

UNION PACIFIC CORP
Form 10-Q
October 17, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

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)

Edgar Filing: UNION PACIFIC CORP - Form 10-Q

UTAH
(State or other jurisdiction of
incorporation or organization)

13-2626465
(I.R.S. Employer
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.

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).

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 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 No

As of October 11, 2013, there were 460,568,638 shares of the Registrant's Common Stock outstanding.

Table of Contents

TABLE OF CONTENTS

UNION PACIFIC CORPORATION

AND SUBSIDIARY COMPANIES

PART I. FINANCIAL INFORMATION

Item 1.	Condensed Consolidated Financial Statements:	
	<u>CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)</u>	
	<u>For the Three Months Ended September 30, 2013 and 2012</u>	3
	<u>CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)</u>	
	<u>For the Three Months Ended September 30, 2013 and 2012</u>	3
	<u>CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)</u>	
	<u>For the Nine Months Ended September 30, 2013 and 2012</u>	4
	<u>CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)</u>	
	<u>For the Nine Months Ended September 30, 2013 and 2012</u>	4
	<u>CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Unaudited)</u>	
	<u>At September 30, 2013 and December 31, 2012</u>	5
	<u>CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)</u>	
	<u>For the Nine Months Ended September 30, 2013 and 2012</u>	6
	<u>CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON</u>	
	<u>SHAREHOLDERS' EQUITY (Unaudited)</u>	
	<u>For the Nine Months Ended September 30, 2013 and 2012</u>	7
	<u>NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)</u>	8
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	35
Item 4.	<u>Controls and Procedures</u>	36

PART II. OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	36
Item 1A.	<u>Risk Factors</u>	38
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	38
Item 3.	<u>Defaults Upon Senior Securities</u>	39
Item 4.	<u>Mine Safety Disclosures</u>	39
Item 5.	<u>Other Information</u>	39
Item 6.	<u>Exhibits</u>	40
	<u>Signatures</u>	41
	Certifications	

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,*

<i>for the Three Months Ended September 30,</i>	2013	2012
Operating revenues:		
Freight revenues	\$ 5,250	\$ 5,019
Other revenues	323	324
Total operating revenues	5,573	5,343
Operating expenses:		
Compensation and benefits	1,196	1,188
Fuel	866	880
Purchased services and materials	588	542
Depreciation	447	447
Equipment and other rents	309	300
Other	205	200
Total operating expenses	3,611	3,557
Operating income	1,962	1,786
Other income (Note 6)	28	28
Interest expense	(138)	(137)
Income before income taxes	1,852	1,677
Income taxes	(701)	(635)
Net income	\$ 1,151	\$ 1,042
Share and Per Share (Note 8):		
Earnings per share - basic	\$ 2.49	\$ 2.21
Earnings per share - diluted	\$ 2.48	\$ 2.19
Weighted average number of shares - basic	461.7	472.0
Weighted average number of shares - diluted	464.2	475.2
Dividends declared per share	\$ 0.79	\$ 0.60

Condensed Consolidated Statements of Comprehensive Income (Unaudited)*Union Pacific Corporation and Subsidiary Companies*

Edgar Filing: UNION PACIFIC CORP - Form 10-Q

Millions,

for the Three Months Ended September 30,

	2013		2012
Net income	\$ 1,151	\$	1,042
Other comprehensive income/(loss):			
Defined benefit plans	17		38
Foreign currency translation	(12)		8
Total other comprehensive income/(loss) [a]	5		46
Comprehensive income	\$ 1,156	\$	1,088

[a] Net of deferred taxes of \$3 million and \$28 million during the three months ended September 30, 2013, and 2012, respectively. 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,*

<i>for the Nine Months Ended September 30,</i>	2013	2012
Operating revenues:		
Freight revenues	\$ 15,387	\$ 14,755
Other revenues	946	921
 Total operating revenues	 16,333	 15,676
Operating expenses:		
Compensation and benefits	3,597	3,550
Fuel	2,629	2,688
Purchased services and materials	1,730	1,610
Depreciation	1,319	1,307
Equipment and other rents	924	895
Other	661	606
 Total operating expenses	 10,860	 10,656
Operating income	5,473	5,020
Other income (Note 6)	91	65
Interest expense	(399)	(407)
Income before income taxes	5,165	4,678
Income taxes	(1,951)	(1,771)
 Net income	 \$ 3,214	 \$ 2,907
Share and Per Share (Note 8):		
Earnings per share - basic	\$ 6.91	\$ 6.13
Earnings per share - diluted	\$ 6.88	\$ 6.08
Weighted average number of shares - basic	465.0	474.5
Weighted average number of shares - diluted	467.4	477.9
 Dividends declared per share	 \$ 2.17	 \$ 1.80

Condensed Consolidated Statements of Comprehensive Income (Unaudited)*Union Pacific Corporation and Subsidiary Companies**Millions,*

<i>for the Nine Months Ended September 30,</i>	2013	2012
--	-------------	-------------

Edgar Filing: UNION PACIFIC CORP - Form 10-Q

Net income	\$	3,214	\$	2,907
Other comprehensive income/(loss):				
Defined benefit plans		48		31
Foreign currency translation		(5)		8
Other comprehensive income/(loss) [a]		43		39
Comprehensive income	\$	3,257	\$	2,946

[a] Net of deferred taxes of \$28 million and \$27 million during the nine months ended September 30, 2013, and 2012, respectively. 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*

<i>Millions, Except Share and Per Share Amounts</i>	<i>September 30, 2013</i>	<i>December 31, 2012</i>
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,366	\$ 1,063
Accounts receivable, net (Note 10)	1,469	1,331
Materials and supplies	683	660
Current deferred income taxes (Note 7)	230	263
Other current assets	316	297
Total current assets	4,064	3,614
Investments	1,282	1,259
Net properties (Note 11)	43,311	41,997
Other assets	301	283
Total assets	\$ 48,958	\$ 47,153
Liabilities and Common Shareholders' Equity		
Current liabilities:		
Accounts payable and other current liabilities (Note 12)	\$ 2,964	\$ 2,923
Debt due within one year (Note 14)	691	196
Total current liabilities	3,655	3,119
Debt due after one year (Note 14)	8,764	8,801
Deferred income taxes (Note 7)	13,739	13,108
Other long-term liabilities	2,026	2,248
Commitments and contingencies (Note 16)		
Total liabilities	28,184	27,276
Common shareholders' equity:		
Common shares, \$2.50 par value, 800,000,000 authorized; 554,832,336 and 554,558,034 issued; 460,791,613 and 469,465,273 outstanding, respectively		
	1,387	1,386
Paid-in-surplus	4,189	4,113
Retained earnings	24,476	22,271
Treasury stock	(8,135)	(6,707)
Accumulated other comprehensive loss (Note 9)	(1,143)	(1,186)
Total common shareholders' equity	20,774	19,877

Edgar Filing: UNION PACIFIC CORP - Form 10-Q

Total liabilities and common shareholders' equity	\$ 48,958	\$ 47,153
---	-----------	-----------

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,*

<i>for the Nine Months Ended September 30,</i>	2013	2012
Operating Activities		
Net income	\$ 3,214	\$ 2,907
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	1,319	1,307
Deferred income taxes and unrecognized tax benefits	637	490
Other operating activities, net	(150)	(72)
Changes in current assets and liabilities:		
Accounts receivable, net	(138)	(182)
Materials and supplies	(23)	(66)
Other current assets	(19)	(71)
Accounts payable and other current liabilities	41	53
Cash provided by operating activities	4,881	4,366
Investing Activities		
Capital investments	(2,635)	(2,876)
Proceeds from asset sales	77	55
Acquisition of equipment pending financing	-	(217)
Proceeds from sale of assets financed	-	217
Other investing activities, net	(38)	(45)
Cash used in investing activities	(2,596)	(2,866)
Financing Activities		
Common share repurchases (Note 17)	(1,432)	(1,179)
Dividends paid	(968)	(860)
Debt issued (Note 14)	944	695
Debt exchange (Note 14)	(288)	-
Debt repaid	(217)	(250)
Other financing activities, net	(21)	7
Cash used in financing activities	(1,982)	(1,587)
Net change in cash and cash equivalents	303	(87)
Cash and cash equivalents at beginning of year	1,063	1,217
Cash and cash equivalents at end of period	\$ 1,366	\$ 1,130
Supplemental Cash Flow Information		
Non-cash investing and financing activities:		
Cash dividends declared but not yet paid	\$ 359	\$ 279
Capital investments accrued but not yet paid	110	120
Capital lease financings	-	233
Common shares repurchased but not yet paid	-	48
Cash paid for:		
Income taxes, net of refunds	\$ (1,165)	\$ (1,097)
Interest, net of amounts capitalized	(452)	(474)

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*

<i>Millions</i>	<i>Common Treasury</i>						<i>AOCI</i>	
	<i>Shares</i>	<i>Shares</i>	<i>Common Shares</i>	<i>Paid-in-Surplus</i>	<i>Retained Earnings</i>	<i>Treasury Stock</i>	<i>[a]</i>	<i>Total</i>
Balance at January 1, 2012	554.3	(74.4)	\$ 1,386	\$ 4,031	\$ 19,508	\$ (5,293)	\$ (1,054)	\$ 18,578
Net income			-	-	2,907	-	-	2,907
Other comp. income			-	-	-	-	39	39
Conversion, stock option exercises, forfeitures, and other	0.3	1.7	-	66	-	41	-	107
Share repurchases (Note 17)	-	(10.8)	-	-	-	(1,227)	-	(1,227)
Cash dividends declared (\$1.80 per share)	-	-	-	-	(855)	-	-	(855)
Balance at September 30, 2012	554.6	(83.5)	\$ 1,386	\$ 4,097	\$ 21,560	\$ (6,479)	\$ (1,015)	\$ 19,549
Balance at January 1, 2013	554.6	(85.1)	\$ 1,386	\$ 4,113	\$ 22,271	\$ (6,707)	\$ (1,186)	\$ 19,877
Net income			-	-	3,214	-	-	3,214
Other comp. income			-	-	-	-	43	43
Conversion, stock option exercises, forfeitures, and other	0.2	0.7	1	76	-	4	-	81
Share repurchases (Note 17)	-	(9.6)	-	-	-	(1,432)	-	(1,432)
Cash dividends declared (\$2.17 per share)	-	-	-	-	(1,009)	-	-	(1,009)
Balance at September 30, 2013	554.8	(94.0)	\$ 1,387	\$ 4,189	\$ 24,476	\$ (8,135)	\$ (1,143)	\$ 20,774

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

Table of Contents

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 Union 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, 2012, 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 2012 Annual Report on Form 10-K. The results of operations for the nine months ended September 30, 2013, are not necessarily indicative of the results for the entire year ending December 31, 2013.

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. Adoption of New Accounting Pronouncement

On February 5, 2013, the FASB issued Accounting Standards Update 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASU 2013-02)*, which adds additional disclosure requirements for items reclassified out of accumulated other comprehensive income. We adopted this ASU during the three months ended March 31, 2013.

3. Operations and Segmentation

The Railroad, along with its subsidiaries and rail affiliates, is our one reportable operating segment. Although we provide and analyze revenue by commodity group, we treat the 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:

<i>Millions</i>	<i>Three Months Ended</i>		<i>Nine Months Ended</i>	
	<i>September 30,</i>		<i>September 30,</i>	
	2013	2012	2013	2012
Agricultural	\$ 771	\$ 783	\$ 2,339	\$ 2,495
Automotive	512	436	1,533	1,341
Chemicals	883	841	2,646	2,404
Coal	1,082	1,058	2,993	2,922
Industrial Products	975	879	2,868	2,659
Intermodal	1,027	1,022	3,008	2,934
Total freight revenues	5,250	5,019	15,387	14,755
Other revenues	323	324	946	921
Total operating revenues	\$ 5,573	\$ 5,343	\$ 16,333	\$ 15,676

Edgar Filing: UNION PACIFIC CORP - Form 10-Q

Although our revenues are principally derived from customers domiciled in the U.S., the ultimate points of origination or destination for some products transported by us are outside the U.S. Each of our commodity groups includes revenue from shipments to and from Mexico. Included in the above table are revenues from our Mexico business which amounted to \$528 million and \$479 million, respectively for the three months ended September 30, 2013, and September 30, 2012, and \$1.6 billion and \$1.5 billion, respectively for the nine months ended September 30, 2013, and September 30, 2012.

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:

<i>Millions</i>	<i>Three Months Ended</i> <i>September 30,</i>		<i>Nine Months Ended</i> <i>September 30,</i>	
	2013	2012	2013	2012
Stock-based compensation, before tax:				
Stock options	\$ 5	\$ 5	\$ 15	\$ 14
Retention awards	21	20	62	60
Total stock-based compensation, before tax	\$ 26	\$ 25	\$ 77	\$ 74
Excess tax benefits from equity compensation plans	\$ 5	\$ 33	\$ 70	\$ 86

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

<i>Weighted-Average Assumptions</i>	2013	2012
Risk-free interest rate	0.8%	0.8%
Dividend yield	2.1%	2.1%
Expected life (years)	5.0	5.3
Volatility	36.2%	36.8%
Weighted-average grant-date fair value of options granted	\$ 34.98	\$ 31.29

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, 2013, is presented below:

	<i>Options</i> <i>(thous.)</i>	<i>Weighted-</i> <i>Average</i> <i>Exercise Price</i>	<i>Weighted-Average</i> <i>Remaining</i> <i>Contractual</i> <i>Term</i>	<i>Aggregate</i> <i>Intrinsic Value</i> <i>(millions)</i>
Outstanding at January 1, 2013	4,289	\$ 65.68	5.8 yrs.	\$ 258
Granted	572	132.00	N/A	N/A
Exercised	(968)	51.12	N/A	N/A

Edgar Filing: UNION PACIFIC CORP - Form 10-Q

Forfeited or expired	(22)	106.00	N/A	N/A
Outstanding at September 30, 2013	3,871	\$ 78.89	5.9 yrs.	\$ 296
Vested or expected to vest at September 30, 2013	3,871	\$ 78.86	5.9 yrs.	\$ 295
Options exercisable at September 30, 2013	2,725	\$ 61.64	4.8 yrs.	\$ 255

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, 2013, are subject to performance or market-based vesting conditions.

Table of Contents

At September 30, 2013, there was \$21 million of unrecognized compensation expense related to nonvested stock options, which is expected to be recognized over a weighted-average period of 1.3 years. Additional information regarding stock option exercises appears in the table below:

<i>Millions</i>	<i>Three Months Ended September 30,</i>		<i>Nine Months Ended September 30,</i>	
	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>
Intrinsic value of stock options exercised	\$ 13	\$ 101	\$ 95	\$ 204
Cash received from option exercises	8	22	39	67
Treasury shares repurchased for employee payroll taxes	(4)	(8)	(16)	(24)
Tax benefit realized from option exercises	5	39	37	78
Aggregate grant-date fair value of stock options vested	-	-	16	16

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, 2013, were as follows:

	<i>Shares (thous.)</i>	<i>Weighted-Average Grant-Date Fair Value</i>
Nonvested at January 1, 2013	2,355	\$ 73.27
Granted	421	132.02
Vested	(852)	47.60
Forfeited	(59)	84.62
Nonvested at September 30, 2013	1,865	\$ 97.89

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, 2013, there was \$81 million of total unrecognized compensation expense related to nonvested retention awards, which is expected to be recognized over a weighted-average period of 1.7 years.

Performance Retention Awards In February 2013, 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 2011, and February 2012, 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 2013, grant were as follows:

Dividend per share per quarter	<i>2013</i> \$ 0.69
Risk-free interest rate at date of grant	0.4%

Table of Contents

Changes in our performance retention awards during the nine months ended September 30, 2013, were as follows:

	<i>Shares</i> <i>(thous.)</i>	<i>Weighted-Average</i> <i>Grant-Date Fair Value</i>
Nonvested at January 1, 2013	1,075	\$ 83.80
Granted	304	125.14
Vested	(401)	58.33
Forfeited	(33)	98.02
Nonvested at September 30, 2013	945	\$ 107.41

At September 30, 2013, there was \$45 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. 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 in accumulated other comprehensive income and, if necessary, amortized as pension or OPEB expense.

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

<i>Millions</i>	<i>Three Months Ended</i> <i>September 30,</i>		<i>Nine Months Ended</i> <i>September 30,</i>	
	2013	2012	2013	2012
Service cost	\$ 17	\$ 13	\$ 54	\$ 40
Interest cost	34	36	100	106
Expected return on plan assets	(50)	(47)	(151)	(142)
Amortization of:				
Prior service cost	-	-	-	-
Actuarial loss	27	21	80	63
	\$ 28	\$ 23	\$ 83	\$ 67

Net periodic pension cost

Table of Contents

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

<i>Millions</i>	<i>Three Months Ended September 30,</i>		<i>Nine Months Ended September 30,</i>	
	2013	2012	2013	2012
Service cost	\$ -	\$ -	\$ 2	\$ 2
Interest cost	3	4	9	11
Amortization of:				
Prior service credit	(4)	(5)	(12)	(13)
Actuarial loss	4	4	11	9
Net periodic OPEB cost	\$ 3	\$ 3	\$ 10	\$ 9

Cash Contributions

For the nine months ended September 30, 2013, we made \$200 million of cash contributions to the qualified pension plan. Any additional contributions made 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, 2013, 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, 2013, we do not have minimum cash funding requirements for 2013.

6. Other Income

Other income included the following:

<i>Millions</i>	<i>Three Months Ended September 30,</i>		<i>Nine Months Ended September 30,</i>	
	2013	2012	2013 [a]	2012
Rental income	\$ 26	\$ 21	\$ 84	\$ 62
Net gain on non-operating asset dispositions	18	11	22	23
Early extinguishment of debt	-	-	(1)	(2)
Non-operating environmental costs and other	(16)	(4)	(14)	(18)
Total	\$ 28	\$ 28	\$ 91	\$ 65

[a] Rental income includes \$17 million related to a land lease contract settlement.

7. Income Taxes

Internal Revenue Service (IRS) examinations have been completed and settled for all years prior to 2005, although some interest calculations remain open for years prior to 2005. The IRS has completed its examinations and issued notices of deficiency for years 2005 through 2010. We disagree with many of their proposed adjustments, and we are at IRS Appeals for years 2005 through 2008, with an appeal pending for 2009 and 2010. Additionally, several state tax authorities are examining our state income tax returns for years 2006 through 2010.

Edgar Filing: UNION PACIFIC CORP - Form 10-Q

At September 30, 2013, we had a net unrecognized tax benefit liability of \$115 million. Of that amount, \$9 million is classified as a current asset in the Condensed Consolidated Statements of Financial Position.

In September 2013, the Internal Revenue Service issued final regulations governing the income tax treatment of acquisitions, dispositions, and repairs of tangible property. Taxpayers are required to follow the new regulations beginning in 2014. At this time we do not expect they will have a material impact on our financial statements.

Table of Contents**8. Earnings Per Share**

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

<i>Millions, Except Per Share Amounts</i>	<i>Three Months Ended September 30,</i>		<i>Nine Months Ended September 30,</i>	
	2013	2012	2013	2012
Net income	\$ 1,151	\$ 1,042	\$ 3,214	\$ 2,907
Weighted-average number of shares outstanding:				
Basic	461.7	472.0	465.0	474.5
Dilutive effect of stock options	1.3	1.6	1.3	1.9
Dilutive effect of retention shares and units	1.2	1.6	1.1	1.5
Diluted	464.2	475.2	467.4	477.9
Earnings per share basic	\$ 2.49	\$ 2.21	\$ 6.91	\$ 6.13
Earnings per share diluted	\$ 2.48	\$ 2.19	\$ 6.88	\$ 6.08
Stock options excluded as their inclusion would be antidilutive	-	0.6	0.3	0.5

9. Accumulated Other Comprehensive Income/(Loss)

Reclassifications out of accumulated other comprehensive income/(loss) for the three and nine months ended September 30, 2013, and 2012, were as follows (net of tax):

<i>Millions</i>	<i>Defined benefit plans</i>	<i>Foreign currency translation</i>	<i>Derivatives</i>	<i>Total</i>
Balance at July 1, 2013	\$ (1,118)	\$ (29)	\$ (1)	\$ (1,148)
Other comprehensive income/(loss) before reclassifications	1	(12)	-	(11)
Amounts reclassified from accumulated other comprehensive income/(loss) [a]	16	-	-	16
Net quarter-to-date other comprehensive income/(loss), net of taxes of \$3 million	17	(12)	-	5
Balance at September 30, 2013	\$ (1,101)	\$ (41)	\$ (1)	\$ (1,143)
Balance at July 1, 2012	\$ (1,011)	\$ (48)	\$ (2)	\$ (1,061)
Other comprehensive income/(loss) before reclassifications	1	8	-	9
	37	-	-	37

Edgar Filing: UNION PACIFIC CORP - Form 10-Q

Amounts reclassified from accumulated other comprehensive income/(loss) [a]

Net quarter-to-date other comprehensive income/(loss), net of taxes of \$28 million	38	8	-	46
Balance at September 30, 2012	\$ (973)	\$ (40)	\$ (2)	\$ (1,015)

[a] The accumulated other comprehensive income/(loss) reclassification components are 1) prior service cost/(benefit) and 2) net actuarial loss which are both included in the computation of net periodic pension cost. See Note 5 Retirement Plans for additional details.

Table of Contents

<i>Millions</i>	<i>Defined benefit plans</i>	<i>Foreign currency translation</i>	<i>Derivatives</i>	<i>Total</i>
Balance at January 1, 2013	\$ (1,149)	\$ (36)	\$ (1)	\$ (1,186)
Other comprehensive income/(loss) before reclassifications	(1)	(5)	-	(6)
Amounts reclassified from accumulated other comprehensive income/(loss) [a]	49	-	-	49
Net year-to-date other comprehensive income/(loss), net of taxes of \$28 million	48	(5)	-	43
Balance at September 30, 2013	\$ (1,101)	\$ (41)	\$ (1)	\$ (1,143)
Balance at January 1, 2012	\$ (1,004)	\$ (48)	\$ (2)	\$ (1,054)
Other comprehensive income/(loss) before reclassifications	(6)	8	-	2
Amounts reclassified from accumulated other comprehensive income/(loss) [a]	37	-	-	37
Net year-to-date other comprehensive income/(loss), net of taxes of \$27 million	31	8	-	39
Balance at September 30, 2012	\$ (973)	\$ (40)	\$ (2)	\$ (1,015)

[a] The accumulated other comprehensive income/(loss) reclassification components are 1) prior service cost/(benefit) and 2) net actuarial loss which are both included in the computation of net periodic pension cost. See Note 5 Retirement Plans for additional details.

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 September 30, 2013, and December 31, 2012, our accounts receivable were reduced by \$3 million and \$4 million, respectively. Receivables not expected to be collected in one year and the associated allowances are classified as other assets in our Condensed Consolidated Statements of Financial Position. At September 30, 2013, and December 31, 2012, receivables classified as other assets were reduced by allowances of \$25 million and \$33 million, respectively.

Receivables Securitization Facility The Railroad maintains a \$600 million, 364-day receivables securitization facility under which it sells most of its eligible third-party receivables to Union Pacific Receivables, Inc. (UPRI), a wholly-owned, bankruptcy-remote subsidiary that may subsequently transfer, without recourse an undivided interest in accounts receivable to investors. 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.

The amount outstanding under the facility was \$400 million and \$100 million at September 30, 2013, and December 31, 2012, respectively. The amount outstanding under the facility was supported by \$1.2 billion and \$1.1 billion of accounts receivable as collateral at September 30, 2013, and December 31, 2012, respectively, which, as a retained interest, is included in accounts receivable, net in our Condensed Consolidated Statements of Financial Position.

The outstanding amounts the Railroad is allowed to maintain under the facility, with a maximum of \$600 million, may fluctuate based on the availability of eligible receivables and are directly affected by business volumes and credit risks, including receivables payment quality measures such as default and dilution ratios. If default or dilution ratios increase one percent, amounts allowed to be outstanding under the facility would not materially change.

Edgar Filing: UNION PACIFIC CORP - Form 10-Q

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

Table of Contents

expense and were \$1 million for the three months ended September 30, 2013, and 2012, and \$3 million for the nine months ended September 30, 2013, and 2012.

In July 2013, the \$600 million receivables securitization facility was renewed for an additional 364-day period at comparable terms and conditions.

11. Properties

The following tables list the major categories of property and equipment, as well as the weighted average estimated useful life for each category (in years):

Millions, Except Estimated Useful Life

<i>As of September 30, 2013</i>	<i>Cost</i>	<i>Accumulated Depreciation</i>	<i>Net Book Value</i>	<i>Estimated Useful Life</i>
Land	\$ 5,092	\$ N/A	\$ 5,092	N/A
Road:				
Rail and other track material	13,699	4,916	8,783	35
Ties	8,712	2,265	6,447	33
Ballast	4,570	1,148	3,422	34
Other roadway [a]	15,158	2,688	12,470	49
Total road	42,139	11,017	31,122	N/A
Equipment:				
Locomotives	7,464	3,380	4,084	20
Freight cars	2,048	1,001	1,047	25
Work equipment and other	559	112	447	18
Total equipment	10,071	4,493	5,578	N/A
Technology and other	668	282	386	11
Construction in progress	1,133	-	1,133	N/A
Total	\$ 59,103	\$ 15,792	\$ 43,311	N/A

Millions, Except Estimated Useful Life

<i>As of December 31, 2012</i>	<i>Cost</i>	<i>Accumulated Depreciation</i>	<i>Net Book Value</i>	<i>Estimated Useful Life</i>
	\$ 5,105	\$ N/A	\$ 5,105	N/A

Edgar Filing: UNION PACIFIC CORP - Form 10-Q

Land				
Road:				
Rail and other track material	13,220	4,756	8,464	33
Ties	8,404	2,157	6,247	33
Ballast	4,399	1,085	3,314	34
Other roadway [a]	14,806	2,583	12,223	49
Total road	40,829	10,581	30,248	N/A
Equipment:				
Locomotives	7,297	3,321	3,976	19
Freight cars	1,991	1,018	973	23
Work equipment and other	535	89	446	17
Total equipment	9,823	4,428	5,395	N/A
Technology and other	633	273	360	11
Construction in progress	889	-	889	N/A
Total	\$ 57,279	\$ 15,282	\$ 41,997	N/A

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

Table of Contents**12. Accounts Payable and Other Current Liabilities**

<i>Millions</i>	<i>Sep. 30,</i> <i>2013</i>	<i>Dec. 31,</i> <i>2012</i>
Accounts payable	\$ 831	\$ 825
Income and other taxes payable	415	368
Accrued wages and vacation	382	376
Dividends payable	359	318
Accrued casualty costs	219	213
Interest payable	114	172
Equipment rents payable	95	95
Other	549	556
Total accounts payable and other current liabilities	\$ 2,964	\$ 2,923

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 interest rate and fuel price movements.

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 both September 30, 2013, and December 31, 2012, we had reductions of \$1 million recorded as an accumulated other comprehensive loss that is being amortized on a straight-line basis through September 30, 2014, for a cash flow hedge that was settled in 2004. As of September 30, 2013, and December 31, 2012, we had no interest rate cash flow hedges outstanding.

Fair Value of Financial Instruments The fair value of our short- and long-term debt was estimated using a market value price model, which utilizes applicable U.S. Treasury rates along with current market quotes on comparable debt securities. All of the inputs used to determine the fair market value of the Corporation's long-term debt are Level 2 inputs and obtained from an independent source. At September 30, 2013, the fair value of total debt was \$10.2 billion, approximately \$0.8 billion more than the carrying value. At December 31, 2012, the fair value of total debt was \$11.1 billion, approximately \$2.1 billion more than the carrying value. The fair value of the Corporation's debt is a measure of its current value under present market conditions. It does not impact the financial statements under current accounting rules. At September 30, 2013, and December 31, 2012, approximately \$163 and \$203 million, respectively, of 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.

14. Debt

Credit Facilities At September 30, 2013, we had \$1.8 billion of credit available under our revolving credit facility (the facility), which is designated for general corporate purposes and supports the issuance of commercial paper. We did not draw on the facility at any time during the nine months ended September 30, 2013. 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

Table of Contents

unsecured debt ratings. The facility matures in 2015 under a four year term and requires the Corporation to maintain a debt-to-net-worth coverage ratio as a condition to making a borrowing. At September 30, 2013, and December 31, 2012 (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, 2013, the debt-to-net-worth coverage ratio allowed us to carry up to \$42 billion of debt (as defined in the facility), and we had \$10.0 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 three and nine months ended September 30, 2013, we did not issue or repay any commercial paper, and at September 30, 2013, we had no commercial paper outstanding. Our revolving credit facility supports our outstanding commercial paper balances, and, unless we change the terms of our commercial paper program, our aggregate issuance of commercial paper will not exceed the amount of borrowings available under the facility.

Shelf Registration Statement and Significant New Borrowings We filed a new automatic shelf registration statement that became effective on February 8, 2013. The Board of Directors authorized the issuance of up to \$4 billion of debt securities, replacing the \$1.4 billion of authority remaining under our shelf registration filed in February 2010. SEC rules require UPC, a large accelerated filer, to file a new shelf registration statement every three years. Under the 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 March 15, 2013, we issued \$325 million of 2.75% unsecured fixed-rate notes and \$325 million of 4.25% unsecured fixed-rate notes under our shelf registration statement. The 2.75% notes will mature on April 15, 2023, and the 4.25% notes will mature on April 15, 2043. Proceeds from this offering are for general corporate purposes, including the repurchase of common stock pursuant to our share repurchase program. These debt securities include change-of-control provisions. At September 30, 2013, we had remaining authority from our Board of Directors to issue up to \$3.35 billion of debt securities under the shelf registration.

At September 30, 2013, and December 31, 2012, we reclassified as long-term debt approximately \$400 million and \$100 million, respectively, 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 August 21, 2013, we exchanged \$1,170 million of various outstanding notes and debentures due between 2016 and 2040 (Existing Notes) for \$439 million of 3.646% notes (New 2024 Notes) due February 15, 2024 and \$700 million of 4.821% notes (New 2044 Notes) due February 1, 2044, plus cash consideration of approximately \$280 million in addition to \$8 million for accrued and unpaid interest on the Existing Notes. In accordance with ASC 470-50-40, Debt-Modifications and Extinguishments-Derecognition, this transaction was accounted for as a debt exchange, as the exchanged debt instruments are not considered to be substantially different. 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 terms of the New 2024 Notes and the New 2044 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 \$9 million and were included in interest expense during the three months ended September 30, 2013.

Table of Contents

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

<i>Millions</i>	<i>Principal amount exchanged</i>
The 2024 Offers	
7.000% Debentures due 2016	\$ 8
5.650% Notes due 2017	38
5.750% Notes due 2017	70
5.700% Notes due 2018	103
7.875% Notes due 2019	20
6.125% Notes due 2020	238
The 2044 Offers	
7.125% Debentures due 2028	73
6.625% Debentures due 2029	177
6.250% Debentures due 2034	19
6.150% Debentures due 2037	138
5.780% Notes due 2040	286
Total	\$ 1,170

Debt Redemption On May 14, 2013, we redeemed all \$40 million of our outstanding 5.65% Port of Corpus Christi Authority Revenue Refunding Bonds due December 1, 2022. The redemption resulted in an early extinguishment charge of \$1 million during the three months ended June 30, 2013.

Receivables Securitization Facility As of September 30, 2013, and December 31, 2012, we recorded \$400 million and \$100 million, respectively, as secured debt under our receivables securitization facility. See further discussion of our receivables securitization facility in Note 10.

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, including our headquarters building) 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 VIEs. The future minimum lease payments associated with the VIE leases totaled \$3.3 billion as of September 30, 2013.

Table of Contents**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.

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 not discounted to present value due to the uncertainty surrounding the timing of future payments. Approximately 90% of the recorded liability is related to asserted claims and approximately 10% is related to unasserted claims at September 30, 2013. Because of the uncertainty surrounding the ultimate outcome of personal injury claims, it is reasonably possible that future costs to settle these claims may range from approximately \$317 to \$346 million. We record an accrual at the low end of the range as no amount of loss within the range is more probable than any other. Estimates can vary over time due to evolving trends in litigation.

Our personal injury liability activity was as follows:

Millions,

<i>for the Nine Months Ended September 30,</i>	2013	2012
Beginning balance	\$ 334	\$ 368
Current year accruals	70	89
Changes in estimates for prior years	(23)	(40)
Payments	(64)	(69)
Ending balance at September 30	\$ 317	\$ 348

Current portion, ending balance at September 30	\$ 85	\$ 97
---	-------	-------

Asbestos We are a defendant in a number of lawsuits in which current and former employees and other parties allege exposure to asbestos. We assess our potential liability using a statistical analysis of resolution costs for asbestos-related claims. This liability is updated annually and excludes future defense and processing costs. The liability for resolving both asserted and unasserted claims was based on the following assumptions:

The ratio of future claims by alleged disease would be consistent with historical averages adjusted for inflation.

The number of claims filed against us will decline each year.

The average settlement values for asserted and unasserted claims will be equivalent to historical averages.

The percentage of claims dismissed in the future will be equivalent to historical averages.

Our liability for asbestos-related claims is not discounted to present value due to the uncertainty surrounding the timing of future payments. Approximately 24% of the recorded liability related to asserted claims and approximately 76% related to unasserted claims at September 30, 2013.

Table of Contents

Our asbestos-related liability activity was as follows:

Millions,

<i>for the Nine Months Ended September 30,</i>	2013	2012
Beginning balance	\$ 139	\$ 147
Accruals	-	-
Payments	(7)	(5)
Ending balance at September 30	\$ 132	\$ 142
Current portion, ending balance at September 30	\$ 8	\$ 9

We have insurance coverage for a portion of the costs incurred to resolve asbestos-related claims, and we have recognized an asset for estimated insurance recoveries at September 30, 2013, and December 31, 2012.

We believe that our estimates of liability for asbestos-related claims and insurance recoveries are reasonable and probable. The amounts recorded for asbestos-related liabilities and related insurance recoveries were based on currently known facts. However, future events, such as the number of new claims filed each year, average settlement costs, and insurance coverage issues, could cause the actual costs and insurance recoveries to be higher or lower than the projected amounts. Estimates also may vary in the future if strategies, activities, and outcomes of asbestos litigation materially change; federal and state laws governing asbestos litigation increase or decrease the probability or amount of compensation of claimants; and there are material changes with respect to payments made to claimants by other defendants.

Environmental Costs We are subject to federal, state, and local environmental laws and regulations. We have identified 278 sites at which we are or may be liable for remediation costs associated with alleged contamination or for violations of environmental requirements. This includes 33 sites that are the subject of actions taken by the U.S. government, 17 of which are currently on the Superfund National Priorities List. Certain federal legislation imposes joint and several liability for the remediation of identified sites; consequently, our ultimate environmental liability may include costs relating to activities of other parties, in addition to costs relating to our own activities at each site.

When we identify an environmental issue with respect to property owned, leased, or otherwise used in our business, we perform, with assistance of our consultants, environmental assessments on the property. We expense the cost of the assessments as incurred. We accrue the cost of remediation where our obligation is probable and such costs can be reasonably estimated. We do not discount our environmental liabilities when the timing of the anticipated cash payments is not fixed or readily determinable. At both September 30, 2013, and December 31, 2012, none of our environmental liability was discounted.

Our environmental liability activity was as follows:

Millions,

<i>for the Nine Months Ended September 30,</i>	2013	2012
Beginning balance	\$ 170	\$ 172
Accruals	44	35
Payments	(35)	(32)
Ending balance at September 30	\$ 179	\$ 175

Current portion, ending balance at September 30	\$	50	\$	49
---	----	----	----	----

The environmental liability includes future costs for remediation and restoration of sites, as well as ongoing monitoring costs, but excludes any anticipated recoveries from third parties. Cost estimates are based on information available for each site, financial viability of other potentially responsible parties, and existing technology, laws, and regulations. The ultimate liability for remediation is difficult to determine because of the number of potentially responsible parties, site-specific cost sharing arrangements with other potentially responsible parties, the degree of contamination by various wastes, the scarcity and

Table of Contents

quality of volumetric data related to many of the sites, and the speculative nature of remediation costs. Estimates of liability may vary over time due to changes in federal, state, and local laws governing environmental remediation. Current obligations are not expected to have a material adverse effect on our consolidated results of operations, financial condition, or liquidity.

Insurance The Company has a consolidated, wholly-owned captive insurance subsidiary (the captive), that provides insurance coverage for certain risks including FELA claims and property coverage which are subject to reinsurance. The captive entered into annual reinsurance treaty agreements that insure workers compensation, general liability, auto liability and FELA risk. The captive cedes a portion of its FELA exposure through the treaty and assumes a proportionate share of the entire risk. The captive receives direct premiums, which are netted against the Company's premium costs in other expenses in the Condensed Consolidated Statements of Income. The treaty agreements provide for certain protections against the risk of treaty participants' non-performance, and we do not believe our exposure to treaty participants' non-performance is material at this time. In the event the Company leaves the reinsurance program, the Company is not relieved of its primary obligation to the policyholders for activity prior to the termination of the treaty agreements. We record both liabilities and reinsurance receivables using an actuarial analysis based on historical experience in our Condensed Consolidated Statements of Financial Position.

Guarantees At September 30, 2013, and December 31, 2012, we were contingently liable for guarantees of \$302 million and \$307 million, respectively. We have recorded a liability of \$1 million and \$2 million for the fair value of these obligations as of September 30, 2013, and December 31, 2012, respectively. We entered into these contingent guarantees in the normal course of business, and they include guaranteed obligations related to our headquarters building, equipment financings, and affiliated operations. The final guarantee expires in 2022. We are not aware of any existing event of default that would require us to satisfy these guarantees. We do not expect that these guarantees will have a material adverse effect on our consolidated financial condition, results of operations, or liquidity.

Indemnities Our maximum potential exposure under indemnification arrangements, including certain tax indemnifications, can range from a specified dollar amount to an unlimited amount, depending on the nature of the transactions and the agreements. Due to uncertainty as to whether claims will be made or how they will be resolved, we cannot reasonably determine the probability of an adverse claim or reasonably estimate any adverse liability or the total maximum exposure under these indemnification arrangements. We do not have any reason to believe that we will be required to make any material payments under these indemnity provisions.

Operating Leases At September 30, 2013, we had commitments for future minimum lease payments under operating leases with initial or remaining non-cancelable lease terms in excess of one year of approximately \$4 billion.

Gain Contingency UPRR and Santa Fe Pacific Pipelines (SFPP, a subsidiary of Kinder Morgan Energy Partners, L.P.) currently are engaged in a proceeding to resolve the fair market rent payable to UPRR under a 10-year agreement commencing on January 1, 2004, for pipeline easements on UPRR rights-of-way (*Union Pacific Railroad Company vs. Santa Fe Pacific Pipelines, Inc., SFPP, L.P., Kinder Morgan Operating L.P. D Kinder Morgan G.P., Inc., et al., Superior Court of the State of California for the County of Los Angeles, filed July 28, 2004*). In February 2007, a trial began to resolve this issue, and, on September 28, 2011, the judge issued a tentative Statement of Decision, which concluded that SFPP owes back rent to UPRR for the years 2004 through 2011. On May 29, 2012, the court entered judgment, awarding UPRR back rent and prejudgment interest. SFPP is appealing the final judgment. A favorable final judgment may materially affect our results of operations in the period of any monetary recoveries; however, due to the uncertainty regarding the amount and timing of any recovery, including the outcome of SFPP's appeal of this judgment or any subsequent proceeding, we consider this a gain contingency and do not reflect any amounts in the Condensed Consolidated Financial Statements as of September 30, 2013.

17. Share Repurchase Program

Effective April 1, 2011, our Board of Directors authorized the repurchase of up to 40 million shares of our common stock by March 31, 2014, replacing our previous repurchase program. As of September 30, 2013, we repurchased a total of \$8.6 billion of our common stock since the commencement of our

Table of Contents

repurchase programs. The table below represents shares repurchased under the new repurchase program.

	<i>Number of Shares Purchased</i>		<i>Average Price Paid</i>	
	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>
First quarter	2,881,400	3,917,369	\$ 136.58	\$ 110.64
Second quarter	3,061,470	3,770,528	151.42	110.02
Third quarter	3,666,894	3,098,812	156.77	122.13
Total	9,609,764	10,786,709	\$ 149.01	\$ 113.72

Remaining number of shares that may be repurchased under current authority	5,426,185
--	-----------

Management's assessments of market conditions and other pertinent facts guide the timing and volume of all repurchases. We expect to fund any share repurchases under this program through cash generated from operations, the sale or lease of various operating and non-operating properties, debt issuances, and cash on hand. Repurchased shares are recorded in treasury stock at cost, which includes any applicable commissions and fees.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

RESULTS OF OPERATIONS

Three and Nine Months Ended September 30, 2013, Compared to

Three and Nine Months Ended September 30, 2012

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

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements and applicable notes to the Condensed Consolidated Financial Statements, Item 1, and other information included in this report. Our Condensed Consolidated Financial Statements are unaudited and reflect all adjustments (consisting only 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).

The Railroad, along with its subsidiaries and rail affiliates, is our one reportable business segment. Although we provide and analyze revenue by commodity group, we treat the financial results of the Railroad as one segment due to the integrated nature of our rail network.

Available Information

Our Internet website is www.up.com. We make available free of charge on our website (under the "Investors" caption link) our Annual Reports on Form 10-K; our Quarterly Reports on Form 10-Q; eXtensible Business Reporting Language (XBRL) documents; our current reports on Form 8-K; our proxy statements; Forms 3, 4, and 5, filed on behalf of directors and executive officers; and amendments to any such reports filed or furnished pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act), as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). We also make available on our website previously filed SEC reports and exhibits via a link to EDGAR on the SEC's Internet site at www.sec.gov. We provide these previously filed reports as a convenience and their contents reflect only information that was true and correct as of the date of the report. We assume no obligation to update this historical information. Additionally, our corporate governance materials, including By-Laws, Board Committee charters, governance guidelines and policies, and codes of conduct and ethics for directors, officers, and employees are available on our website. From time to time, the corporate governance materials on our website may be updated as necessary to comply with rules issued by the SEC and the New York Stock Exchange or as desirable to promote the effective and efficient governance of our company. Any security holder wishing to receive, without charge, a copy of any of our SEC filings or corporate governance materials should send a written request to: Secretary, Union Pacific Corporation, 1400 Douglas Street, Omaha, NE 68179.

References to our website address in this report, including references in Management's Discussion and Analysis of Financial Condition and Results of Operations, Item 2, are provided as a convenience and do not constitute, and should not be deemed, an incorporation by reference of the information contained on, or available through, the website. Therefore, such information should not be considered part of this report.

Critical Accounting Policies and Estimates

We base our discussion and analysis of our financial condition and results of operations upon our Condensed Consolidated Financial Statements. The preparation of these financial statements requires estimation and judgment that affect the reported amounts of revenues, expenses, assets, and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. If these estimates differ materially from actual results, the impact on the Condensed Consolidated Financial Statements may be material. Our critical accounting policies are available in Item 7 of our 2012 Annual

Table of Contents

Report on Form 10-K. There have not been any significant changes with respect to these policies during the first nine months of 2013.

RESULTS OF OPERATIONS**Quarterly Summary**

We reported earnings of \$2.48 per diluted share on net income of \$1.2 billion in the third quarter of 2013 compared to earnings of \$2.19 per diluted share on net income of \$1.0 billion for the third quarter of 2012. Year-to-date, net income was \$3.2 billion versus \$2.9 billion for the same period in 2012. Freight revenues increased 5%, or \$231 million, in the third quarter compared to the same period in 2012 driven by higher average revenue per car (ARC) due to core pricing gains, shifts in business mix and the automotive logistics management arrangement. Volume growth in automotives, domestic intermodal, frac sand and rock offset declines in coal, international intermodal, and agricultural products. Consistent with the first half of the year, core pricing gains, our ongoing focus on safety, service and network efficiency, and ongoing productivity initiatives drove record financial results in the third quarter.

The network remained fluid and efficient in the third quarter of 2013 with all three operating metrics reported to the Association of American Railroads (AAR) improving sequentially from the second quarter of 2013. Train speeds were 2% faster, while terminal dwell and freight car inventory each improved by 1%.

Compared to the third quarter of 2012, average train speed improved 1%. Average terminal dwell time increased 1%, primarily due to continuing growth of manifest traffic concentrated in the Southern Region. Even with the growth in manifest shipments, which have longer cycle times, average rail car inventory decreased 4% as volumes remained flat.

Operating Revenues

<i>Millions</i>	<i>Three Months Ended</i>			<i>Nine Months Ended</i>		
	<i>September 30,</i>	<i>2012</i>	<i>%</i>	<i>September 30,</i>	<i>2012</i>	<i>%</i>
	2013		Change	2013		Change
Freight revenues	\$ 5,250	\$ 5,019	5%	\$ 15,387	\$ 14,755	4%
Other revenues	323	324	-	946	921	3
Total	\$ 5,573	\$ 5,343	4%	\$ 16,333	\$ 15,676	4%

We generate freight revenues by transporting freight or other materials from our six commodity groups. Freight revenues vary with volume (carloads) and ARC. Changes in price, traffic mix and fuel surcharges drive ARC. We provide some of our customers with contractual incentives for meeting or exceeding specified cumulative volumes or shipping to and from specific locations, which we record as reductions to freight revenues based on the actual or projected future shipments. We recognize freight revenues as shipments move from origin to destination. We allocate freight revenues between reporting periods based on the relative transit time in each reporting period and recognize expenses as we incur them.

Other revenues include revenues earned by our subsidiaries, revenues from commuter rail operations that we manage, accessorial revenues, which we earn when customers retain equipment owned or controlled by us or when we perform additional services such as switching or storage, and miscellaneous contract revenue. We recognize other revenues as we perform services or meet contractual obligations.

Freight revenues for five of the six commodity groups increased during the third quarter of 2013 and year-to-date period of 2013 compared to 2012, driven by core pricing gains. Volumes were flat in the third quarter, as declines in coal, international intermodal and agricultural products offset strong industrial products, automotive and domestic intermodal shipments. Growth in crude oil shipments partially offset these declines for the year-to-date period.

Each of our commodity groups includes revenue from fuel surcharges. Freight revenues from fuel surcharge programs were \$633 million and \$1.9 billion in the third quarter and year-to-date periods of 2013, respectively, compared to \$633 million and \$1.9 billion in the same periods of 2012. Fuel

Table of Contents

surcharge recoveries were essentially flat year-over-year, as slightly lower fuel prices and lower volumes were offset by the lag impact of our fuel surcharge programs.

In the third quarter of 2013, other revenues were flat compared to 2012, consistent with volume levels. Year-to-date, other revenues increased due to miscellaneous contract revenue and higher revenues at our subsidiaries that broker intermodal and automotive services.

The following tables summarize the year-over-year changes in freight revenues, revenue carloads, and ARC by commodity type:

<i>Freight Revenues</i> <i>Millions</i>	<i>Three Months Ended</i> <i>September 30,</i>			<i>Nine Months Ended</i> <i>September 30,</i>		
	2013	2012	% Change	2013	2012	% Change
Agricultural	\$ 771	\$ 783	(2)%	\$ 2,339	\$ 2,495	(6)%
Automotive	512	436	17	1,533	1,341	14
Chemicals	883	841	5	2,646	2,404	10
Coal	1,082	1,058	2	2,993	2,922	2
Industrial Products	975	879	11	2,868	2,659	8
Intermodal	1,027	1,022	-	3,008	2,934	3
Total	\$ 5,250	\$ 5,019	5 %	\$ 15,387	\$ 14,755	4 %

<i>Revenue Carloads</i> <i>Thousands</i>	<i>Three Months Ended</i> <i>September 30,</i>			<i>Nine Months Ended</i> <i>September 30,</i>		
	2013	2012	% Change	2013	2012	% Change
Agricultural	210	218	(4)%	631	685	(8)%
Automotive	195	181	8	576	551	5
Chemicals	282	275	3	840	777	8
Coal	468	501	(7)	1,284	1,408	(9)
Industrial Products	325	299	9	931	905	3
Intermodal [a]	848	857	(1)	2,480	2,481	-
Total	2,328	2,331	- %	6,742	6,807	(1)%

<i>Average Revenue per Car</i>	<i>Three Months Ended</i> <i>September 30,</i>			<i>Nine Months Ended</i> <i>September 30,</i>		
	2013	2012	% Change	2013	2012	% Change
Agricultural	\$ 3,679	\$ 3,596	2%	\$ 3,707	\$ 3,643	2%
Automotive	2,620	2,407	9	2,661	2,435	9
Chemicals	3,134	3,064	2	3,151	3,094	2
Coal	2,312	2,111	10	2,331	2,075	12
Industrial Products	2,998	2,933	2	3,080	2,938	5
Intermodal [a]	1,211	1,192	2	1,213	1,182	3
Average	\$ 2,255	\$ 2,153	5%	\$ 2,282	\$ 2,168	5%

Edgar Filing: UNION PACIFIC CORP - Form 10-Q

[a] Each intermodal container or trailer equals one carload.

Agricultural Products Lower volume, partially offset by price improvements, reduced freight revenue from agricultural shipments in the third quarter and year-to-date periods of 2013 versus 2012. Corn shipments decreased 22% and 24% in the third quarter and year-to-date periods of 2013 versus 2012, respectively, reflecting the impact of the severe drought in 2012 that affected territory served by us. The tight supply of corn contributed to lower livestock counts and exports to Mexico, driving the volume decline. Export wheat shipped to the Gulf and Pacific Northwest increased in the third quarter of 2013, partially offsetting the declines in corn.

Automotive Higher ARC due to price increases and the logistics management arrangement that covers fees and container costs, coupled with increased shipments of automotive parts and finished vehicles, improved automotive revenue in the third quarter and year-to-date periods of 2013 compared to 2012.

Table of Contents

Higher production and auto sales drove the growth as the automobile industry continued to gain momentum.

Chemicals Higher volume and core price improvements increased freight revenue from chemicals in the third quarter and year-to-date periods of 2013 versus 2012. Shipments of petroleum products and industrial chemicals increased in the third quarter and year-to-date periods of 2013 compared to 2012. Although crude oil shipments were down modestly in the third quarter compared to 2012, year-to-date crude oil shipments from the Bakken, Permian and Eagle Ford shale formations, primarily to the Gulf area, contributed to the year-to-date growth in chemical volumes.

Coal Higher ARC driven by pricing gains and positive business mix, partially offset by volume declines, increased freight revenue from coal shipments in the third quarter and year-to-date periods of 2013 compared to 2012. Shipments from Southern Powder River Basin (SPRB) declined 8% from the third quarter of 2012 due to the loss of a customer contract at the beginning of the year and relatively mild summer weather. SPRB shipments were lower than last year in the first nine months of the year driven by the loss of a customer contract. Shipments from Colorado and Utah mines decreased 17% and 15%, from the third quarter and first nine months of 2012, respectively, driven by high coal stockpiles at customer plants, soft international demand and mine production issues. Severe flooding and washouts in Colorado also reduced volumes from certain producers in the third quarter.

Industrial Products Freight revenue from industrial products increased in the third quarter and year-to-date periods of 2013 versus 2012 driven by volume growth and higher ARC due to pricing gains. Favorable business mix also contributed to the year-to-date growth in ARC. Shipments of non-metallic minerals (primarily frac sand) grew as a result of drilling activity for energy products. Additionally, strength in Texas and California construction markets drove increases in rock and cement shipments. Year-to-date, declines in hazardous waste and ferrous scrap shipments partially offset these volume increases.

Intermodal Pricing gains offset volume declines, increasing freight revenue from intermodal shipments in the third quarter and year-to-date periods of 2013 compared to the same period in 2012. International shipments declined 5% from the third quarter of 2012, driven by market share shifts within the ocean carrier industry and an increase in transloading, where lading is transferred from international to domestic containers at distribution centers near West coast ports. Second and third quarter declines offset the increases reported in the first quarter as year-to-date international shipments were down 2% compared to the same period in 2012. Domestic traffic for the third quarter and year-to-date periods increased 4% and 3%, respectively, driven by conversions from truck transportation to rail.

Mexico Business Each of our commodity groups includes revenue from shipments to and from Mexico. Revenue from Mexico business increased 10% to \$528 million in the third quarter of 2013 versus the same period in 2012. Volume levels increased 2% in the third quarter versus 2012. Strong growth in chemical and automotive shipments were partially offset by declines in agricultural products and intermodal shipments. Year-to-date, revenue grew 6% versus 2012 to \$1.6 billion, driven by higher ARC and strong volume growth in automotive and industrial products. Lower shipments of agricultural products partially offset the revenue growth, as aggregate volumes were flat during the first nine months of 2013.

Operating Expenses

<i>Millions</i>	<i>Three Months Ended</i>			<i>Nine Months Ended</i>		
	<i>September 30,</i>		<i>%</i>	<i>September 30,</i>		<i>%</i>
	<i>2013</i>	<i>2012</i>	<i>Change</i>	<i>2013</i>	<i>2012</i>	<i>Change</i>
Compensation and benefits	\$ 1,196	\$ 1,188	1 %	\$ 3,597	\$ 3,550	1 %
Fuel	866	880	(2)	2,629	2,688	(2)
Purchased services and materials	588	542	8	1,730	1,610	7
Depreciation	447	447	-	1,319	1,307	1
Equipment and other rents	309	300	3	924	895	3
Other	205	200	3	661	606	9
Total	\$ 3,611	\$ 3,557	2 %	\$ 10,860	\$ 10,656	2 %

Table of Contents

Operating expenses increased \$54 million and \$204 million in the third quarter and year-to-date periods of 2013, respectively, versus 2012. Wage and benefit inflation, new logistics management fees and container costs for our automotive business, short-term freight car rental costs, locomotive overhauls and property taxes contributed to higher expenses during the periods. Lower fuel prices partially offset the cost increases.

Compensation and Benefits Compensation and benefits include wages, payroll taxes, health and welfare costs, pension costs, other postretirement benefits, and incentive costs. General wage and benefit inflation, higher employment levels and increased pension and other postretirement benefits drove the increases in the third quarter and year-to-date periods of 2013 versus 2012. The impact of ongoing productivity initiatives during the third quarter, in addition to lower volumes during the first nine months, partially offset these increases.

Fuel Fuel includes locomotive fuel and gasoline for highway and non-highway vehicles and heavy equipment. Locomotive diesel fuel prices, which averaged \$3.17 per gallon (including taxes and transportation costs) in the third quarter of 2013 compared to \$3.19 per gallon in the same period in 2012, reduced expenses. For the nine month period, lower locomotive diesel fuel prices that averaged \$3.17 per gallon versus \$3.21 per gallon in 2012, reduced expenses by \$35 million. In the third quarter, fuel costs were lower as gross-ton miles declined 2% and the fuel consumption rate, computed as gallons of fuel consumed divided by gross ton-miles in thousands, increased 1% compared to 2012. Year-to-date, fuel costs were lower as gross-ton miles declined 2%, mostly offset by a 2% increase in the fuel consumption rate. Declines in heavier, more fuel-efficient coal shipments drove the variances in gross-ton-miles and the fuel consumption rate in the third quarter and year-to-date periods.

Purchased Services and Materials Expense for purchased services and materials includes the costs of services purchased from outside contractors (including equipment maintenance and contract expenses incurred by our logistics subsidiaries for external transportation services); materials used to maintain the Railroad's lines, structures, and equipment; costs of operating facilities jointly used by UPRR and other railroads; transportation and lodging for train crew employees; trucking and contracting costs for intermodal containers; leased automobile maintenance expenses; and tools and supplies. Purchased services increased 9% and 10% compared to the third quarter and year-to-date periods of 2012, respectively, primarily due to logistics management fees, an increase in locomotive overhauls and repairs on jointly owned property.

Depreciation The majority of depreciation relates to road property, including rail, ties, ballast, and other track material. Depreciation expense remained flat in the third quarter of 2013 compared to 2012 and up 1% year-to-date. Recent depreciation studies allowed us to use longer estimated life of service for certain equipment, which offset the impact of a higher depreciable asset base resulting from higher capital spending in recent years.

Equipment and Other Rents Equipment and other rents expense primarily includes rental expense that the Railroad pays for freight cars owned by other railroads or private companies; freight car, intermodal, and locomotive leases; other rent expenses; and office and other rentals. Additional container costs resulting from the logistics management arrangement, and increased automotive shipments, partially offset by lower cycle times drove a \$7 million and \$37 million increase in our short-term freight car rental expense in the third quarter and year-to-date periods of 2013, respectively, compared to the same periods in 2012. Conversely, lower locomotive and freight car lease expenses for the year-to-date period compared to 2012 partially offset the higher freight car rental expense.

Other Other expenses include personal injury, freight and property damage, destruction of equipment owned by others, insurance, environmental, bad debt, state and local taxes, utilities, telephone and cellular, employee travel, computer software, and other general expenses. Other costs in the third quarter increased from 2012 as higher property taxes and damaged freight costs more than offset lower personal injury costs. Year-to-date, higher property taxes and damaged freight and property costs drove the increase from the same period in 2012.

Table of Contents**Non-Operating Items**

<i>Millions</i>	<i>Three Months Ended</i>			<i>Nine Months Ended</i>		
	<i>September 30,</i>		<i>%</i>	<i>September 30,</i>		<i>%</i>
	<i>2013</i>	<i>2012</i>	<i>Change</i>	<i>2013</i>	<i>2012</i>	<i>Change</i>
Other income	\$ 28	\$ 28	-%	\$ 91	\$ 65	40%
Interest expense	(138)	(137)	1	(399)	(407)	(2)
Income taxes	(701)	(635)	10	(1,951)	(1,771)	10

Other Income Other income was flat in the third quarter of 2013 versus 2012 as higher gains from real estate sales and increased lease income offset higher environmental costs associated with non-operating properties. Year-to-date, other income increased due to the favorable impact of a \$17 million land lease contract settlement.

Interest Expense Interest expense increased slightly in the third quarter of 2013 versus 2012 due to an increased weighted-average debt level of \$9.6 billion in 2013 versus \$9.4 billion in 2012 and \$9 million of fees associated with a debt exchange, partially offset by a lower effective interest rate of 5.6% versus 5.8%. A lower effective interest rate of 5.7% versus 6.0% drove the decline in interest for the year-to-date period of 2013 compared to the same period of 2012. The increase in the weighted-average debt level to \$9.5 billion in 2013 from \$9.0 billion in 2012 partially offset the impact of the lower effective interest rate for the year-to-date period.

Income Taxes Higher pre-tax income increased income taxes in the third quarter and year-to-date periods of 2013 compared to 2012. Our effective tax rate for the third quarter of 2013 and 2012 was 37.9%. Our 2013 year-to-date effective tax rate was 37.8% compared to 37.9% in 2012.

OTHER OPERATING/PERFORMANCE AND FINANCIAL STATISTICS

We report key Railroad performance measures weekly to the Association of American Railroads (AAR), including carloads, average daily inventory of rail cars on our system, average train speed, and average terminal dwell time. We provide this data on our website at www.up.com/investors/reports/index.shtml.

Operating/Performance Statistics

Railroad performance measures reported to the AAR, as well as other performance measures, are included in the table below:

	<i>Three Months Ended</i>			<i>Nine Months Ended</i>		
	<i>September 30,</i>		<i>%</i>	<i>September 30,</i>		<i>%</i>
	<i>2013</i>	<i>2012</i>	<i>Change</i>	<i>2013</i>	<i>2012</i>	<i>Change</i>
Average train speed (miles per hour)	26.3	26.1	1 %	26.1	26.4	(1) %
Average terminal dwell time (hours)	26.3	26.0	1 %	26.8	26.0	3 %
Average rail car inventory (thousands)	258.5	268.0	(4) %	261.2	270.7	(4) %
Gross ton-miles (billions)	241.4	245.4	(2) %	704.4	720.4	(2) %
Revenue ton-miles (billions)	131.3	133.3	(2) %	382.7	392.6	(3) %
Operating ratio	64.8	66.6	(1.8) pts	66.5	68.0	(1.5) pts
Employees (average)	46,605	46,205	1 %	46,610	45,882	2 %
Customer satisfaction index	93	94	(1) pt	93	93	- pts

Average Train Speed Average train speed is calculated by dividing train miles by hours operated on our main lines between terminals. Average train speed, as reported to the Association of American Railroads (AAR), improved 1% in the third quarter of 2013 versus the third quarter of 2012. Year-to-date, average train speed declined 1% driven by weather and incident interruptions and increased work on capital projects in higher volume corridors.

Edgar Filing: UNION PACIFIC CORP - Form 10-Q

Average Terminal Dwell Time Average terminal dwell time is the average time that a rail car spends at our terminals. Lower average terminal dwell time improves asset utilization and service. Average terminal dwell time increased 1% and 3% in the third quarter and year-to-date periods of 2013 compared to 2012,

Table of Contents

respectively, primarily due to continuing growth of manifest traffic concentrated in the Southern Region, which requires more time in terminals for switching cars and building trains.

Average Rail Car Inventory Average rail car inventory is the daily average number of rail cars on our lines, including rail cars in storage. Traffic volumes and rail car productivity influence inventory levels. Productivity may be improved through faster train speeds, lower terminal dwell, lower customer dwell and lower hold dwell. Average rail car inventory decreased 4% in the third quarter and year-to-date periods of 2013 compared to 2012, despite a shift in traffic mix to more manifest shipments, which have longer cycle times.

Gross and Revenue Ton-Miles Gross ton-miles are calculated by multiplying the weight of loaded and empty freight cars by the number of miles hauled. Revenue ton-miles are calculated by multiplying the weight of freight by the number of tariff miles. Gross ton-miles declined 2% during the third quarter and year-to-date periods of 2013 compared to 2012, while revenue ton-miles decreased 2% and 3%, respectively. Changes in commodity mix drove the variance in year-over-year declines between gross ton-miles, revenue ton-miles and carloads.

Operating Ratio Operating ratio is our operating expenses reflected as a percentage of operating revenue. Our operating ratio improved 1.8 points to a quarterly record of 64.8% in the third quarter of 2013 versus the same period of 2012 and 1.5 points to 66.5% in the nine-month period of 2013 versus 2012. Core pricing gains and productivity more than offset the impact of inflation in both periods and lower volume in the first half of the year.

Employees Employee levels increased 1% in the third quarter and 2% in the nine-month periods of 2013 compared to the same periods in 2012, driven by a shift in our traffic mix, which requires more resources, largely concentrated in the Southern region. In addition, increased work on capital projects, including positive train control and more individuals in the training pipeline contributed to the higher employee levels.

Customer Satisfaction Index Our customer satisfaction survey asks customers to rate how satisfied they are with our performance over the last 12 months on a variety of attributes. A higher score indicates higher customer satisfaction. An improvement in survey results generally reflects customer recognition of our service quality.

Debt to Capital / Adjusted Debt to Capital

	<i>Sep. 30,</i>	<i>Dec. 31,</i>
<i>Millions, Except Percentages</i>	<i>2013</i>	<i>2012</i>
Debt (a)	\$ 9,455	\$ 8,997
Equity	20,774	19,877
Capital (b)	\$ 30,229	\$ 28,874
	31.3%	31.2%
Debt to capital (a/b)		

	<i>Sep. 30,</i>	<i>Dec. 31,</i>
<i>Millions, Except Percentages</i>	<i>2013</i>	<i>2012</i>
Debt	\$ 9,455	\$ 8,997
Net present value of operating leases	3,027	3,096
Unfunded pension and OPEB	543	679
Adjusted debt (a)	13,025	12,772
Equity	20,774	19,877
Adjusted capital (b)	\$ 33,799	\$ 32,649
Adjusted debt to capital (a/b)	38.5%	39.1%

Edgar Filing: UNION PACIFIC CORP - Form 10-Q

Adjusted debt to capital is a non-GAAP financial measure under SEC Regulation G and Item 10 of SEC Regulation S-K, and may not be defined and calculated by other companies in the same manner. We believe this measure is important to management and investors in evaluating the total amount of leverage in our capital structure, including off-balance sheet lease obligations, which we generally incur in

Table of Contents

connection with financing the acquisition of locomotives and freight cars and certain facilities. Operating leases were discounted using 5.7% at September 30, 2013, and 6.0% at December 31, 2012. The discount rate reflects our effective interest rate. We monitor the ratio of adjusted debt to capital as we manage our capital structure to balance cost-effective and efficient access to the capital markets with the Corporation's overall cost of capital. Adjusted debt to capital should be considered in addition to, rather than as a substitute for, debt to capital. The tables above provide reconciliations from debt to capital to adjusted debt to capital.

LIQUIDITY AND CAPITAL RESOURCES**Financial Condition***Cash Flows*

Millions,

for the Nine Months Ended September 30

	2013	2012
Cash provided by operating activities	\$ 4,881	\$ 4,366
Cash used in investing activities	(2,596)	(2,866)
Cash used in financing activities	(1,982)	(1,587)
Net change in cash and cash equivalents	\$ 303	\$ (87)

Operating Activities

Higher net income in the first nine months of 2013 increased cash provided by operating activities compared to the same period of 2012. In addition, 2012 included payments for past wages as a result of national labor negotiations. Voluntary pension contributions were \$100 million higher in the year-to-date period of 2013 versus 2012.

Investing Activities

Lower capital investments in the first nine months of 2013 drove the decrease in cash used in investing activities due to the timing of these expenditures versus 2012.

The table below details cash capital investments:

Millions,

for the Nine Months Ended September 30,

	2013	2012
Rail and other track material	\$ 591	\$ 558
Ties	361	332
Ballast	176	153
Other [a]	207	193
Total road infrastructure replacements	1,335	1,236
Line expansion and other capacity projects	324	345
Commercial facilities	86	113
Total capacity and commercial facilities	410	458

Locomotives and freight cars	484	798
Positive train control	308	260
Technology and other	98	124
Total cash capital investments	\$ 2,635	\$ 2,876

[a] Other includes bridges and tunnels, signals, other road assets, and road work equipment.

Financing Activities

Cash used in financing activities increased in the first nine months of 2013 versus the same period of 2012, driven by higher dividend payments in 2013 of \$968 million compared to \$860 million in 2012, and an increase of \$253 million for the repurchase of shares under our common stock repurchase program. In

Table of Contents

addition, a debt exchange in August 2013 increased cash used in financing activities by \$288 million in the year-to-date period of 2013 versus 2012.

Free Cash Flow Free cash flow is defined as cash provided by operating activities less cash used in investing activities and dividends paid. Free cash flow was higher in 2013 due to higher net income and lower capital investments.

Free cash flow is not considered a financial measure under accounting principles generally accepted in the U.S. (GAAP) by SEC Regulation G and Item 10 of SEC Regulation S-K and may not be defined and calculated by other companies in the same manner. We believe free cash flow is important to management and investors in evaluating our financial performance and measures our ability to generate cash without additional external financings. Free cash flow should be considered in addition to, rather than as a substitute for, cash provided by operating activities. The following table reconciles cash provided by operating activities (GAAP measure) to free cash flow (non-GAAP measure):

Millions,

for the Nine Months Ended September 30,

	2013	2012
Cash provided by operating activities	\$ 4,881	\$ 4,366
Cash used in investing activities	(2,596)	(2,866)
Dividends paid	(968)	(860)
Free cash flow	\$ 1,317	\$ 640

Credit Facilities At September 30, 2013, we had \$1.8 billion of credit available under our revolving credit facility (the facility), which is designated for general corporate purposes and supports the issuance of commercial paper. We did not draw on the facility at any time during the nine months ended September 30, 2013. 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 matures in 2015 under a four year term and requires the Corporation to maintain a debt-to-net-worth coverage ratio as a condition to making a borrowing. At September 30, 2013, and December 31, 2012 (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, 2013, the debt-to-net-worth coverage ratio allowed us to carry up to \$42 billion of debt (as defined in the facility), and we had \$10.0 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 three and nine months ended September 30, 2013, we did not issue or repay any commercial paper, and at September 30, 2013, we had no commercial paper outstanding. Our revolving credit facility supports our outstanding commercial paper balances, and, unless we change the terms of our commercial paper program, our aggregate issuance of commercial paper will not exceed the amount of borrowings available under the facility.

Shelf Registration Statement and Significant New Borrowings We filed a new automatic shelf registration statement that became effective on February 8, 2013. The Board of Directors authorized the issuance of up to \$4 billion of debt securities, replacing the \$1.4 billion of authority remaining under our shelf registration filed in February 2010. SEC rules require UPC, a large accelerated filer, to file a new shelf registration statement every three years. Under the 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

Table of Contents

through issuances of debt securities under our shelf registration, and, therefore, we may issue additional debt securities at any time.

On March 15, 2013, we issued \$325 million of 2.75% unsecured fixed-rate notes and \$325 million of 4.25% unsecured fixed-rate notes under our shelf registration statement. The 2.75% notes will mature on April 15, 2023, and the 4.25% notes will mature on April 15, 2043. Proceeds from this offering are for general corporate purposes, including the repurchase of common stock pursuant to our share repurchase program. These debt securities include change-of-control provisions. At September 30, 2013, we had remaining authority from our Board of Directors to issue up to \$3.35 billion of debt securities under the shelf registration.

At September 30, 2013, and December 31, 2012, we reclassified as long-term debt approximately \$400 million and \$100 million, respectively, 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 August 21, 2013, we exchanged \$1,170 million of various outstanding notes and debentures due between 2016 and 2040 (Existing Notes) for \$439 million of 3.646% notes (New 2024 Notes) due February 15, 2024 and \$700 million of 4.821% notes (New 2044 Notes) due February 1, 2044, plus cash consideration of approximately \$280 million in addition to \$8 million for accrued and unpaid interest on the Existing Notes. In accordance with ASC 470-50-40, Debt-Modifications and Extinguishments-Derecognition, this transaction was accounted for as a debt exchange, as the exchanged debt instruments are not considered to be substantially different. 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 terms of the New 2024 Notes and the New 2044 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 \$9 million and were included in interest expense during the three months ended September 30, 2013.

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

<i>Millions</i>	<i>Principal amount exchanged</i>
The 2024 Offers	
7.000% Debentures due 2016	\$ 8
5.650% Notes due 2017	38
5.750% Notes due 2017	70
5.700% Notes due 2018	103
7.875% Notes due 2019	20
6.125% Notes due 2020	238
The 2044 Offers	
7.125% Debentures due 2028	73
6.625% Debentures due 2029	177
6.250% Debentures due 2034	19
6.150% Debentures due 2037	138
5.780% Notes due 2040	286
Total	\$ 1,170

Debt Redemption On May 14, 2013, we redeemed all \$40 million of our outstanding 5.65% Port of Corpus Christi Authority Revenue Refunding Bonds due December 1, 2022. The redemption resulted in an early extinguishment charge of \$1 million during the three months ended June 30, 2013.

Receivables Securitization Facility The Railroad maintains a \$600 million, 364-day receivables securitization facility under which it sells most of its eligible third-party receivables to Union Pacific Receivables, Inc. (UPRI), a wholly-owned, bankruptcy-remote subsidiary that may subsequently transfer, without recourse an undivided interest in accounts receivable to investors. The investors have no

Table of Contents

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.

The amount outstanding under the facility was \$400 million and \$100 million at September 30, 2013, and December 31, 2012, respectively. The amount outstanding under the facility was supported by \$1.2 billion and \$1.1 billion of accounts receivable as collateral at September 30, 2013, and December 31, 2012, respectively, which, as a retained interest, is included in accounts receivable, net in our Condensed Consolidated Statements of Financial Position.

The outstanding amounts the Railroad is allowed to maintain under the facility, with a maximum of \$600 million, may fluctuate based on the availability of eligible receivables and are directly affected by business volumes and credit risks, including receivables payment quality measures such as default and dilution ratios. If default or dilution ratios increase one percent, amounts allowed to be outstanding under the facility would not materially change.

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 for the three months ended September 30, 2013, and 2012, and \$3 million for the nine months ended September 30, 2013, and 2012.

In July 2013, the \$600 million receivables securitization facility was renewed for an additional 364-day period at comparable terms and conditions.

Share Repurchase Program

Effective April 1, 2011, our Board of Directors authorized the repurchase of up to 40 million shares of our common stock by March 31, 2014, replacing our previous repurchase program. As of September 30, 2013, we repurchased a total of \$8.6 billion of our common stock since the commencement of our repurchase programs. The table below represents shares repurchased under the new repurchase program.

	<i>Number of Shares Purchased</i>		<i>Average Price Paid</i>	
	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>
First quarter	2,881,400	3,917,369	\$ 136.58	\$ 110.64
Second quarter	3,061,470	3,770,528	151.42	110.02
Third quarter	3,666,894	3,098,812	156.77	122.13
Total	9,609,764	10,786,709	\$ 149.01	\$ 113.72

Remaining number of shares that may be repurchased under current authority	5,426,185
--	-----------

Management's assessments of market conditions and other pertinent facts guide the timing and volume of all repurchases. We expect to fund any share repurchases under this program through cash generated from operations, the sale or lease of various operating and non-operating properties, debt issuances, and cash on hand. Repurchased shares are recorded in treasury stock at cost, which includes any applicable commissions and fees.

Off-Balance Sheet Arrangements, Contractual Obligations, and Commercial Commitments

As described in the notes to the Condensed Consolidated Financial Statements and as referenced in the tables below, we have contractual obligations and commercial commitments that may affect our financial condition. However, based on our assessment of the underlying provisions and circumstances of our contractual obligations and commercial commitments, including material sources of off-balance sheet and structured finance arrangements, there is no known trend, demand, commitment, event, or uncertainty that is reasonably likely to occur that would have a material adverse effect on our consolidated results of operations, financial condition, or liquidity. In addition, our commercial obligations, financings, and commitments are customary transactions that are similar to those of other comparable corporations, particularly within the transportation industry.

Table of Contents

The following tables identify material obligations and commitments as of September 30, 2013:

Contractual Obligations

Millions	Total	Payments Due by Dec. 31,						
		Oct. 1 through Dec. 31, 2013	2014	2015	2016	2017	After 2017	Other
Debt [a]	\$ 13,748	\$ 60	\$ 1,299	\$ 630	\$ 759	\$ 792	\$ 10,208	\$ -
Operating leases [b]	4,019	81	494	448	413	379	2,204	-
Capital lease obligations [c]	2,187	31	264	253	232	242	1,165	-
Purchase obligations [d]	4,484	848	1,975	382	339	217	691	32
Other postretirement benefits [e]	420	11	44	45	45	46	229	-
Income tax contingencies [f]	115	-	-	-	-	-	-	115
Total contractual obligations	\$ 24,973	\$ 1,031	\$ 4,076	\$ 1,758	\$ 1,788	\$ 1,676	\$ 14,497	\$ 147

[a] Excludes capital lease obligations of \$1,681 million and unamortized discount of (\$609) million. Includes an interest component of \$5,365 million.

[b] Includes leases for locomotives, freight cars, other equipment, and real estate.

[c] Represents total obligations, including interest component of \$506 million.

[d] Purchase obligations include locomotive maintenance contracts; purchase commitments for fuel purchases, locomotives, ties, ballast, and rail; and agreements to purchase other goods and services. For amounts where we cannot reasonably estimate the year of settlement, they are reflected in the Other column.

[e] Includes estimated other postretirement, medical, and life insurance payments and payments made under the unfunded pension plan for the next ten years.

[f] Future cash flows for income tax contingencies reflect the recorded liabilities and assets for unrecognized tax benefits, including interest and penalties, as of September 30, 2013. For amounts where the year of settlement is uncertain, they are reflected in the Other column.

Other Commercial Commitments

Millions	Total	Amount of Commitment Expiration by Dec. 31,						
		Oct. 1 through Dec. 31, 2013	2014	2015	2016	2017	After 2017	
Credit facilities [a]	\$ 1,800	\$ -	\$ -	\$ 1,800	\$ -	\$ -	\$ -	\$ -
Receivables securitization facility [b]	600	-	600	-	-	-	-	-
Guarantees [c]	302	3	214	12	30	10	33	-
Standby letters of credit [d]	27	7	17	3	-	-	-	-

	\$ 2,729	\$ 10	\$ 831	\$ 1,815	\$ 30	\$ 10	\$ 33
Total commercial commitments							

[a] None of the credit facility was used as of September 30, 2013.

[b] \$400 million of the receivables securitization facility was utilized at September 30, 2013, which is accounted for as debt. The full program matures in July 2014.

[c] Includes guaranteed obligations related to our headquarters building, equipment financings, and affiliated operations.

[d] None of the letters of credit were drawn upon as of September 30, 2013.

OTHER MATTERS

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.

Indemnities Our maximum potential exposure under indemnification arrangements, including certain tax indemnifications, can range from a specified dollar amount to an unlimited amount, depending on the nature of the transactions and the agreements. Due to uncertainty as to whether claims will be made or how they will be resolved, we cannot reasonably determine the probability of an adverse claim or

Table of Contents

reasonably estimate any adverse liability or the total maximum exposure under these indemnification arrangements. We do not have any reason to believe that we will be required to make any material payments under these indemnity provisions.

Accounting Pronouncements On February 5, 2013, the FASB issued Accounting Standards Update 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASU 2013-02)*, which adds additional disclosure requirements for items reclassified out of accumulated other comprehensive income. We adopted this ASU during the three months ended March 31, 2013.

CAUTIONARY INFORMATION

Certain statements in this report, and statements in other reports or information filed or to be filed with the SEC (as well as information included in oral statements or other written statements made or to be made by us), are, or will be, forward-looking statements as defined by the Securities Act of 1933 and the Securities Exchange Act of 1934. These forward-looking statements and information include, without limitation, the statements and information set forth under the caption *Liquidity and Capital Resources* in Item 2 regarding our capital plan and statements under the caption *Off-Balance Sheet Arrangements, Contractual Obligations, and Commercial Commitments*. Forward-looking statements and information also include any other statements or information in this report regarding: expectations as to operational or service improvements; expectations regarding the effectiveness of steps taken or to be taken to improve operations, service, infrastructure improvements, and transportation plan modifications; expectations as to cost savings, revenue growth, and earnings; the time by which goals, targets, or objectives will be achieved; projections, predictions, expectations, estimates, or forecasts as to our business, financial and operational results, future economic performance, and general economic conditions; proposed new products and services; estimates of costs relating to environmental remediation and restoration; estimates and expectations regarding tax matters, expectations that claims, litigation, environmental costs, commitments, contingent liabilities, labor negotiations or agreements, or other matters will not have a material adverse effect on our consolidated results of operations, financial condition, or liquidity and any other similar expressions concerning matters that are not historical facts.

Forward-looking statements and information reflect the good faith consideration by management of currently available information, and may be based on underlying assumptions believed to be reasonable under the circumstances. However, such information and assumptions (and, therefore, such forward-looking statements and information) are or may be subject to variables or unknown or unforeseeable events or circumstances over which management has little or no influence or control. The Risk Factors in Item 1A of our 2012 Annual Report on Form 10-K, filed February 8, 2013, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements, and this report, including this Item 2, should be read in conjunction with these Risk Factors. To the extent circumstances require or we deem it otherwise necessary, we will update or amend these risk factors in a Form 10-Q or Form 8-K. Information regarding new risk factors or material changes to our risk factors, if any, is set forth in Item 1A of Part II of this report. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times that, or by which, such performance or results will be achieved. Forward-looking information is subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements.

Forward-looking statements speak only as of the date the statement was made. We assume no obligation to update forward-looking information to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect thereto or with respect to other forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes to the Quantitative and Qualitative Disclosures About Market Risk previously disclosed in our 2012 Annual Report on Form 10-K.

Table of Contents

Item 4. Controls and Procedures

As of the end of the period covered by this report, the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer (CEO) and Executive Vice President Finance and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Based upon that evaluation, the CEO and the CFO concluded that, as of the end of the period covered by this report, the Corporation's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC, and that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Additionally, the CEO and CFO determined that there were no changes to the Corporation's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in legal proceedings, claims, and litigation that occur in connection with our business. We routinely assess our liabilities and contingencies in connection with these matters based upon the latest available information and, when necessary, we seek input from our third-party advisors when making these assessments. Consistent with SEC rules and requirements, we describe below material pending legal proceedings (other than ordinary routine litigation incidental to our business), material proceedings known to be contemplated by governmental authorities, other proceedings arising under federal, state, or local environmental laws and regulations (including governmental proceedings involving potential fines, penalties, or other monetary sanctions in excess of \$100,000), and such other pending matters that we may determine to be appropriate.

Environmental Matters

As previously reported in the 2012 10-K, on January 14, 2013, the Illinois Attorney General's Office notified UPRR that it will seek a penalty against the Railroad for environmental conditions caused by its predecessor at a former locomotive fueling facility in South Pekin, Illinois. This former CNW facility discontinued fueling operations in the early 1980s. Subsequent environmental investigation revealed evidence of fuel releases to soil and groundwater. In January 2007, the State rejected UPRR's proposed compliance commitment agreement and responded with a notice of intent to pursue legal action. UPRR continued to perform remedial investigations under the supervision of the Illinois EPA. In June 2012, the Illinois EPA approved UPRR's proposed remedial action plan for the contamination. Although no further action is required for the contamination, the State is now seeking to recover a penalty. The State offered to settle the matter prior to litigation for payment of a \$240,000 penalty. UPRR rejected that offer, and settlement negotiations are continuing. If we are unable to reach an agreement, the state will pursue legal action for a penalty, which we expect will exceed \$100,000.

We received notices from the EPA and state environmental agencies alleging that we are or may be liable under federal or state environmental laws for remediation costs at various sites throughout the U.S., including sites on the Superfund National Priorities List or state superfund lists. We cannot predict the ultimate impact of these proceedings and suits because of the number of potentially responsible parties involved, the degree of contamination by various wastes, the scarcity and quality of volumetric data related to many of the sites, and the speculative nature of remediation costs.

Information concerning environmental claims and contingencies and estimated remediation costs is set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Environmental, Item 7 of our 2012 Annual Report on Form 10-K.

Table of Contents**Other Matters**

Antitrust Litigation As we reported in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, 20 rail shippers (many of whom are represented by the same law firms) filed virtually identical antitrust lawsuits in various federal district courts against us and four other Class I railroads in the U.S. Currently, UPRR and three other Class I railroads are the named defendants in the lawsuit. The original plaintiff filed the first of these claims in the U.S. District Court in New Jersey on May 14, 2007. The total number of complaints stands at 30. These suits allege that the named railroads engaged in price-fixing by establishing common fuel surcharges for certain rail traffic.

In addition to suits filed by direct purchasers of rail transportation, a few of the suits involved plaintiffs alleging that they are or were indirect purchasers of rail transportation and sought to represent a purported class of indirect purchasers of rail transportation that paid fuel surcharges. These complaints added allegations under state antitrust and consumer protection laws. On November 6, 2007, the Judicial Panel on Multidistrict Litigation ordered that all of the rail fuel surcharge cases be transferred to Judge Paul Friedman of the U.S. District Court in the District of Columbia for coordinated or consolidated pretrial proceedings. Following numerous hearings and rulings, Judge Friedman dismissed the complaints of the indirect purchasers, which the indirect purchasers appealed. On April 16, 2010, the U.S. Court of Appeals for the District of Columbia affirmed Judge Friedman's ruling dismissing the indirect purchasers' claims based on various state laws.

With respect to the direct purchasers' complaint, Judge Friedman conducted a two-day hearing on October 6 and 7, 2010, on the class certification issue and the railroad defendants' motion to exclude evidence of interline communications. On April 7, 2011, Judge Friedman issued an order deferring any decision on class certification until the Supreme Court issued its decision in the Wal-Mart employment discrimination case.

On June 21, 2012, Judge Friedman issued his decision, which certified a class of plaintiffs with eight named plaintiff representatives. The decision included in the class all shippers that paid a rate-based fuel surcharge to any one of the defendant railroads for rate-unregulated rail transportation from July 1, 2003, through December 31, 2008. This was a procedural ruling, which did not affirm any of the claims asserted by the plaintiffs and does not affect the ability of the railroad defendants to disprove the allegations made by the plaintiffs. On July 5, 2012, the defendant railroads filed a petition with the U.S. Court of Appeals for the District of Columbia requesting that the court review the class certification ruling. On August 28, 2012, a panel of the Circuit Court of the District of Columbia referred the petition to a merits panel of the court to address the issues in the petition and to address whether the district court properly granted class certification. The Circuit Court heard oral arguments on May 3, 2013. On August 9, 2013, the Circuit Court vacated the class certification decision and remanded the case to the district court to reconsider the class certification decision in light of a recent Supreme Court case and incomplete consideration of errors in the expert report of the plaintiffs. Judge Friedman vacated the schedule for motions and ordered the parties to file briefs on the scope of the remand from the Circuit Court. The parties are waiting for a new briefing schedule.

As we reported in our Current Report on Form 8-K, filed on June 10, 2011, the Railroad received a complaint filed in the U.S. District Court for the District of Columbia on June 7, 2011, by Oxbow Carbon & Minerals LLC and related entities (Oxbow). The complaint named the Railroad and one other U.S. Class I Railroad as defendants and alleged that the named railroads engaged in price-fixing and monopolistic practices in connection with fuel surcharge programs and pricing of shipments of certain commodities, including coal and petroleum coke. The complaint sought injunctive relief and payment of damages of over \$30 million, and other unspecified damages, including treble damages. Some of the allegations in the complaint were addressed in the existing fuel surcharge litigation referenced above. The complaint also included additional unrelated allegations regarding alleged limitations on competition for shipments of Oxbow's commodities. Judge Friedman, who presides over the fuel surcharge matter described above, also presides over this matter. On February 26, 2013, Judge Friedman granted the defendants' motion to dismiss Oxbow's complaint for failure to state properly a claim under the antitrust laws. However, the dismissal was without prejudice to refile the complaint. Judge Friedman approved a schedule that allowed Oxbow to file a revised complaint, which Oxbow filed on May 1, 2013. The amended complaint alleges that UPRR and one other Class I railroad violated Sections 1 and 2 of the Sherman Antitrust Act and that UPRR also breached a tolling agreement between Oxbow and UPRR. Oxbow claims that it paid more

Table of Contents

than \$50 million in wrongfully imposed fuel surcharges. UPRR and the other railroad filed separate motions to dismiss the Oxbow revised complaint on July 1, 2013.

We deny the allegations that our fuel surcharge programs violate the antitrust laws or any other laws. We believe that these lawsuits are without merit, and we will vigorously defend our actions. Therefore, we currently believe that these matters will not have a material adverse effect on any of our results of operations, financial condition, and liquidity.

Item 1A. Risk Factors

There were no material changes from the risk factors previously disclosed in our 2012 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities The following table presents common stock repurchases during each month for the third quarter of 2013:

<i>Period</i>	<i>Total Number of Shares Purchased [a]</i>	<i>Average Price Paid Per Share</i>	<i>Total Number of Shares Purchased as Part of Publicly Announced Plan or Program [b]</i>	<i>Maximum Number of Shares That May Be Purchased Under Current Authority [b]</i>
Jul. 1 through Jul. 31	1,166,945	\$ 158.24	1,162,264	7,930,815
Aug. 1 through Aug. 31	1,912,926	156.50	1,909,043	6,021,772
Sep. 1 through Sep. 30	598,006	154.84	595,587	5,426,185
Total	3,677,877	\$ 156.78	3,666,894	N/A

[a] Total number of shares purchased during the quarter includes 10,983 shares delivered or attested to UPC by employees to pay stock option exercise prices, satisfy excess tax withholding obligations for stock option exercises or vesting of retention units, and pay withholding obligations for vesting of retention shares.

[b] On April 1, 2011, our Board of Directors authorized the repurchase of up to 40 million shares of our common stock by March 31, 2014. These repurchases may be made on the open market or through other transactions. Our management has sole discretion with respect to determining the timing and amount of these transactions.

Dividend Restrictions Our revolving credit facility includes a debt-to-net worth covenant that, under certain circumstances, restricts the payment of cash dividends to our shareholders. The amount of retained earnings available for dividends was \$15.8 billion and \$15.1 billion at September 30, 2013, and December 31, 2012, respectively.

Table of Contents

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
<u>Filed with this Statement</u>	
12(a)	Ratio of Earnings to Fixed Charges for the Three Months Ended September 30, 2013 and 2012.
12(b)	Ratio of Earnings to Fixed Charges for the Nine Months Ended September 30, 2013 and 2012.
31(a)	Certifications Pursuant to Rule 13a-14(a), of the Exchange Act, as Adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - John J. Koraleski.
31(b)	Certifications Pursuant to Rule 13a-14(a), of the Exchange Act, as Adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Robert M. Knight, Jr.
32	Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - John J. Koraleski and Robert M. Knight, Jr.
101	eXtensible Business Reporting Language (XBRL) documents submitted electronically: 101.INS (XBRL Instance Document), 101.SCH (XBRL Taxonomy Extension Schema Document), 101.CAL (XBRL Calculation Linkbase Document), 101.LAB (XBRL Taxonomy Label Linkbase Document), 101.DEF (XBRL Taxonomy Definition Linkbase Document) and 101.PRE (XBRL Taxonomy Presentation Linkbase Document). The following financial and related information from Union Pacific Corporation's Quarterly Report on Form 10-Q for the period ended September 30, 2013 (filed with the SEC on October 17, 2013), is formatted in XBRL and submitted electronically herewith: (i) Condensed Consolidated Statements of Income for the periods ended September 30, 2013 and 2012, (ii) Condensed Consolidated Statements of Comprehensive Income for the periods ended September 30, 2013 and 2012, (iii) Condensed Consolidated Statements of Financial Position at September 30, 2013 and December 31, 2012, (iv) Condensed Consolidated Statements of Cash Flows for the periods ended September 30, 2013 and 2012, (v) Condensed Consolidated Statements of Changes in Common Shareholders' Equity for the periods ended September 30, 2013 and 2012, and (vi) the Notes to the Condensed Consolidated Financial Statements.
<u>Incorporated by Reference</u>	
3(a)	Revised Articles of Incorporation of UPC, as amended through June 27, 2011, are incorporated herein by reference to Exhibit 3(a) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011.
3(b)	By-Laws of UPC, as amended, effective May 14, 2009, are incorporated herein by reference to Exhibit 3.2 to the Corporation's Current Report on Form 8-K dated May 15, 2009.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: October 17, 2013

UNION PACIFIC CORPORATION

(Registrant)

By /s/ Robert M. Knight, Jr.
Robert M. Knight, Jr.
Executive Vice President Finance and
Chief Financial Officer
(Principal Financial Officer)

By /s/ Jeffrey P. Totusek
Jeffrey P. Totusek
Vice President and Controller
(Principal Accounting Officer)