UNION PACIFIC CORP
Form 10-Q
October 17, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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)

UTAH	**13-2626465**
(State or other jurisdiction of incorporation or organization)	(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.

þ Yes ¨ No

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

þ Yes ¨ No

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

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

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

¨ Yes þ No

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

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

Condensed Consolidated Statements of Income (Unaudited)

Union Pacific Corporation and Subsidiary Companies

Millions, Except Per Share Amounts, for the Three Months Ended September 30,	*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

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.

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Condensed Consolidated Statements of Income (Unaudited)

Union Pacific Corporation and Subsidiary Companies

Millions, Except Per Share Amounts, for the Nine Months Ended September 30,	***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, for the Nine Months Ended September 30,	***2013***	*2012*

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.

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Condensed Consolidated Statements of Financial Position (Unaudited)

Union Pacific Corporation and Subsidiary Companies

Millions, Except Share and Per Share Amounts	***September 30, 2013***	*December 31, 2012*
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

Total liabilities and common shareholders equity	**$ 48,958**	$ 47,153

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

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Condensed Consolidated Statements of Cash Flows (Unaudited)

Union Pacific Corporation and Subsidiary Companies

Millions, for the Nine Months Ended September 30,	***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.

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

Union Pacific Corporation and Subsidiary Companies

Millions	*Common Shares*	*Treasury Shares*	*Common Shares*	*Paid-in-Surplus*	*Retained Earnings*	*Treasury Stock*	*AOCI [a]*	*Total*
Balance at January 1, 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.

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UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

1. Basis of Presentation

Our Condensed Consolidated Financial Statements are unaudited and reflect all adjustments (consisting of normal and recurring adjustments) that are, in the opinion of management, necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Our Consolidated Statement of Financial Position at December 31, 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:

	Three Months Ended September 30,		*Nine Months Ended September 30,*	
Millions	***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

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.

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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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Millions	***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:

Weighted-Average Assumptions	***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:

	Options (thous.)	*Weighted-Average Exercise Price*	*Weighted-Average Remaining Contractual Term*	*Aggregate Intrinsic Value (millions)*
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

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.

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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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Millions	***2013***	*2012*	***2013***	*2012*
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:

	Shares (thous.)	*Weighted-Average Grant-Date Fair Value*
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:

	2013
Dividend per share per quarter	$ 0.69
Risk-free interest rate at date of grant	0.4%

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

	Shares (thous.)	*Weighted-Average Grant-Date Fair Value*
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:

	Three Months Ended September 30,		*Nine Months Ended September 30,*	
Millions	***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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Millions	***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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Millions	***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.

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.

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8. Earnings Per Share

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

Millions, Except Per Share Amounts	*Three Months Ended September 30,* **2013**	*2012*	*Nine Months Ended September 30,* **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):

Millions	*Defined benefit plans*	*Foreign currency translation*	*Derivatives*	*Total*
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

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.*

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Millions	*Defined benefit plans*	*Foreign currency translation*	*Derivatives*	*Total*
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.

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

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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 *As of September 30, 2013*	*Cost*	*Accumulated Depreciation*	*Net Book Value*	*Estimated Useful Life*
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 *As of December 31, 2012*	*Cost*	*Accumulated Depreciation*	*Net Book Value*	*Estimated Useful Life*
	$ 5,105	$ N/A	$ 5,105	N/A

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.

12. Accounts Payable and Other Current Liabilities

Millions		***Sep. 30, 2013***		*Dec. 31, 2012*
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

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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.

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

Millions	*Principal amount exchanged*
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.

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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, for the Nine Months Ended September 30,		***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.

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Our asbestos-related liability activity was as follows:

Millions, for the Nine Months Ended September 30,		***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, for the Nine Months Ended September 30,		***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 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

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

	Number of Shares Purchased		*Average Price Paid*	
	2013	*2012*	***2013***	*2012*
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.

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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 U 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

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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

	Three Months Ended September 30,		*%*	*Nine Months Ended September 30,*		*%*
Millions	***2013***	*2012*	***Change***	***2013***	*2012*	***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.