

UNION PACIFIC CORP  
Form 10-Q  
April 24, 2009  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

- x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
**For the quarterly period ended March 31, 2009**

- 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**  
(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**

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(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 April 17, 2009, there were 504,104,879 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 March 31, 2009 and 2008</u>	3
---	---

<u>CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Unaudited)</u> <u>At March 31, 2009 and December 31, 2008</u>	4
--	---

<u>CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)</u> <u>For the Three Months Ended March 31, 2009 and 2008</u>	5
---	---

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON SHAREHOLDERS

<u>EQUITY (Unaudited)</u> <u>For the Three Months Ended March 31, 2009 and 2008</u>	6
--	---

<u>NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)</u>	7
---	---

<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
--	----

<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	35
---	----

<u>Item 4. Controls and Procedures</u>	35
--	----

**PART II. OTHER INFORMATION**

<u>Item 1. Legal Proceedings</u>	35
----------------------------------	----

<u>Item 1A. Risk Factors</u>	36
------------------------------	----

<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	37
--	----

<u>Item 3. Defaults Upon Senior Securities</u>	37
--	----

<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	37
--	----

<u>Item 5. Other Information</u>	37
----------------------------------	----

<u>Item 6. Exhibits</u>	38
-------------------------	----

<u>Signatures</u>	39
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Table of Contents	3
-------------------	---

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 March 31,</i>	<b>2009</b>	<b>2008</b>
Operating revenues:		
Freight revenues	\$ 3,240	\$ 4,059
Other revenues	175	211
Total operating revenues	3,415	4,270
Operating expenses:		
Compensation and benefits	1,070	1,132
Purchased services and materials	399	469
Fuel	386	957
Depreciation	345	340
Equipment and other rents	317	342
Other	226	242
Total operating expenses	2,743	3,482
Operating income	672	788
Other income (note 6)	23	25
Interest expense	(141)	(126)
Income before income taxes	554	687
Income taxes	(192)	(244)
Net income	\$ 362	\$ 443
Share and Per Share (notes 3 and 8):		
Earnings per share basic	\$ 0.72	\$ 0.86
Earnings per share diluted	\$ 0.72	\$ 0.85
Weighted average number of shares basic	502.7	518.4
Weighted average number of shares diluted	504.6	522.8
Dividends declared per share	\$ 0.27	\$ 0.22

*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 of Dollars</i>	<i>Mar. 31,</i> <i>2009</i>	<i>Dec. 31,</i> <i>2008</i>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,466	\$ 1,249
Accounts receivable, net	548	594
Materials and supplies	446	450
Current deferred income taxes	290	276
Other current assets	267	244
Total current assets	3,017	2,813
Investments	947	974
Net properties (note 10)	35,856	35,701
Other assets	379	234
Total assets	\$ 40,199	\$ 39,722
<b>Liabilities and Common Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and other current liabilities (note 11)	\$ 2,545	\$ 2,560
Debt due within one year (note 13)	137	320
Total current liabilities	2,682	2,880
Debt due after one year (note 13)	9,058	8,607
Deferred income taxes	10,317	10,282
Other long-term liabilities	2,488	2,506
Commitments and contingencies (note 14)		
Total liabilities	24,545	24,275
Common shareholders' equity (note 3):		
Common shares, \$2.50 par value, 800,000,000 authorized; 553,529,362 and 552,775,812 issued; 504,087,959 and 503,225,705 outstanding, respectively	1,384	1,382
Paid-in-surplus	3,943	3,949
Retained earnings	14,040	13,813
Treasury stock	(2,983)	(2,993)
Accumulated other comprehensive loss (note 9)	(730)	(704)
Total common shareholders' equity	15,654	15,447
Total liabilities and common shareholders' equity	\$ 40,199	\$ 39,722

*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 of Dollars,*

<i>for the Three Months Ended March 31,</i>	<b>2009</b>	<b>2008</b>
<b>Operating Activities</b>		
Net income	\$ 362	\$ 443
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	345	340
Deferred income taxes and unrecognized tax benefits	20	36
Stock-based compensation expense	12	14
Net gain from asset sales	(6)	(11)
Other operating activities, net	(22)	55
Changes in current assets and liabilities, net	12	(42)
Cash provided by operating activities	723	835
<b>Investing Activities</b>		
Capital investments	(526)	(620)
Proceeds from asset sales	12	28
Acquisition of equipment pending financing	(113)	(136)
Other investing activities, net	(6)	(43)
Cash used in investing activities	(633)	(771)
<b>Financing Activities</b>		
Debt issued	843	842
Common share repurchases (note 15)	-	(455)
Debt repaid	(581)	(416)
Dividends paid	(136)	(115)
Cash received from option exercises	-	27
Treasury shares repurchased for employee payroll taxes	-	(8)
Excess tax benefits from equity compensation plans	2	12
Other financing activities, net	(1)	(2)
Cash provided by/(used in) financing activities	127	(115)
Net change in cash and cash equivalents	217	(51)
Cash and cash equivalents at beginning of year	1,249	878
Cash and cash equivalents at end of period	\$ 1,466	\$ 827
<b>Changes in Current Assets and Liabilities</b>		
Accounts receivable, net	\$ 46	\$ (71)
Materials and supplies	4	(61)
Other current assets	(23)	48
Accounts payable and other current liabilities	(15)	42
Total	\$ 12	\$ (42)
<b>Supplemental Cash Flow Information</b>		
Non-cash investing and financing activities:		
Cash dividends declared but not yet paid	\$ 132	\$ 110
Capital investments accrued but not yet paid	72	105
Common shares repurchased but not yet paid	-	30
Cash (paid)/refunded for:		
Interest, net of amounts capitalized	\$ (188)	\$ (154)
Income taxes	59	(6)

*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 of Dollars</i>	<i>Common Treasury</i>		<i>Common</i>	<i>Paid-in-</i>	<i>Retained</i>	<i>Treasury</i>	<i>Accumulated Other Comprehensive Loss</i>	<i>Total</i>
	<i>Shares</i>	<i>Shares</i>						
<i>Thousands of Shares</i>	<i>(note 3)</i>						<i>(note 9)</i>	
Balance at January 1, 2008	276,162	(15,292)	\$ 690	\$3,926	\$12,667	\$(1,624)	\$ (74)	\$15,585
Comprehensive income:								
Net income			-	-	443	-	-	443
Other comp. loss			-	-	-	-	(2)	(2)
Total comp. income (note 9)			-	-	443	-	(2)	441
Conversion, stock option exercises, forfeitures, and other	237	436	1	3	-	44	-	48
Share repurchases (note 15)	-	(3,256)	-	-	-	(403)	-	(403)
Dividends declared (\$0.44 per share)	-	-	-	-	(114)	-	-	(114)
Balance at March 31, 2008	276,399	(18,112)	\$ 691	\$3,929	\$12,996	\$(1,983)	\$ (76)	\$15,557
Balance at January 1, 2009	552,776	(49,550)	\$1,382	\$3,949	\$13,813	\$(2,993)	\$(704)	\$15,447
Comprehensive income:								
Net income			-	-	362	-	-	362
Other comp. loss			-	-	-	-	(26)	(26)
Total comp. income (note 9)			-	-	362	-	(26)	336
Conversion, stock option exercises, forfeitures, and other	753	109	2	(6)	-	10	-	6
Share repurchases (note 15)	-	-	-	-	-	-	-	-
Cash dividends declared (\$0.27 per share)	-	-	-	-	(135)	-	-	(135)
<b>Balance at March 31, 2009</b>	<b>553,529</b>	<b>(49,441)</b>	<b>\$1,384</b>	<b>\$3,943</b>	<b>\$14,040</b>	<b>\$(2,983)</b>	<b>\$(730)</b>	<b>\$15,654</b>

*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 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. Our Consolidated Statement of Financial Position at December 31, 2008, 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 2008 Annual Report on Form 10-K. The results of operations for the three months ended March 31, 2009, are not necessarily indicative of the results for the entire year ending December 31, 2009.

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

<i>Millions of Dollars</i>	<i>Three Months Ended</i>	
	<i>2009</i>	<i>2008</i>
Agricultural	\$ 661	\$ 756
Automotive	162	363
Chemicals	513	603
Energy	807	857
Industrial Products	546	773
Intermodal	551	707
Total freight revenues	\$ 3,240	\$ 4,059
Other revenues	175	211
Total operating revenues	\$ 3,415	\$ 4,270

**3. Stock Split** On May 28, 2008, we completed a two-for-one stock split, effected in the form of a 100% stock dividend. The stock split entitled all shareholders of record at the close of business on May 12, 2008, to receive one additional share of our common stock, par value \$2.50 per share, for each share of common stock held on that date. All references to common shares and per share amounts (excluding the Condensed Consolidated Statement of Changes in Common Shareholders' Equity for the three month period ended March 31, 2008) have been restated to reflect the stock split for all periods presented.

**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 vest. Information regarding stock-based compensation appears in the table below:

<i>Millions of Dollars</i>	<i>Three Months Ended</i>	
	<i>March 31,</i>	
	<b>2009</b>	<b>2008</b>
Stock-based compensation, before tax:		
Stock options	\$ 4	\$ 6
Retention awards	8	8
Total stock-based compensation, before tax	\$ 12	\$ 14
Total stock-based compensation, after tax	\$ 8	\$ 9

**Stock Options** We estimate the fair value of our stock option awards using the Black-Scholes option pricing model. Groups of employees and non-employee directors that have similar historical and expected exercise behavior are considered separately for valuation purposes. The table below shows the year-to-date weighted-average assumptions used for valuation purposes:

<i>Weighted-Average Assumptions</i>	<i>Three Months Ended</i>	
	<i>March 31,</i>	
	<b>2009</b>	<b>2008</b>
Risk-free interest rate	1.9%	2.8%
Dividend yield	2.3%	1.4%
Expected life (years)	5.1	5.3
Volatility	31.3%	22.2%
Weighted-average grant-date fair value of options granted	\$ 11.33	\$ 13.35

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.

**Table of Contents**

A summary of stock option activity during the three months ended March 31, 2009 is presented below:

	<i>Shares (thous.)</i>	<i>Weighted- Average Exercise Price</i>	<i>Weighted-Average Remaining Contractual Term</i>	<i>Aggregate Intrinsic Value (millions)</i>
Outstanding at January 1, 2009	11,983	\$ 40.81	5.6 yrs.	\$ 108
Granted	1,865	47.28	N/A	N/A
Exercised	(33)	30.17	N/A	N/A
Forfeited or expired	(5)	53.50	N/A	N/A
Outstanding at March 31, 2009	13,810	\$ 41.70	6.0 yrs.	\$ 56
Vested or expected to vest at March 31, 2009	13,710	\$ 41.63	5.9 yrs.	\$ 56
Options exercisable at March 31, 2009	10,447	\$ 38.39	4.9 yrs.	\$ 56

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 March 31, 2009 are subject to performance or market-based vesting conditions.

At March 31, 2009, there was \$37 million of unrecognized compensation expense related to nonvested stock options, which is expected to be recognized over a weighted-average period of 1.9 years. Additional information regarding stock option exercises appears in the table below:

<i>Millions of Dollars</i>	<i>Three Months Ended March 31,</i>	
	<i>2009</i>	<i>2008</i>
Intrinsic value of stock options exercised	\$ 1	\$ 35
Cash received from option exercises	-	27
Tax benefit realized from option exercises	-	13
Aggregate grant-date fair value of stock options vested	29	21

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

Changes in our retention awards during the three months ended March 31, 2009 were as follows:

	<i>Shares (thous.)</i>	<i>Weighted-Average Grant-Date Fair Value</i>
Nonvested at January 1, 2009	2,015	\$ 49.39
Granted	979	47.28
Vested	(203)	30.21
Forfeited	(5)	48.65
Nonvested at March 31, 2009	2,786	\$ 50.05

Retention awards are granted at no cost to the employee or non-employee director and vest over periods lasting up to four years. At March 31, 2009, there was \$91 million of total unrecognized compensation

**Table of Contents**

expense related to nonvested retention awards, which is expected to be recognized over a weighted-average period of 2.6 years.

**Performance Retention Awards** In February 2009, 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 January 2006, January 2007, and January 2008, including using annual return on invested capital (ROIC) as the performance measure. Additionally, a change was made to an underlying assumption used in connection with calculating a component of ROIC. A lower discount rate will be used in both the numerator and denominator when calculating the present value of our future operating lease payments to reflect changes to interest rates and our financing costs. 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 2009 grant were as follows:

	<i>Three Months Ended</i>
	<i>March 31,</i>
	<i>2009</i>
Dividend per share per quarter	\$ 0.27
Risk-free interest rate at date of grant	1.9%

Changes in our performance retention awards during the three months ended March 31, 2009 were as follows:

	<i>Shares</i>	<i>Weighted-Average</i>
	<i>(thous.)</i>	<i>Grant-Date Fair Value</i>
Nonvested at January 1, 2009	873	\$ 50.70
Granted	449	47.28
Vested	(234)	43.08
Forfeited	(7)	53.47
Nonvested at March 31, 2009	1,081	\$ 50.91

At March 31, 2009, there was \$35 million of total unrecognized compensation expense related to nonvested performance retention awards, which is expected to be recognized over a weighted-average period of 2.0 years. A portion of this expense is subject to achievement of the ROIC levels established for the performance stock unit grants.

**5. Retirement Plans****Pension and Other Postretirement Benefits**

*Pension Plans* We provide defined benefit retirement income to eligible non-union employees through qualified and non-qualified (supplemental) pension plans. Qualified and non-qualified pension benefits

**Table of Contents**

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 defined contribution medical and life insurance benefits for eligible retirees. These benefits are funded as medical claims and life insurance premiums are paid.

**Expense**

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

The components of our net periodic pension and OPEB cost/(benefit) were as follows for the three months ended March 31:

<i>Millions of Dollars</i>	<i>Pension</i>		<i>OPEB</i>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Service cost	\$ 10	\$ 9	\$ 1	\$ 1
Interest cost	34	33	6	5
Expected return on plan assets	(40)	(38)	-	-
Amortization of:				
Prior service cost/(credit)	2	2	(9)	(8)
Actuarial loss	6	1	4	1
Net periodic benefit cost/(benefit)	\$ 12	\$ 7	\$ 2	\$ (1)

**6. Other Income** Other income included the following:

<i>Millions of Dollars</i>	<i>Three Months Ended</i>	
	<b>2009</b>	<b>2008</b>
Rental income	\$ 20	\$ 24
Net gain on non-operating asset dispositions	6	11
Interest income	2	8
Sale of receivables fees	(3)	(7)
Non-operating environmental costs and other	(2)	(11)
Total	\$ 23	\$ 25

**Table of Contents**

**7. Income Taxes** Internal Revenue Service (IRS) examinations have been completed and settled for all years prior to 1999, and the statute of limitations bars any additional tax assessments. Some interest calculations remain open back to 1986. The IRS has completed its examinations and issued notices of deficiency for tax years 1999 through 2004. We disagree with many of their proposed adjustments, and we are at IRS Appeals for these years. The IRS is examining our tax returns for tax years 2005 and 2006. Additionally, several state tax authorities are examining our state income tax returns for tax years 2000 through 2006.

At March 31, 2009, our liability for unrecognized tax benefits was \$13 million, of which \$3 million was classified as current.

In February of 2009, California enacted legislation that changed how we determine the amount of our income subject to California tax. This change reduced our deferred tax expense by \$14 million in the first quarter.

**8. Earnings Per Share**

The following table provides a reconciliation between basic and diluted earnings per share for the three months ended March 31:

<i>Millions, Except Per Share Amounts</i>	<i>Three Months Ended</i>	
	<i>2009</i>	<i>2008</i>
Net income	\$ 362	\$ 443
Weighted-average number of shares outstanding:		
Basic	502.7	518.4
Dilutive effect of stock options	1.0	3.6
Dilutive effect of retention shares and units	0.9	0.8
Diluted	504.6	522.8
Earnings per share basic	\$ 0.72	\$ 0.86
Earnings per share diluted	\$ 0.72	\$ 0.85
Stock options excluded as their inclusion would be antidilutive	7.1	1.6

**Table of Contents****9. Comprehensive Income/(Loss)** Comprehensive income/(loss) was as follows:

<i>Millions of Dollars</i>	<i>Three Months Ended</i>	
	<i>2009</i>	<i>2008</i>
Net income	\$ 362	\$ 443
Other comprehensive income/(loss):		
Defined benefit plans	(13)	(4)
Foreign currency translation	(13)	3
Derivatives	-	(1)
Total other comprehensive income/(loss) [a]	(26)	(2)
Total comprehensive income	\$ 336	\$ 441

[a] Net of deferred taxes of \$9 million and \$2 million during the three months ended March 31, 2009 and 2008, respectively.

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

<i>Millions of Dollars</i>	<i>Mar. 31,</i>	<i>Dec. 31,</i>
	<i>2009</i>	<i>2008</i>
Defined benefit plans	\$ (672)	\$ (659)
Foreign currency translation	(54)	(41)
Derivatives	(4)	(4)
Total	\$ (730)	\$ (704)

**Table of Contents****10. Properties**

The following table lists the major categories of property and equipment, as well as the average composite depreciation rate for each category:

<i>Millions of Dollars, Except Percentages</i>	<i>Mar. 31, 2009</i>	<i>Dec. 31, 2008</i>	<i>Depreciation Rate for 2009</i>
Land	\$ 4,861	\$ 4,861	N/A
Road			
Rail and other track material	11,524	11,366	3.6%
Ties	6,944	6,827	2.7%
Ballast	3,689	3,635	2.9%
Other [a]	12,658	12,520	2.4%
Total Road	34,815	34,348	2.9%
Equipment			
Locomotives	5,149	5,157	4.7%
Freight cars	1,963	1,985	4.2%
Work equipment and other	159	158	3.6%
Total Equipment	7,271	7,300	4.5%
Technology and other	484	468	12.4%
Construction in progress	899	938	N/A
Total properties	\$ 48,330	\$ 47,915	N/A
Accumulated depreciation	(12,474)	(12,214)	N/A
Net properties	\$ 35,856	\$ 35,701	N/A

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

**11. Accounts Payable and Other Current Liabilities**

<i>Millions of Dollars</i>	<i>Mar. 31, 2009</i>	<i>Dec. 31, 2008</i>
Accounts payable	\$ 644	\$ 629
Accrued casualty costs	381	390
Accrued wages and vacation	365	367
Income and other taxes	353	207
Dividends and interest	279	328
Equipment rents payable	71	93
Other	452	546
Total accounts payable and other current liabilities	\$ 2,545	\$ 2,560

**12. 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

**Table of Contents**

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

**Market and Credit Risk** We address market risk related to derivative financial instruments by selecting instruments with value fluctuations that highly correlate with the underlying hedged item. We manage credit risk related to derivative financial instruments, which is minimal, by requiring high credit standards for counterparties and periodic settlements. At March 31, 2009 and December 31, 2008, we were not required to provide collateral, nor had we received collateral, relating to our hedging activities.

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

**Interest Rate Fair Value Hedges** We manage our overall exposure to fluctuations in interest rates by adjusting the proportion of fixed and floating rate debt instruments within our debt portfolio over a given period. We generally manage the mix of fixed and floating rate debt through the issuance of targeted amounts of each as debt matures or as we require incremental borrowings. We employ derivatives, primarily swaps, as one of the tools to obtain the targeted mix. In addition, we also obtain flexibility in managing interest costs and the interest rate mix within our debt portfolio by evaluating the issuance of and managing outstanding callable fixed-rate debt securities.

Swaps allow us to convert debt from fixed rates to variable rates and thereby hedge the risk of changes in the debt's fair value attributable to the changes in interest rates. We account for swaps as fair value hedges using the short-cut method pursuant to Financial Accounting Standards Board (FASB) Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*; therefore, we do not record any ineffectiveness within our Condensed Consolidated Financial Statements.

The following is a summary of our interest rate derivatives qualifying as fair value hedges:

<i>Millions of Dollars, Except Percentages</i>	<i>Mar. 31,</i> <i>2009</i>	<i>Dec. 31,</i> <i>2008</i>
Amount of debt hedged	\$ 250	\$ 250
Percentage of total debt portfolio	3%	3%
Gross fair value asset position	\$ 19	\$ 19

We determined the fair value of our interest rate derivative based upon current fair values as quoted by recognized dealers. As prescribed by FASB Statement No. 157, *Fair Value Measurements* (FAS 157), we recognized the fair value as a Level 2 valuation. FAS 157 defines Level 2 valuation as observable market based inputs or unobservable inputs that are corroborated by market data.

**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 March 31, 2009 and December 31, 2008, we had reductions of \$4 million recorded as an accumulated other comprehensive

**Table of Contents**

loss that is being amortized on a straight-line basis through September 30, 2014. As of March 31, 2009 and December 31, 2008, we had no interest rate cash flow hedges outstanding.

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

<i>Millions of Dollars</i>	<i>Mar. 31, 2009</i>	<i>Mar. 31, 2008</i>
(Increase)/decrease in interest expense from interest rate hedging	\$ 2	\$ -
(Increase)/decrease in fuel expense from fuel derivatives	-	-
(Increase)/decrease in pre-tax income	\$ 2	\$ -

**Sale of Receivables** The Railroad transfers most of its accounts receivable to Union Pacific Receivables, Inc. (UPRI), a bankruptcy-remote subsidiary, as part of a sale of receivables facility. UPRI sells, without recourse on a 364-day revolving basis, an undivided interest in such accounts receivable to investors. The total capacity to sell undivided interests to investors under the facility was \$700 million at both March 31, 2009 and December 31, 2008. The value of the outstanding undivided interest held by investors under the facility was \$500 million and \$584 million at March 31, 2009 and December 31, 2008, respectively. During the three months ended March 31, 2009, UPRI reduced the outstanding undivided interest held by investors due to a decrease in available receivables. The value of the outstanding undivided interest held by investors is not included in our Condensed Consolidated Financial Statements. The value of the undivided interest held by investors was supported by \$911 million and \$1,015 million of accounts receivable held by UPRI at March 31, 2009 and December 31, 2008, respectively. At March 31, 2009 and December 31, 2008, the value of the interest retained by UPRI was \$411 million and \$431 million, respectively. This retained interest is included in accounts receivable in our Condensed Consolidated Financial Statements. The interest sold to investors is sold at carrying value, which approximates fair value, and there is no gain or loss recognized from the transaction.

The value of the outstanding undivided interest held by investors could fluctuate based upon the availability of eligible receivables and is directly affected by changing business volumes and credit risks, including default and dilution. If default or dilution ratios increase one percent, the value of the outstanding undivided interest held by investors would not change as of March 31, 2009. Should our credit rating fall below investment grade, the value of the outstanding undivided interest held by investors would be reduced, and, in certain cases, the investors would have the right to discontinue the facility.

The Railroad services the sold receivables; however, the Railroad does not recognize any servicing asset or liability as the servicing fees adequately compensate us for these responsibilities. The Railroad collected approximately \$3.5 billion and \$4.1 billion during the three months ended March 31, 2009 and 2008, respectively. UPRI used certain of these proceeds to purchase new receivables under the facility.

The costs of the sale of receivables program are included in other income and were \$3 million and \$7 million for the three months ended March 31, 2009 and 2008, respectively. The costs include interest, program fees paid to banks, commercial paper issuing costs, and fees for unused commitment availability.

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.

**13. Debt**

**Credit Facilities** On March 31, 2009, we had \$1.9 billion of credit available under our revolving credit facility (the facility). The facility is designated for general corporate purposes and supports the issuance

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## **Table of Contents**

of commercial paper. We did not draw on the facility during the three months ended March 31, 2009. Commitment fees and interest rates payable under the facility are similar to fees and rates available to comparably rated, investment-grade borrowers. The facility allows for borrowings at floating rates based on London Interbank Offered Rates, plus a spread, depending upon our senior unsecured debt ratings. The facility requires Union Pacific Corporation to maintain a debt-to-net-worth coverage ratio as a condition to making a borrowing. At March 31, 2009 and December 31, 2008 (and at all times during the first quarter), 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 March 31, 2009, the debt-to-net-worth coverage ratio allowed us to carry up to \$31.3 billion of debt (as defined in the facility), and we had \$10.1 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. The term of the facility will expire in April 2012, and we currently intend to replace the facility with a substantially similar credit agreement on or before the expiration date, which is consistent with our past practices with respect to our credit facilities.

At March 31, 2009, we had no commercial paper outstanding. Outstanding commercial paper balances are supported by our revolving credit facility but do not reduce the amount of borrowings available under the facility. During the three months ended March 31, 2009, we issued \$100 million of commercial paper and repaid \$200 million.

**Shelf Registration Statement and Significant New Borrowings** Under our current shelf registration statement, 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.

On February 20, 2009, we issued a total of \$750 million of unsecured fixed-rate notes under our shelf registration statement. We issued \$350 million of 5.125% notes due February 15, 2014 and \$400 million of 6.125% notes due February 15, 2020. The net proceeds from this offering are for general corporate purposes.

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. At March 31, 2009, we had remaining authority from our Board of Directors to issue up to \$2.25 billion of debt securities under our shelf registration.

As of March 31, 2009, and December 31, 2008, we have reclassified as long-term debt approximately \$150 million and \$400 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.

## **14. 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

**Table of Contents**

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 third-party actuaries to assist us in measuring the expense and liability, including unasserted claims. The Federal Employers Liability Act (FELA) governs compensation for work-related accidents. Under FELA, damages are assessed based on a finding of fault through litigation or out-of-court settlements. We offer a comprehensive variety of services and rehabilitation programs for employees who are injured at work.

Our personal injury liability is discounted to present value using applicable U.S. Treasury rates. Approximately 88% of the recorded liability related to asserted claims, and approximately 12% related to unasserted claims at March 31, 2009. Estimates can vary over time due to evolving trends in litigation.

Our personal injury liability activity was as follows:

<i>Millions of Dollars</i>	<i>Three Months Ended</i>	
	<i>2009</i>	<i>2008</i>
Beginning balance	\$ 621	\$ 593
Accruals	54	61
Payments	(40)	(43)
Ending balance at March 31	\$ 635	\$ 611
Current portion, ending balance at March 31	\$ 186	\$ 204

**Asbestos** We are a defendant in a number of lawsuits in which current and former employees and other parties allege exposure to asbestos. Additionally, we have received claims for asbestos exposure that have not been litigated. The claims and lawsuits (collectively referred to as claims) allege occupational illness resulting from exposure to asbestos-containing products. In most cases, the claimants do not have credible medical evidence of physical impairment resulting from the alleged exposures. Additionally, most claims filed against us do not specify an amount of alleged damages.

Our asbestos-related liability activity was as follows:

<i>Millions of Dollars</i>	<i>Three Months Ended</i>	
	<i>2009</i>	<i>2008</i>
Beginning balance	\$ 213	\$ 265
Accruals	-	-
Payments	(3)	(4)
Ending balance at March 31	\$ 210	\$ 261
Current portion, ending balance at March 31	\$ 12	\$ 11

**Table of Contents**

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 March 31, 2009, and December 31, 2008.

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 to be 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 identified 332 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, 18 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 an environmental issue has been identified with respect to property owned, leased, or otherwise used in our business, we and our consultants perform 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 March 31, 2009, approximately 15% of our environmental liability was discounted at 2.87%, while approximately 13% of our environmental liability was discounted at 3.53% at December 31, 2008.

Our environmental liability activity was as follows:

<i>Millions of Dollars</i>	<i>Three Months Ended</i>	
	<i>2009</i>	<i>2008</i>
Beginning balance	\$ 209	\$ 209
Accruals	3	11
Payments	(14)	(9)
Ending balance at March 31	\$ 198	\$ 211
Current portion, ending balance at March 31	\$ 58	\$ 63

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

**Table of Contents**

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.

**Guarantees** At March 31, 2009, we were contingently liable for \$444 million in guarantees. We have recorded a liability of \$4 million for the fair value of these obligations as of both March 31, 2009, and December 31, 2008. 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.

**15. Share Repurchase Program** On January 30, 2007, our Board of Directors authorized the repurchase of up to 40 million shares of Union Pacific Corporation common stock through the end of 2009. On May 1, 2008, our Board of Directors authorized the repurchase of an additional 40 million common shares by March 31, 2011. Management's assessments of market conditions and other pertinent facts guide the timing and volume of all repurchases. During the three months ended March 31, 2009, we did not repurchase shares under this program. During the three months ended March 31, 2008, we repurchased approximately 6.5 million shares under this program at an aggregate purchase price of approximately \$403 million. 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 Months Ended March 31, 2009 Compared to**

**Three Months Ended March 31, 2008**

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 revenue is analyzed by commodity, we analyze the net financial results of the Railroad as one segment due to the integrated nature of the rail network.

**Available Information**

Our Internet website is [www.up.com](http://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; 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 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](http://www.sec.gov). 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

**Table of Contents**

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 2008 Annual Report on Form 10-K. There have not been any significant changes with respect to these policies during the first three months of 2009.

**RESULTS OF OPERATIONS****Quarterly Summary**

We reported earnings of \$0.72 per diluted share on net income of \$362 million in the first quarter of 2009 compared to earnings of \$0.85 per diluted share on net income of \$443 million for the first quarter of 2008. Freight revenues (excluding fuel surcharges) declined \$513 million in the first quarter compared to the same period of 2008 driven by a 21% reduction in volume levels. The economic downturn experienced in the fourth quarter of 2008 continued to impact demand for our services across most market sectors. During the quarter, we focused on providing quality service to our customers and reducing variable costs to address weak demand for freight transportation. We continued to implement company-wide productivity initiatives to improve efficiency and reduce costs, in addition to adjusting our resources to reflect lower demand. Our resource reductions included removing from service approximately 24% of our road locomotives and 26% of our freight car inventory. Additionally, these demand-driven resource adjustments and our productivity initiatives combined to reduce our workforce by 8%. These actions coupled with improved pricing and lower fuel prices partially offset the impact of the volume decline.

Operationally, we improved our network fluidity versus the first quarter of 2008. As reported to the Association of American Railroads (AAR), average train speed and average terminal dwell time improved 23% and 4% respectively, during the first quarter of 2009 compared to 2008. Lower volume levels, network management initiatives, and continued focus on enhancing terminal processing all contributed to these improvements.

**Operating Revenues**

<i>Millions of Dollars</i>	<i>Three Months Ended</i>		<i>% Change</i>
	<i>2009</i>	<i>2008</i>	
Freight revenues	\$ 3,240	\$ 4,059	(20)%
Other revenues	175	211	(17)
Total	\$ 3,415	\$ 4,270	(20)%

Freight revenues are revenues generated by transporting freight or other materials from our six commodity groups. Freight revenues vary with volume (carloads) and average revenue per car (ARC). ARC is driven by changes in price, traffic mix, and fuel surcharges. As a result of contractual obligations with some of our customers, we have provided incentives for meeting or exceeding specified cumulative volumes or shipping to and from specific locations, which we record as a reduction to freight revenues based on the actual or projected future shipments. We recognize freight revenues on a percentage-of-completion basis as freight moves 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.

**Table of Contents**

Other revenues include revenues earned by our subsidiaries, revenues from our commuter rail operations, and 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. We recognize other revenues as we perform services or meet contractual obligations.

Freight revenues and volume levels for all six commodity groups decreased during the first quarter of 2009 as a result of the recessionary economy. We experienced substantial declines in both revenue and volume of automotive, industrial products, and intermodal shipments. Lower fuel surcharges due to lower fuel prices also drove freight revenues lower in the first quarter 2009 compared to 2008. ARC increased 1% during the period driven by core pricing gains which were mostly offset by reduced fuel cost recoveries. Fuel cost recoveries include fuel surcharge revenue and the impact of resetting the base fuel price for certain traffic, which is described below in more detail.

Our fuel surcharge programs (excluding index-based contract escalators that contain some provision for fuel) generated \$147 million in freight revenues in the first quarter of 2009. Fuel surcharge revenue is not comparable to prior periods due to implementation of new mileage-based fuel surcharge programs. In April 2007, we converted regulated traffic, which represents approximately 20% of our current revenue base, to mileage-based fuel surcharge programs. In addition, we continue to convert portions of our non-regulated traffic to mileage-based fuel surcharge programs. Additionally, we reset the base fuel price at which the new mileage-based fuel surcharges take effect. The resetting of the fuel price at which the fuel surcharge begins, in conjunction with rebasing the affected transportation rates to include a portion of what had been in the fuel surcharge, did not materially change our freight revenue as higher base rates offset lower fuel surcharge revenue.

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 of Dollars</i>	<i>Three Months Ended</i> <i>March 31,</i>		<i>%</i> <i>Change</i>
	<i>2009</i>	<i>2008</i>	
Agricultural	\$ 661	\$ 756	(13)%
Automotive	162	363	(55)
Chemicals	513	603	(15)
Energy	807	857	(6)
Industrial Products	546	773	(29)
Intermodal	551	707	(22)
Total	\$ 3,240	\$ 4,059	(20)%

**Table of Contents**

<i>Revenue Carloads</i> <i>Thousands</i>	<i>Three Months Ended</i> <i>March 31,</i>		<i>%</i> <i>Change</i>
	<i>2009</i>	<i>2008</i>	
Agricultural	212	240	(12)%
Automotive	97	188	(48)
Chemicals	180	225	(20)
Energy	521	582	(10)
Industrial Products	222	304	(27)
Intermodal	615	796	(23)
Total	1,847	2,335	(21)%

<i>Average Revenue per Car</i>	<i>Three Months Ended</i> <i>March 31,</i>		<i>%</i> <i>Change</i>
	<i>2009</i>	<i>2008</i>	
Agricultural	\$ 3,116	\$ 3,151	(1)%
Automotive	1,675	1,930	(13)
Chemicals	2,843	2,676	6
Energy	1,550	1,473	5
Industrial Products	2,459	2,540	(3)
Intermodal	897	889	1
Average	\$ 1,755	\$ 1,738	1 %

*Agricultural Products* Lower volume and fuel surcharges decreased agricultural freight revenue in the first quarter of 2009 versus 2008. Price improvements partially offset these declines. Declines in export and domestic markets of 29% and 13%, respectively, drove lower shipments of corn and feed grains. Weaker export demand in the Pacific Northwest and Gulf regions also reduced shipments of wheat and food grains compared to the first quarter of 2008.

*Automotive* A 54% and 40% decline in shipments of finished vehicles and auto parts, respectively, combined with lower fuel surcharges reduced freight revenue in the first quarter of 2009 compared to 2008. Economic conditions led to poor sales and reduced vehicle production during the first quarter of 2009, which in turn reduced shipments of finished vehicles and parts.

*Chemicals* Reduced volume levels and fuel surcharges drove lower chemicals freight revenue in the first quarter of 2009 versus 2008. Pricing improvements partially offset these declines. Weak market conditions negatively impacted shipments of liquid and dry chemicals in the first quarter of 2009 compared to 2008, driving volume levels down 28%. In addition, high inventories, production curtailments, and a reduction in advance purchases prior to the spring planting season hampered fertilizer shipments in the quarter.

*Energy* Lower volume and fuel surcharges reduced freight revenue from energy shipments in the first quarter of 2009 versus 2008. Price increases partially offset these declines. Shipments from the Southern Powder River Basin of Wyoming (SPRB) and the Colorado and Utah mines were down 11% and 21%, respectively, in the first quarter of 2009 compared to 2008. Higher coal inventories leading into the winter and continued weakness in the economy has resulted in reduced demand at our utility customers, resulting in lower volumes. Production problems at the Colorado and Utah mines and the loss of SPRB customer contracts also contributed to the volume decline.

**Table of Contents**

**Industrial Products** Reduced volume and fuel surcharges resulted in lower freight revenue from industrial products shipments in the first quarter of 2009 versus 2008. Price improvements partially offset these declines. Weak demand and inventory reductions resulting from the economic conditions drove a 50% decline in steel shipments in the first quarter of 2009 compared to 2008. The continued weakness in the housing market, surplus production, and general market uncertainty resulted in lower lumber, paper, and newsprint shipments in the quarter versus last year. In addition, cement and stone shipments declined in the first quarter of 2009 due to both high inventories and weak commercial and residential construction market activity.

**Intermodal** Decreasing volumes and fuel surcharges reduced freight revenue from intermodal shipments in the first quarter of 2009 versus 2008, partially offset by pricing gains. Volume from international traffic decreased 30% in the first quarter of 2009 compared to 2008, reflecting the recessionary economy, continued weak imports from Asia, and increased diversions to non-UPRR served ports. Additionally, continued weakness in domestic housing and automotive sectors translated into weak demand in large sectors of the international intermodal market, which also contributed to the volume declines. Domestic traffic decreased 9% in the first quarter of 2009 compared to 2008, also reflecting the economic conditions, the loss of a customer contract, and lower volumes from less-than-truckload shippers.

**Mexico Business** Each of our commodity groups include revenue from shipments to and from Mexico. Revenue from Mexico business decreased 30% to \$268 million in the first quarter of 2009 versus 2008. Volume declined in all six commodity groups, down 28% in aggregate during the first quarter of 2009, with substantial declines in automotive, industrial products, and agricultural shipments.

**Operating Expenses**

<i>Millions of Dollars</i>	<i>Three Months Ended</i>		<i>% Change</i>
	<i>2009</i>	<i>March 31, 2008</i>	
Compensation and benefits	\$ 1,070	\$ 1,132	(5)%
Purchased services and materials	399	469	(15)
Fuel	386	957	(60)
Depreciation	345	340	1
Equipment and other rents	317	342	(7)
Other	226	242	(7)
<b>Total</b>	<b>\$ 2,743</b>	<b>\$ 3,482</b>	<b>(21)%</b>

Operating expenses decreased \$739 million in the first quarter of 2009 versus 2008. Our fuel price per gallon declined 47% during the period, decreasing operating expenses by \$335 million compared to 2008. Cost savings from lower volume, productivity improvements, and better resource utilization also drove lower operating expenses. Additionally, recovery costs and operational impacts resulting from the January 2008 mudslide that occurred near Eugene, Oregon increased operating expenses in the first quarter of 2008, resulting in a more favorable quarter-over-quarter comparison. Conversely, wage and benefit inflation partially offset these reductions.

**Compensation and Benefits** Compensation and benefits include wages, payroll taxes, health and welfare costs, pension costs, other postretirement benefits, and incentive costs. Lower volume and productivity initiatives in all areas, led to an 8% decline in our workforce, saving \$106 million in the first quarter of 2009. Conversely, general wage and benefit inflation increased expenses in the first quarter partially offsetting these reductions.

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**Table of Contents**

*Purchased Services and Materials* Purchased services and materials expense includes the costs of services purchased from outside contractors; 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. Decreased contract services expense (including equipment maintenance) of \$48 million and reduced crew transportation and lodging costs of \$14 million, due to lower volume levels, primarily contributed to the decrease of expenses in the first quarter of 2009. In addition, we performed fewer locomotive repairs during the quarter, which reduced locomotive materials expense. Clean-up and restoration costs related to the January mudslide also increased expenses in the first quarter of 2008, creating a favorable quarter-over-quarter comparison.

*Fuel* Fuel includes locomotive fuel and gasoline for highway and non-highway vehicles and heavy equipment. Lower diesel fuel prices, which averaged \$1.51 per gallon (including taxes and transportation costs) in the first quarter of 2009 compared to \$2.84 per gallon in the same period in 2008, reduced expenses by \$335 million. Volume, as measured by gross ton-miles, decreased 20% in the first quarter versus 2008, lowering expenses by \$177 million compared to 2008. A 5% improvement in our fuel consumption rate resulted in \$45 million of cost savings due to the use of newer, more fuel efficient locomotives; our fuel conservation programs; improved network operations; and a shift in commodity mix, primarily due to fewer premium (automotive and intermodal) shipments.

*Depreciation* The majority of depreciation relates to road property, including rail, ties, ballast, and other track material. A higher depreciable asset base, reflecting higher capital spending in recent years, increased depreciation expense in the first quarter of 2009. Lower depreciation rates for rail and other track material offset most of the increase. The lower rates, which became effective January 1, 2009 after review and approval by the Surface Transportation Board of the U.S. Department of Transportation, resulted from longer asset lives and reduced track usage (based on lower gross ton-miles).

*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 specialty equipment leases; and office and other rentals. Fewer shipments of finished vehicles, industrial products and intermodal containers primarily contributed to the \$23 million reduction in our short-term freight rental expense in the first quarter of 2009 versus 2008. Lower lease expense for freight cars, intermodal containers, locomotives, and fleet vehicles also decreased costs.

*Other* Other expenses include personal injury, freight and property damage, insurance, environmental, bad debt, state and local taxes, utilities, telephone and cellular, employee travel, computer software, and other general expenses. Other costs were lower in the first quarter of 2009 compared to the first quarter of 2008, primarily driven by a \$12 million decrease in freight and property damage expenses due to lower volume levels. Expenses for personal injuries, employee travel, other expenses associated with our vehicle fleet, computer software, and utilities also decreased in the first quarter of 2009 compared to 2008. Conversely, higher state and local taxes (primarily property taxes) and an increase in bad debt expense due to the economic downturn partially offset these lower costs.

**Table of Contents****Non-Operating Items**

<i>Millions of Dollars</i>	<i>Three Months Ended</i>		<i>%</i>
	<i>2009</i>	<i>March 31, 2008</i>	
Other income	\$ 23	\$ 25	(8)%
Interest expense	(141)	(126)	12
Income taxes	(192)	(244)	(21)%

*Other Income* Other income decreased in the first quarter of 2009 compared to 2008 due to lower gains from real estate sales, decreased returns on cash investments reflecting lower interest rates, and reduced rental and licensing income. Lower interest expense on our sale of receivables program partially offset the decreases.

*Interest Expense* Interest expense increased in the first quarter 2009 versus 2008 due to a higher weighted-average debt level of \$9.0 billion, compared to \$7.9 billion in 2008, partially offset by a lower effective interest rate of 6.2% in the first quarter of 2009, compared to 6.3% in the first quarter of 2008.

*Income Taxes* Income taxes were \$52 million lower in the first quarter 2009 compared to 2008, driven by lower pre-tax income. Our effective tax rates were 34.7% and 35.5% in the first quarter of 2009 and 2008, respectively.

**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](http://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>%</i>
	<i>2009</i>	<i>March 31, 2008</i>	
Average train speed (miles per hour)	27.2	22.2	23 %
Average terminal dwell time (hours)	24.3	25.2	(4) %
Average rail car inventory (thousands)	286.4	306.3	(7) %
Gross ton-miles (billions)	206.6	257.2	(20) %
Revenue ton-miles (billions)	118.4	140.7	(16) %
Operating ratio	80.3	81.5	1.2 pt
Employees (average)	44,997	49,073	(8) %
Customer satisfaction index	87	81	6 pt

*Average Train Speed* Average train speed is calculated by dividing train miles by hours operated on our main lines between terminals. Lower volume levels, ongoing network management initiatives, and

**Table of Contents**

productivity improvements contributed to a 23% improvement in average train speed in the first quarter of 2009 compared to 2008.

*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 improved 4% during the first quarter of 2009 compared to 2008. Lower volumes combined with initiatives to more timely deliver rail cars to our interchange partners and customers improved dwell time.

*Gross and Revenue Ton-Miles* Gross ton-miles are calculated by multiplying the weight of loaded or 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 and revenue-ton-miles decreased 20% and 16%, respectively, in the first quarter of 2009 compared to 2008, due to a 21% decrease in carloads. Commodity mix changes (notably automotive shipments which were 48% lower in 2009 compared to 2008) drove the 4% difference in declines between gross ton-miles and revenue ton-miles.

*Operating Ratio* Operating ratio is defined as our operating expense as a percentage of operating revenues. Our operating ratio improved 1.2 points to 80.3% in the first quarter of 2009. Price increases, lower fuel prices, network management initiatives, and improved productivity drove the improvement.

*Employees* Productivity initiatives and lower volumes reduced employee levels throughout the Company in the first quarter of 2009 versus 2008. Fewer train and engine personnel due to 21% lower volume and network initiatives, combined with improved productivity within the support organizations contributed to a lower full-time equivalent force level.

*Customer Satisfaction Index* The 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. The improvement in survey results in the first quarter of 2009 generally reflects customer recognition of our service.

**Table of Contents****Debt to Capital / Adjusted Debt to Capital**

<i>Millions of Dollars, Except Percentages</i>	<i>March 31, 2009</i>	<i>December 31, 2008</i>
Debt (a)	\$ 9,195	\$ 8,927
Equity	15,654	15,447
Capital (b)	\$ 24,849	\$ 24,374
Debt to capital (a/b)	37.0%	36.6%

<i>Millions of Dollars, Except Percentages</i>	<i>March 31, 2009</i>	<i>December 31, 2008</i>
Debt	\$ 9,195	\$ 8,927
Value of sold receivables	500	584
Net present value of operating leases	3,959	3,690
Unfunded pension and OPEB	733	733
Adjusted debt (a)	\$ 14,387	\$ 13,934
Equity	15,654	15,447
Adjusted capital (b)	\$ 30,041	\$ 29,381
Adjusted debt to capital (a/b)	47.9%	47.4%

Adjusted debt to capital is a non-GAAP financial measure under SEC Regulation G and Item 10 of SEC Regulation S-K. 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 connection with financing the acquisition of locomotives and freight cars and certain facilities. Operating leases were discounted using 6.2% at March 31, 2009 and 8.0% at December 31, 2008, respectively. The lower discount rate reflects changes to interest rates and our current financing costs. 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 a reconciliation from debt to capital to adjusted debt to capital.

**LIQUIDITY AND CAPITAL RESOURCES****Financial Condition**

<i>Cash Flows</i>	<i>Three Months Ended</i>	
<i>Millions of Dollars</i>	<i>March 31, 2009</i>	<i>March 31, 2008</i>
Cash provided by operating activities	\$ 723	\$ 835
Cash used in investing activities	(633)	(771)
Cash provided by/(used in) financing activities	127	(115)
Net change in cash and cash equivalents	\$ 217	\$ (51)

**Table of Contents**

*Cash Provided by Operating Activities* Lower net income in the first three months of 2009 and a reduction in the outstanding balance of our accounts receivable securitization program combined to decrease cash provided by operating activities. Changes and timing of working capital partially offset these decreases.

*Cash Used in Investing Activities* Lower capital investments and fewer locomotives purchased but pending financing drove the decrease in cash used in investing activities.

The table below details cash capital investment.

<i>Millions of Dollars</i>	<i>Three Months Ended</i>	
	<i>2009</i>	<i>March 31, 2008</i>
Track	\$ 398	\$ 407
Capacity and commercial facilities	67	120
Locomotives and freight cars	25	31
Technology and other	36	62
Total	\$ 526	\$ 620

*Cash Provided by Financing Activities* Cash provided by financing activities increased in the first three months of 2009 versus 2008 due to a decrease of \$455 million in the repurchase of common shares partially offset by higher debt repayments of \$165 million and increased dividends.

*Free Cash Flow* Free cash flow is a non-GAAP financial measure under SEC Regulation G. We believe free cash flow is important to management and investors in evaluating our financial performance and measures our ability to generate cash without incurring additional external financings. Free cash flow should be considered in addition to, rather than as a substitute for, cash provided by operating activities. The table below reconciles cash provided by operating activities (GAAP measure) to free cash flow (non-GAAP measure). We typically report negative free cash flow in the first quarter due to certain seasonal aspects of our business.

<i>Millions of Dollars</i>	<i>Three Months Ended</i>	
	<i>2009</i>	<i>March 31, 2008</i>
Cash provided by operating activities	\$ 723	\$ 835
Cash used in investing activities	(633)	(771)
Dividends paid	(136)	(115)
Free cash flow	\$ (46)	\$ (51)

**Capital Plan**

In response to economic conditions and lower revenue, we plan to reduce our capital expenditures during the year to approximately \$2.6 billion from \$2.8 billion. These capital investments may be adjusted up or down in response to business conditions or regulatory or other developments.

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**Table of Contents**

**Financing Activities**

*Credit Facilities* On March 31, 2009, we had \$1.9 billion of credit available under our revolving credit facility (the facility). The facility is designated for general corporate purposes and supports the issuance of commercial paper. We did not draw on the facility during the three months ended March 31, 2009. Commitment fees and interest rates payable under the facility are similar to fees and rates available to comparably rated, investment-grade borrowers. The facility allows for borrowings at floating rates based on London Interbank Offered Rates, plus a spread, depending upon our senior unsecured debt ratings. The facility requires Union Pacific Corporation to maintain a debt-to-net-worth coverage ratio as a condition to making a borrowing. At March 31, 2009 and December 31, 2008 (and at all times during the first quarter), 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 March 31, 2009, the debt-to-net-worth coverage ratio allowed us to carry up to \$31.3 billion of debt (as defined in the facility), and we had \$10.1 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. The term of the facility will expire in April 2012, and we currently intend to replace the facility with a substantially similar credit agreement on or before the expiration date, which is consistent with our past practices with respect to our credit facilities.

At March 31, 2009, we had no commercial paper outstanding. Outstanding commercial paper balances are supported by our revolving credit facility but do not reduce the amount of borrowings available under the facility. During the three months ended March 31, 2009, we issued \$100 million of commercial paper and repaid \$200 million.

*Shelf Registration Statement and Significant New Borrowings* Under our current shelf registration statement, 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.

On February 20, 2009, we issued a total of \$750 million of unsecured fixed-rate notes under our shelf registration statement. We issued \$350 million of 5.125% notes due February 15, 2014 and \$400 million of 6.125% notes due February 15, 2020. The net proceeds from this offering are for general corporate purposes.

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. At March 31, 2009, we had remaining authority from our Board of Directors to issue up to \$2.25 billion of debt securities under our shelf registration.

As of March 31, 2009, and December 31, 2008, we have reclassified as long-term debt approximately \$150 million and \$400 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.

*Stock Split* On May 28, 2008, we completed a two-for-one stock split, effected in the form of a 100% stock dividend. The stock split entitled all shareholders of record at the close of business on May 12,

**Table of Contents**

2008, to receive one additional share of our common stock, par value \$2.50 per share, for each share of common stock held on that date.

**Share Repurchase Program** On January 30, 2007, our Board of Directors authorized the repurchase of up to 40 million shares of Union Pacific Corporation common stock through the end of 2009. On May 1, 2008, our Board of Directors authorized the repurchase of an additional 40 million common shares by March 31, 2011. Our assessments of market conditions and other pertinent facts guide the timing and volume of all repurchases. During the three months ended March 31, 2009, we did not repurchase shares under this program. During the three months ended March 31, 2008, we repurchased approximately 6.5 million shares at an aggregate purchase price of approximately \$403 million. 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.

The following tables identify material obligations and commitments as of March 31, 2009:

	<i>Apr. 1</i>		<i>Payments Due by Dec. 31,</i>						
	<i>through</i>								
<b>Contractual Obligations</b>	<i>Dec. 31,</i>								
<i>Millions of Dollars</i>	<i>Total</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>After</i>	<i>2013</i>	<i>Other</i>
Debt [a]	\$ 13,146	\$ 499	\$ 847	\$ 896	\$ 1,089	\$ 986	\$ 8,829	\$ -	
Operating leases	5,680	408	622	585	468	392	3,205	-	
Capital lease obligations [b]	1,809	99	168	178	122	152	1,090	-	
Purchase obligations [c]	3,338	678	371	332	236	240	1,449	32	
Other postretirement benefits [d]	455	31	43	45	45	47	244	-	
Income tax contingencies [e]	13	3	-	-	-	-	-	-	10
<b>Total contractual obligations</b>	<b>\$ 24,441</b>	<b>\$ 1,718</b>	<b>\$ 2,051</b>	<b>\$ 2,036</b>	<b>\$ 1,960</b>	<b>\$ 1,817</b>	<b>\$ 14,817</b>	<b>\$ 42</b>	

[a] Excludes capital lease obligations of \$1,226 million, unamortized discount of \$(112) million, and market value adjustments of \$19 million for debt with qualifying hedges that are recorded as liabilities on the Condensed Consolidated Statements of Financial Position. Includes an interest component of \$5,084 million.

[b] Represents total obligations, including interest component of \$583 million.

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

[d] Includes estimated other postretirement, medical, and life insurance payments and payments made under the unfunded pension plan for the next ten years. No amounts are included for funded pension as no contributions are currently required.

[e] Future cash flows for income tax contingencies reflect the recorded liability, including interest and penalties, in accordance with FIN 48 as of March 31, 2009. Where we can reasonably estimate the years in which these liabilities may be settled, this is shown in the table. For amounts where we can not reasonably estimate the year of settlement, they are reflected in the Other column.

**Table of Contents**

<i>Millions of Dollars</i>	<i>Total</i>	<i>Apr. 1 Amount of Commitment Expiration by Dec. 31, through Dec. 31,</i>						<i>After 2013</i>
		<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2013</i>	
<b>Other Commercial Commitments</b>								
Credit facilities [a]	\$ 1,900	\$ -	\$ -	\$ -	\$ 1,900	\$ -	\$ -	
Sale of receivables [b]	700	700	-	-	-	-	-	
Guarantees [c]	444	14	44	77	22	8	279	
Standby letters of credit [d]	29	8	21	-	-	-	-	
<b>Total commercial commitments</b>	<b>\$ 3,073</b>	<b>\$ 722</b>	<b>\$ 65</b>	<b>\$ 77</b>	<b>\$ 1,922</b>	<b>\$ 8</b>	<b>\$ 279</b>	

[a] None of the credit facility was used as of March 31, 2009.

[b] \$500 million of the sale of receivables program was utilized at March 31, 2009. The full program matures in August 2009.

[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 March 31, 2009.

**Sale of Receivables** The Railroad transfers most of its accounts receivable to Union Pacific Receivables, Inc. (UPRI), a bankruptcy-remote subsidiary, as part of a sale of receivables facility. UPRI sells, without recourse on a 364-day revolving basis, an undivided interest in such accounts receivable to investors. The total capacity to sell undivided interests to investors under the facility was \$700 million at both March 31, 2009 and December 31, 2008. The value of the outstanding undivided interest held by investors under the facility was \$500 million and \$584 million at March 31, 2009 and December 31, 2008, respectively. During the three months ended March 31, 2009, UPRI reduced the outstanding undivided interest held by investors due to a decrease in available receivables. The value of the outstanding undivided interest held by investors is not included in our Condensed Consolidated Financial Statements. The value of the undivided interest held by investors was supported by \$911 million and \$1,015 million of accounts receivable held by UPRI at March 31, 2009 and December 31, 2008, respectively. At March 31, 2009 and December 31, 2008, the value of the interest retained by UPRI was \$411 million and \$431 million, respectively. This retained interest is included in accounts receivable in our Condensed Consolidated Financial Statements. The interest sold to investors is sold at carrying value, which approximates fair value, and there is no gain or loss recognized from the transaction.

The value of the outstanding undivided interest held by investors could fluctuate based upon the availability of eligible receivables and is directly affected by changing business volumes and credit risks, including default and dilution. If default or dilution ratios increase one percent, the value of the outstanding undivided interest held by investors would not change as of March 31, 2009. Should our credit rating fall below investment grade, the value of the outstanding undivided interest held by investors would be reduced, and, in certain cases, the investors would have the right to discontinue the facility.

The Railroad services the sold receivables; however, the Railroad does not recognize any servicing asset or liability as the servicing fees adequately compensate us for these responsibilities. The Railroad collected approximately \$3.5 billion and \$4.1 billion during the three months ended March 31, 2009 and 2008, respectively. UPRI used certain of these proceeds to purchase new receivables under the facility.

The costs of the sale of receivables program are included in other income and were \$3 million and \$7 million for the three months ended March 31, 2009 and 2008, respectively. The costs include interest, program fees paid to banks, commercial paper issuing costs, and fees for unused commitment availability.

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.

**Table of Contents**

**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 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.

**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, and 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 (including statements set forth in Item 2 regarding expectations related to our capital expenditures); 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; 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 2008 Annual Report on Form 10-K, filed February 6, 2009, 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

## **Table of Contents**

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 2008 Annual Report on Form 10-K.

### **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.

In January 2009, the Corporation implemented SAP, a management information system. The new system improves our business effectiveness and internal controls by replacing certain financial systems with a more integrated process for managing and recording financial information. Although this implementation resulted in changes to the Corporation's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), the CEO and CFO have determined that there were no changes that materially affected the Corporation's internal control over financial reporting during the first quarter and currently believe that such changes are not 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.

**Table of Contents**

**Environmental Matters**

As we reported in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, the Railroad has been engaged in discussions with the United States Attorney for the District of Utah and the Utah Attorney General concerning the transfer of certain engineering signal huts to a recycler in Salt Lake City in September 2005. The EPA, the United States Attorney, and the Utah Attorney General contend that the Railroad failed to provide predemolition notification pursuant to the National Emissions Standards for Hazardous Air Pollutants (NESHAPs) prior to removing those huts from their foundations. The Railroad maintains that the predemolition notification requirements of the NESHAPs do not apply to the removal of these signal huts. In January 2009, the Railroad and the government entered into a consent decree under which the Railroad agreed, without admitting liability, to pay civil penalties in the amount of \$150,000 to the Utah Department of Environmental Quality and \$50,000 to the U.S. Treasury to resolve these claims. Additionally, the Railroad agreed to reimburse the Utah Attorney General's Office \$28,202 for its investigative costs in the matter. On March 4, 2009, the United States District Court for the District of Utah entered the Consent Decree.

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 United States, 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.

**Other Matters**

None.

**Item 1A. Risk Factors**

There were no material changes from the risk factors previously disclosed in our 2008 Annual Report on Form 10-K.

**Table of Contents****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 first quarter of 2009:

<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 a Publicly Announced Plan or Program</i>	<i>Maximum Number of Shares That May Yet Be Purchased Under the Plan or Program [b]</i>
Jan. 1 through Jan. 31	78,580	\$ 44.48	-	32,577,090
Feb. 1 through Feb. 28	14,543	46.43	-	32,577,090
Mar. 1 through Mar. 31	607	40.80	-	32,577,090
Total	93,730	\$ 44.76	-	N/A

[a] Total number of shares purchased during the quarter includes 93,730 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 January 30, 2007, our Board of Directors authorized us to repurchase up to 40 million shares of our common stock through December 31, 2009. 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. On May 1, 2008, our Board of Directors authorized additional repurchases of up to 40 million shares of our common stock through March 31, 2011.

**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 \$10.6 billion and \$10.5 billion at March 31, 2009 and December 31, 2008, respectively.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Item 5. Other Information**

None.

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**Table of Contents**

**Item 6. Exhibits**

Exhibit No.	Description
<u>Filed with this Statement</u>	
12	Ratio of Earnings to Fixed Charges for the Three Months Ended March 31, 2009 and 2008.
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 - James R. Young.
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 - James R. Young and Robert M. Knight, Jr.
<u>Incorporated by Reference</u>	
3(a)	By-Laws of UPC, as amended, effective September 25, 2008, are incorporated herein by reference to Exhibit 3.2 to the Corporation's Current Report on Form 8-K dated September 30, 2008.
3(b)	Revised Articles of Incorporation of UPC, as amended through May 1, 2008, are incorporated herein by reference to Exhibit 3(a) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.
4(a)	Form of Debt Security (Note) is incorporated herein by reference to Exhibit 4.1 to the Corporation's Current Report on Form 8-K, dated February 20, 2009.
4(b)	Form of Debt Security (Note) is incorporated herein by reference to Exhibit 4.2 to the Corporation's Current Report on Form 8-K, dated February 20, 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: April 24, 2009

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)