms as those in the previous credit facility. On September 30, 2011, we had $1.8 billion of credit available under the facility, which is designated for general corporate purposes and supports the issuance of commercial paper. We did not draw on either facility during the nine months ended September 30, 2011. Commitment fees and interest rates payable under the facility are similar to fees and rates available to comparably rated, investment-grade borrowers. The facility allows for borrowings at floating rates based on London Interbank Offered Rates, plus a spread, depending upon our senior unsecured debt ratings. The facility requires Union Pacific Corporation to maintain a debt-to-net-worth coverage ratio as a condition to making a borrowing. At September 30, 2011, and December 31, 2010 (and at all times during the year), we were in compliance with this covenant.

The definition of debt used for purposes of calculating the debt-to-net-worth coverage ratio includes, among other things, certain credit arrangements, capital leases, guarantees and unfunded and vested pension benefits under Title IV of ERISA. At September 30, 2011, the debt-to-net-worth coverage ratio allowed us to carry up to $37.1 billion of debt (as defined in the facility), and we had $9.8 billion of debt (as defined in the facility) outstanding at that date. Under our current capital plans, we expect to continue to satisfy the debt-to-net-worth coverage ratio; however, many factors beyond our reasonable control could affect our ability to comply with this provision in the future. The facility does not include any other financial restrictions, credit rating triggers (other than rating-dependent pricing), or any other provision that could require us to post collateral. The facility also includes a $75 million cross-default provision and a change-of-control provision.

During the nine months ended September 30, 2011, we did not issue or repay any commercial paper, and at September 30, 2011, we had no commercial paper outstanding. Outstanding commercial paper balances are supported by our revolving credit facility but do not reduce the amount of borrowings available under the facility.

Shelf Registration Statement and Significant New Borrowings Under our current shelf registration, we may issue, from time to time, any combination of debt securities, preferred stock, common stock, or warrants for debt securities or preferred stock in one or more offerings. We have no immediate plans to issue equity securities; however, we will continue to explore opportunities to replace existing debt or access capital through issuances of debt securities under our shelf registration, and, therefore, we may issue additional debt securities at any time.

On August 9, 2011, we issued a total of $500 million of 4.75% unsecured fixed-rate notes under our shelf registration statement. The notes will mature on September 15, 2041; proceeds from this offering are for general corporate purposes, including the repurchase of common stock pursuant to our share repurchase program.

During the third quarter, we renegotiated and extended for three years on substantially similar terms a $100 million floating-rate term loan, which will mature on August 5, 2016.

As of both September 30, 2011, and December 31, 2010, we reclassified as long-term debt approximately $100 million of debt due within one year that we intend to refinance. This reclassification reflects our ability and intent to refinance any short-term borrowings and certain current maturities of long-term debt on a long-term basis.

Debt Exchange On June 23, 2011, we exchanged $857 million of various outstanding notes and debentures due between 2013 and 2019 (Existing Notes) for $750 million of 4.163% notes (New Notes) due July 15, 2022, plus cash consideration of approximately $267 million and $17 million for accrued and unpaid interest on the Existing Notes. The cash consideration was recorded as an adjustment to the carrying value of debt, and the balance of the unamortized discount and issue costs from the Existing Notes is being amortized as an adjustment of interest expense over the term of the New Notes. No gain or loss was recognized as a result of the exchange. Costs related to the debt exchange that were payable to parties other than the debt holders totaled approximately $6 million and were included in interest expense during the nine months ended September 30, 2011.

Table of Contents

The following table lists the outstanding notes and debentures that were exchanged:

Millions	*Principal amount exchanged*
7.875% Notes due 2019	$ 196
5.450% Notes due 2013	50
5.125% Notes due 2014	45
5.375% Notes due 2014	55
5.700% Notes due 2018	277
5.750% Notes due 2017	178
7.000% Debentures due 2016	38
5.650% Notes due 2017	18
Total	$ 857

Debt Redemption On March 22, 2010, we redeemed $175 million of our 6.5% notes due April 15, 2012. The redemption resulted in an early extinguishment charge of $16 million in the first quarter of 2010.

15. Variable Interest Entities

We have entered into various lease transactions in which the structure of the leases contain variable interest entities (VIEs). These VIEs were created solely for the purpose of doing lease transactions (principally involving railroad equipment and facilities) and have no other activities, assets or liabilities outside of the lease transactions. Within these lease arrangements, we have the right to purchase some or all of the assets at fixed prices. Depending on market conditions, fixed-price purchase options available in the leases could potentially provide benefits to us; however, these benefits are not expected to be significant.

We maintain and operate the assets based on contractual obligations within the lease arrangements, which set specific guidelines consistent within the railroad industry. As such, we have no control over activities that could materially impact the fair value of the leased assets. We do not hold the power to direct the activities of the VIEs and, therefore, do not control the ongoing activities that have a significant impact on the economic performance of the VIEs. Additionally, we do not have the obligation to absorb losses of the VIEs or the right to receive benefits of the VIEs that could potentially be significant to the VIEs.

We are not considered to be the primary beneficiary and do not consolidate these VIEs because our actions and decisions do not have the most significant effect on the VIE s performance and our fixed-price purchase price options are not considered to be potentially significant to the VIE s. The future minimum lease payments associated with the VIE leases totaled $4.0 billion as of September 30, 2011.

16. Commitments and Contingencies

Asserted and Unasserted Claims Various claims and lawsuits are pending against us and certain of our subsidiaries. We cannot fully determine the effect of all asserted and unasserted claims on our consolidated results of operations, financial condition, or liquidity; however, to the extent possible, where asserted and unasserted claims are considered probable and where such claims can be reasonably estimated, we have recorded a liability. We do not expect that any known lawsuits, claims, environmental costs, commitments, contingent liabilities, or guarantees will have a material adverse effect on our consolidated results of operations, financial condition, or liquidity after taking into account liabilities and insurance recoveries previously recorded for these matters.

Table of Contents

Personal Injury The cost of personal injuries to employees and others related to our activities is charged to expense based on estimates of the ultimate cost and number of incidents each year. We use an actuarial analysis to measure the expense and liability, including unasserted claims. The Federal Employers Liability Act (FELA) governs compensation for work-related accidents. Under FELA, damages are assessed based on a finding of fault through litigation or out-of-court settlements. We offer a comprehensive variety of services and rehabilitation programs for employees who are injured at work.

Our personal injury liability is discounted to present value using applicable U.S. Treasury rates. Approximately 88% of the recorded liability is related to asserted claims, and approximately 12% is related to unasserted claims at September 30, 2011. Estimates can vary over time due to evolving trends in litigation.

Our personal injury liability activity was as follows:

Millions, *for the Nine Months Ended September 30,*	***2011***	*2010*
Beginning balance	**$ 426**	$ 545
Current year accruals	**99**	125
Changes in estimates for prior years	**(51)**	(69)
Payments	**(83)**	(141)
Ending balance at September 30	**$ 391**	$ 460