UNION PACIFIC CORP
Form 10-Q
October 22, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from __________ to __________

Commission File Number 1-6075

UNION PACIFIC CORPORATION

(Exact name of registrant as specified in its charter)

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

incorporation or organization)	Identification No.)

1400 DOUGLAS STREET, OMAHA, NEBRASKA

(Address of principal executive offices)

68179

(Zip Code)

(402) 544-5000

(Registrant s telephone number, including area code)

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

þ Yes ¨ No

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

þ Yes ¨ No

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

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

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

¨ Yes þ No

As of October 15, 2010, there were 493,148,723 shares of the Registrant s Common Stock outstanding.

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AND SUBSIDIARY COMPANIES

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

Condensed Consolidated Statements of Income (Unaudited)

Union Pacific Corporation and Subsidiary Companies

Millions, Except Per Share Amounts, for the Three Months Ended September 30,	*2010*	*2009 (Adjusted)**
Operating revenues:		
Freight revenues	**$ 4,187**	$ 3,471
Other revenues	**221**	200
Total operating revenues	**4,408**	3,671
Operating expenses:		
Compensation and benefits	**1,092**	999
Fuel	**608**	466
Purchased services and materials	**465**	413
Depreciation	**372**	363
Equipment and other rents	**292**	290
Other	**178**	179
Total operating expenses	**3,007**	2,710
Operating income	**1,401**	961
Other income (Note 7)	**25**	14
Interest expense	**(153)**	(156)
Income before income taxes	**1,273**	819
Income taxes	**(495)**	(305)
Net income	**$ 778**	$ 514
Share and Per Share (Note 9):		
Earnings per share - basic	**$ 1.58**	$ 1.02
Earnings per share - diluted	**$ 1.56**	$ 1.01
Weighted average number of shares - basic	**493.0**	503.1
Weighted average number of shares - diluted	**497.7**	507.0
Dividends declared per share	**$ 0.33**	$ 0.27

* *Certain amounts have been adjusted for the retrospective change in accounting principle for rail grinding (See Note 3).*
The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Income (Unaudited)

Union Pacific Corporation and Subsidiary Companies

Millions, Except Per Share Amounts, for the Nine Months Ended September 30,		***2010***		*2009 (Adjusted)**
Operating revenues:				
Freight revenues	**$**	**11,898**	$	9,832
Other revenues		**657**		557
Total operating revenues		**12,555**		10,389
Operating expenses:				
Compensation and benefits		**3,202**		3,045
Fuel		**1,799**		1,222
Purchased services and materials		**1,369**		1,216
Depreciation		**1,107**		1,054
Equipment and other rents		**864**		914
Other		**546**		558
Total operating expenses		**8,887**		8,009
Operating income		**3,668**		2,380
Other income (Note 7)		**45**		172
Interest expense		**(460)**		(447)
Income before income taxes		**3,253**		2,105
Income taxes		**(1,248)**		(764)
Net income	**$**	**2,005**	$	1,341
Share and Per Share (Note 9):				
Earnings per share - basic	**$**	**4.01**	$	2.67
Earnings per share - diluted	**$**	**3.98**	$	2.66
Weighted average number of shares - basic		**499.8**		502.9
Weighted average number of shares - diluted		**504.3**		505.4
Dividends declared per share	**$**	**0.93**	$	0.81

* *Certain amounts have been adjusted for the retrospective change in accounting principle for rail grinding (See Note 3).*
The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Financial Position (Unaudited)

Union Pacific Corporation and Subsidiary Companies

Millions, Except Share and Per Share Amounts	***Sep. 30, 2010***	*Dec. 31, 2009 (Adjusted)**
Assets		
Current assets:		
Cash and cash equivalents	**$ 1,358**	$ 1,850
Accounts receivable, net (Note 2)	**1,297**	666
Materials and supplies	**504**	475
Current deferred income taxes	**357**	339
Other current assets	**394**	350
Total current assets	**3,910**	3,680
Investments	**1,104**	1,036
Net properties (Note 11)	**37,749**	37,202
Other assets	**238**	266
Total assets	**$ 43,001**	$ 42,184
Liabilities and Common Shareholders Equity		
Current liabilities:		
Accounts payable and other current liabilities (Note 12)	**$ 2,526**	$ 2,470
Debt due within one year (Note 14)	**659**	212
Total current liabilities	**3,185**	2,682
Debt due after one year (Note 14)	**9,060**	9,636
Deferred income taxes	**11,480**	11,044
Other long-term liabilities	**1,840**	2,021
Commitments and contingencies (Note 16)		
Total liabilities	**25,565**	25,383
Common shareholders equity:		
Common shares, $2.50 par value, 800,000,000 authorized;		
553,936,791 and 553,497,981 issued; 493,053,819 and 505,039,952 outstanding, respectively	**1,385**	1,384
Paid-in-surplus	**3,984**	3,968
Retained earnings	**16,566**	15,027
Treasury stock	**(3,850)**	(2,924)
Accumulated other comprehensive loss (Note 10)	**(649)**	(654)
Total common shareholders equity	**17,436**	16,801
Total liabilities and common shareholders equity	**$ 43,001**	$ 42,184

* *Certain amounts have been adjusted for the retrospective change in accounting principle for rail grinding (See Note 3).*
The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Cash Flows (Unaudited)

Union Pacific Corporation and Subsidiary Companies

Millions, for the Nine Months Ended September 30,	***2010***	*2009 (Adjusted)**
Operating Activities		
Net income	**$ 2,005**	$ 1,341
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	**1,107**	1,054
Deferred income taxes and unrecognized tax benefits	**433**	310
Net gain on non-operating asset dispositions	**(12)**	(138)
Other operating activities, net	**(165)**	(188)
Changes in current assets and liabilities:		
Accounts receivable, net (Note 2)	**(631)**	(133)
Materials and supplies	**(29)**	(40)
Other current assets	**(44)**	(22)
Accounts payable and other current liabilities	**56**	15
Cash provided by operating activities	**2,720**	2,199
Investing Activities		
Capital investments	**(1,686)**	(1,808)
Proceeds from asset sales	**45**	154
Acquisition of equipment pending financing	**-**	(100)
Other investing activities, net	**(32)**	36
Cash used in investing activities	**(1,673)**	(1,718)
Financing Activities		
Debt issued (Note 2)	**894**	843
Debt repaid	**(933)**	(826)
Common share repurchases (Note 17)	**(1,019)**	-
Dividends paid	**(438)**	(408)
Other financing activities, net	**(43)**	96
Cash used in financing activities	**(1,539)**	(295)
Net change in cash and cash equivalents	**(492)**	186
Cash and cash equivalents at beginning of year	**1,850**	1,249
Cash and cash equivalents at end of period	**$ 1,358**	$ 1,435
Supplemental Cash Flow Information		
Non-cash investing and financing activities:		
Capital lease financings	**$ -**	$ 742
Dividends declared but not yet paid	**159**	132
Capital investments accrued but not yet paid	**66**	78
Settlement of current liabilities for debt	**-**	14
Common shares repurchased but not yet paid	**6**	-
Cash paid for:		
Interest, net of amounts capitalized	**$ (528)**	$ (487)
Income taxes, net of refunds	**(796)**	(273)

* *Certain amounts have been adjusted for the retrospective change in accounting principle for rail grinding (See Note 3).*
The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

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

Union Pacific Corporation and Subsidiary Companies

Millions	*Common Shares*	*Treasury Shares*	*Common Shares*	*Paid-in-Surplus*	*Retained Earnings*	*Treasury Stock*	*AOCI [a]*	*Total*
Balance at December 31, 2008	552.8	(49.6)	$ 1,382	$ 3,949	$ 13,813	$ (2,993)	$ (704)	$ 15,447
Cumulative effect of change in accounting principle (Note 3)			-	-	(132)	-	-	(132)
Balance at January 1, 2009	552.8	(49.6)	$ 1,382	$ 3,949	$ 13,681	$ (2,993)	$ (704)	$ 15,315
Comprehensive income:								
Net income*			-	-	1,341	-	-	1,341
Other comp. loss			-	-	-	-	(9)	(9)
Total comp. income/(loss)* (Note 10)			-	-	1,341	-	(9)	1,332
Conversion, stock option exercises, forfeitures, and other	0.7	0.6	2	11	-	39	-	52
Dividends declared ($0.81 per share)	-	-	-	-	(408)	-	-	(408)
Balance at September 30, 2009	553.5	(49.0)	$ 1,384	$ 3,960	$ 14,614	$ (2,954)	$ (713)	$ 16,291
Balance at December 31, 2009	553.5	(48.5)	$ 1,384	$ 3,968	$ 15,167	$ (2,924)	$ (654)	$ 16,941
Cumulative effect of change in accounting principle (Note 3)			-	-	(140)	-	-	(140)
Balance at January 1, 2010	553.5	(48.5)	$ 1,384	$ 3,968	$ 15,027	$ (2,924)	$ (654)	$ 16,801
Comprehensive income:								
Net income			-	-	2,005	-	-	2,005
Other comp. income			-	-	-	-	5	5
Total comp. income (Note 10)			-	-	2,005	-	5	2,010
Conversion, stock option exercises, forfeitures, and other	0.4	1.8	1	16	-	99	-	116
Share repurchases (Note 17)	-	(14.1)	-	-	-	(1,025)	-	(1,025)
Dividends declared ($0.93 per share)	-	-	-	-	(466)	-	-	(466)
Balance at September 30, 2010	**553.9**	**(60.8)**	**$ 1,385**	**$ 3,984**	**$ 16,566**	**$ (3,850)**	**$ (649)**	**$ 17,436**

* *Certain amounts have been adjusted for the retrospective change in accounting principle for rail grinding (See Note 3).*
[a] AOCI = Accumulated Other Comprehensive Income/(Loss) (See Note 10)
The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

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UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For purposes of this report, unless the context otherwise requires, all references to the Corporation , UPC , we , us , and our mean Union Pa 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 (GAAP). Our Consolidated Statement of Financial Position at December 31, 2009, 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 2009 Annual Report on Form 10-K. The results of operations for the nine months ended September 30, 2010, are not necessarily indicative of the results for the entire year ending December 31, 2010.

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

2. Accounting Pronouncements In June 2009, the FASB issued Accounting Standards Update No. 2009-16, *Accounting for Transfers of Financial Assets* (ASU 2009-16). ASU 2009-16 limits the circumstances in which transferred financial assets can be derecognized and requires enhanced disclosures regarding transfers of financial assets and a transferor s continuing involvement with transferred financial assets. We adopted the authoritative accounting guidance on January 1, 2010. As a result, we no longer account for the value of the outstanding undivided interest held by investors under our receivables securitization facility as a sale. In addition, transfers of receivables occurring on or after January 1, 2010, are reflected as debt issued in our Condensed Consolidated Statements of Cash Flows and recognized as debt due after one year in our Condensed Consolidated Statements of Financial Position. See the discussion of our receivables securitization facility in Note 14.

In June 2010, the FASB issued Accounting Standards Update No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (ASU 2010-20). ASU 2010-20 requires enhanced disclosures about the credit quality of financing receivables and the allowance for credit losses. Entities will be required to provide a greater level of disaggregated information about the credit quality of their financing receivables and their allowances for credit losses. In addition, entities will be required to disclose credit quality indicators, past due information, and modifications of financing receivables. The required disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The required disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of ASU 2010-20 will only impact our disclosures and will not affect our consolidated financial position, results of operations, or cash flows.

3. Change in Accounting Principle Effective January 1, 2010, we changed our accounting policy for rail grinding costs from a capitalization method, under which we capitalized the cost of rail grinding and depreciated such capitalized costs, to a direct expense method, under which we expense rail grinding costs as incurred. This change was reflected as a change in accounting principle from an acceptable accounting principle to a preferable accounting principle. The expense as incurred method is preferable, as it eliminates the subjectivity in determining the period of benefit associated with rail grinding over which to depreciate the associated capitalized costs. The application of the change in accounting principle is presented retrospectively to all periods presented.

The effects of the adjustments from 1992 (the year we started capitalizing rail grinding) to January 1, 2009 resulted in an adjustment to decrease net properties, deferred income taxes, and retained earnings by $213 million, $81 million, and $132 million, respectively.

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The following tables show the effects of the change in our policy for rail grinding costs on the Condensed Consolidated Financial Statements:

Condensed Consolidated Statements of Income

Millions, Except Per Share Amounts	*For the Three Months Ended September 30, 2010*			*For the Three Months Ended September 30, 2009*		
	Computed under Prior Method	*Impact of Adjustment*	*As Reported*	*As Originally Reported*	*Impact of Adjustment*	*As Adjusted*
Purchased services & materials	$ 455	$ 10	$ 465	$ 403	$ 10	$ 413
Depreciation	$ 376	$ (4)	$ 372	$ 367	$ (4)	$ 363
Total operating expenses	$ 3,001	$ 6	$ 3,007	$ 2,704	$ 6	$ 2,710
Operating income	$ 1,407	$ (6)	$ 1,401	$ 967	$ (6)	$ 961
Income before income taxes	$ 1,279	$ (6)	$ 1,273	$ 825	$ (6)	$ 819
Income taxes	$ (498)	$ 3	$ (495)	$ (308)	$ 3	$ (305)
Net income	$ 781	$ (3)	$ 778	$ 517	$ (3)	$ 514
Earnings per share - basic	$ 1.59	$ (0.01)	$ 1.58	$ 1.03	$ (0.01)	$ 1.02
Earnings per share - diluted	$ 1.57	$ (0.01)	$ 1.56	$ 1.02	$ (0.01)	$ 1.01

Condensed Consolidated Statements of Income

Millions, Except Per Share Amounts	*For the Nine Months Ended September 30, 2010*			*For the Nine Months Ended September 30, 2009*		
	Computed under Prior Method	*Impact of Adjustment*	*As Reported*	*As Originally Reported*	*Impact of Adjustment*	*As Adjusted*
Purchased services & materials	$ 1,343	$ 26	$ 1,369	$ 1,193	$ 23	$ 1,216
Depreciation	$ 1,121	$ (14)	$ 1,107	$ 1,067	$ (13)	$ 1,054
Total operating expenses	$ 8,875	$ 12	$ 8,887	$ 7,999	$ 10	$ 8,009
Operating income	$ 3,680	$ (12)	$ 3,668	$ 2,390	$ (10)	$ 2,380
Income before income taxes	$ 3,265	$ (12)	$ 3,253	$ 2,115	$ (10)	$ 2,105
Income taxes	$ (1,253)	$ 5	$ (1,248)	$ (768)	$ 4	$ (764)
Net income	$ 2,012	$ (7)	$ 2,005	$ 1,347	$ (6)	$ 1,341
Earnings per share - basic	$ 4.03	$ (0.02)	$ 4.01	$ 2.68	$ (0.01)	$ 2.67
Earnings per share - diluted	$ 3.99	$ (0.01)	$ 3.98	$ 2.67	$ (0.01)	$ 2.66

Condensed Consolidated Statements of Financial Position

Millions	*September 30, 2010*			*December 31, 2009*		
	Computed under Prior Method	*Impact of Adjustment*	*As Reported*	*As Originally Reported*	*Impact of Adjustment*	*As Adjusted*
Net properties	$ 37,987	$ (238)	$ 37,749	$ 37,428	$ (226)	$ 37,202
Total assets	$ 43,239	$ (238)	$ 43,001	$ 42,410	$ (226)	$ 42,184
Deferred income taxes	$ 11,571	$ (91)	$ 11,480	$ 11,130	$ (86)	$ 11,044
Total liabilities	$ 25,656	$ (91)	$ 25,565	$ 25,469	$ (86)	$ 25,383

Retained earnings	$ 16,713	$ (147)	$ 16,566	$ 15,167	$ (140)	$ 15,027
Total common shareholders equity	$ 17,583	$ (147)	$ 17,436	$ 16,941	$ (140)	$ 16,801
Total liabilities & common shareholders equity	$ 43,239	$ (238)	$ 43,001	$ 42,410	$ (226)	$ 42,184

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Condensed Consolidated Statements of Cash Flows

	For the Nine Months Ended September 30, 2010			For the Nine Months Ended September 30, 2009		
Millions	*Computed under Prior Method*	*Impact of Adjustment*	*As Reported*	*As Originally Reported*	*Impact of Adjustment*	*As Adjusted*
Net income	$ 2,012	$ (7)	$ 2,005	$ 1,347	$ (6)	$ 1,341
Depreciation	$ 1,121	$ (14)	$ 1,107	$ 1,067	$ (13)	$ 1,054
Deferred income taxes & unrecognized tax benefits	$ 438	$ (5)	$ 433	$ 314	$ (4)	$ 310
Cash provided by operating activities	$ 2,746	$ (26)	$ 2,720	$ 2,222	$ (23)	$ 2,199
Capital investments	$ (1,712)	$ 26	$ (1,686)	$ (1,831)	$ 23	$ (1,808)
Cash used in investing activities	$ (1,699)	$ 26	$ (1,673)	$ (1,741)	$ 23	$ (1,718)

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

	Three Months Ended September 30,		*Nine Months Ended September 30,*	
Millions	***2010***	*2009*	***2010***	*2009*
Agricultural	**$ 750**	$ 649	**$ 2,178**	$ 1,928
Automotive	**309**	227	**948**	552
Chemicals	**629**	551	**1,808**	1,563
Energy	**922**	831	**2,602**	2,353
Industrial Products	**697**	557	**1,987**	1,634
Intermodal	**880**	656	**2,375**	1,802
Total freight revenues	**4,187**	3,471	**11,898**	9,832
Other revenues	**221**	200	**657**	557
Total operating revenues	**$ 4,408**	$ 3,671	**$ 12,555**	$ 10,389

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

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

	Three Months Ended September 30,		*Nine Months Ended September 30,*	
Millions	***2010***	*2009*	***2010***	*2009*
Stock-based compensation, before tax:				
Stock options	**$ 5**	$ 4	**$ 14**	$ 14
Retention awards	**15**	13	**44**	27
Total stock-based compensation, before tax	**$ 20**	$ 17	**$ 58**	$ 41
Total stock-based compensation, after tax	**$ 12**	$ 10	**$ 36**	$ 25
Excess tax benefits from equity compensation plans	**$ 14**	$ 2	**$ 25**	$ 5

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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:

Weighted-Average Assumptions, *for the Nine Months Ended September 30,*	***2010***	*2009*
Risk-free interest rate	**2.4%**	1.9%
Dividend yield	**1.8%**	2.3%
Expected life (years)	**5.4**	5.1
Volatility	**35.2%**	31.3%
Weighted-average grant-date fair value of options granted	**$ 18.26**	$ 11.33

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

A summary of stock option activity during the nine months ended September 30, 2010 is presented below:

	Shares (thous.)	*Weighted-Average Exercise Price*	*Weighted-Average Remaining Contractual Term*	*Aggregate Intrinsic Value (millions)*
Outstanding at January 1, 2010	12,699	$ 42.27	5.5 yrs.	$ 275
Granted	788	60.98		
Exercised	(1,917)	37.91	N/A	N/A
Forfeited or expired	(50)	53.45	N/A	N/A
Outstanding at September 30, 2010	11,520	$ 44.23	5.3 yrs.	$ 433
Vested or expected to vest at September 30, 2010	11,446	$ 44.15	5.3 yrs.	$ 431
Options exercisable at September 30, 2010	9,059	$ 41.42	4.5 yrs.	$ 366

Stock options are granted at the closing price on the date of grant, have ten-year contractual terms, and vest no later than three years from the date of grant. None of the stock options outstanding at September 30, 2010 are subject to performance or market-based vesting conditions.

At September 30, 2010, there was $22 million of unrecognized compensation expense related to nonvested stock options, which is expected to be recognized over a weighted-average period of 1.2 years. Additional information regarding stock option exercises appears in the table below:

	Three Months Ended September 30,		*Nine Months Ended September 30,*	
Millions	***2010***	*2009*	***2010***	*2009*
Intrinsic value of stock options exercised	**$ 45**	$ 7	**$ 71**	$ 11
Cash received from option exercises	**40**	12	**74**	18
Treasury shares repurchased for employee payroll taxes	**(11)**	(3)	**(19)**	(3)
Tax benefit realized from option exercises	**17**	2	**27**	4
Aggregate grant-date fair value of stock options vested	**-**	-	**19**	29

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

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Changes in our retention awards during the nine months ended September 30, 2010 were as follows:

	Shares (thous.)	*Weighted-Average Grant-Date Fair Value*
Nonvested at January 1, 2010	2,719	$ 50.13
Granted	598	61.00
Vested	(582)	43.26
Forfeited	(54)	53.70
Nonvested at September 30, 2010	2,681	$ 53.97

Retention awards are granted at no cost to the employee or non-employee director and vest over periods lasting up to four years. At September 30, 2010, there was $72 million of total unrecognized compensation expense related to nonvested retention awards, which is expected to be recognized over a weighted-average period of 1.9 years.

Performance Retention Awards In February 2010, 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 2008 and February 2009, including using annual return on invested capital (ROIC) as the performance measure. Additionally, a change was made in February 2009 to an underlying assumption used in connection with calculating a component of ROIC. As a result, a lower discount rate (an assumed interest 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. This rate will be consistent with the methodology used to calculate our adjusted debt-to-capital ratio. We used this new discount rate to calculate ROIC in connection with determining awards of performance stock units granted in 2009 and 2010. For performance stock units granted in 2008, we will continue calculating ROIC using the methodology and assumptions in effect when the performance stock units were granted.

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 2010 grant were as follows:

	2010
Dividend per share per quarter	$ 0.27
Risk-free interest rate at date of grant	1.3%

Changes in our performance retention awards during the nine months ended September 30, 2010 were as follows:

	Shares (thous.)	*Weighted-Average Grant-Date Fair Value*
Nonvested at January 1, 2010	1,060	$ 50.88
Granted	473	58.33
Vested	(216)	46.91
Forfeited	(121)	48.47
Nonvested at September 30, 2010	1,196	$ 54.79

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At September 30, 2010, there was $31 million of total unrecognized compensation expense related to nonvested performance retention awards, which is expected to be recognized over a weighted-average period of 1.5 years. A portion of this expense is subject to achievement of the ROIC levels established for the performance stock unit grants.

6. Retirement Plans

Pension and Other Postretirement Benefits

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

Other Postretirement Benefits (OPEB) We provide 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 cost were as follows:

	Three Months Ended September 30,		*Nine Months Ended September 30,*	
Millions	***2010***	*2009*	***2010***	*2009*
Service cost	**$ 6**	$ 10	**$ 28**	$ 29
Interest cost	**37**	35	**107**	104
Expected return on plan assets	**(45)**	(39)	**(134)**	(120)
Amortization of:				
Prior service cost	**1**	1	**3**	4
Actuarial loss	**14**	9	**35**	22
Net periodic pension cost	**$ 13**	$ 16	**$ 39**	$ 39

The components of our net periodic OPEB cost/(benefit) were as follows:

	Three Months Ended September 30,		*Nine Months Ended September 30,*	
Millions	***2010***	*2009*	***2010***	*2009*
Service cost	**$ -**	$ -	**$ 1**	$ 2
Interest cost	**5**	2	**13**	15
Amortization of:				
Prior service (credit)	**(11)**	(14)	**(33)**	(31)
Actuarial loss	**3**	2	**10**	10
Net periodic OPEB cost/(benefit)	**$ (3)**	$ (10)	**$ (9)**	$ (4)

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Cash Contributions

During the nine months ended September 30, 2010, we made $100 million of cash contributions to the qualified pension plan. Additional contributions in the fourth quarter will be based on cash generated from operations and financial market considerations. All contributions made to the qualified pension plan during the nine months ended September 30, 2010 were voluntary and were made with cash generated from operations.

7. Other Income Other income included the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Millions	***2010***	*2009*	***2010***	*2009*
Rental income	**$ 20**	$ 17	**$ 61**	$ 56
Net gain on non-operating asset dispositions	**4**	6	**12**	138
Interest income	**1**	1	**3**	5
Receivable securitization fees [a]	**-**	(2)	**-**	(7)
Early extinguishment of debt	**-**	-	**(16)**	-
Non-operating environmental costs and other	**-**	(8)	**(15)**	(20)
Total	**$ 25**	$ 14	**$ 45**	$ 172

[a] Receivable securitization fees totaling $2 million and $5 million for the three and nine months ended September 30, 2010 are now classified as interest expense. See Note 2 and Note 14 for further discussion.

8. 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 2006. We disagree with many of their proposed adjustments, and we are at IRS Appeals for these years. The IRS is examining our federal income tax returns for 2007 and 2008. Additionally, some of our state income tax returns for 2003-2006 are under examination.

At September 30, 2010, our liability for unrecognized tax benefits was $78 million, of which we classified $4 million as current.

9. Earnings Per Share The following table provides reconciliations between basic and diluted earnings per share for the three and nine months ended September 30:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Millions, Except Per Share Amounts	***2010***	*2009*	***2010***	*2009*

		(Adjusted)*		(Adjusted)*
Net income	**$ 778**	$ 514	**$2,005**	$ 1,341
Weighted-average number of shares outstanding:				
Basic	**493.0**	503.1	**499.8**	502.9
Dilutive effect of stock options	**3.3**	2.5	**3.2**	1.3
Dilutive effect of retention shares and units	**1.4**	1.4	**1.3**	1.2
Diluted	**497.7**	507.0	**504.3**	505.4
Earnings per share basic	**$ 1.58**	$ 1.02	**$4.01**	$ 2.67
Earnings per share diluted	**$ 1.56**	$ 1.01	**$3.98**	$ 2.66
Stock options excluded as their inclusion would be antidilutive	**-**	2.1	**0.4**	5.7

* *Certain amounts have been adjusted for the retrospective change in accounting principle for rail grinding (See Note 3).*

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10. Comprehensive Income Comprehensive income was as follows:

Millions	*Three Months Ended September 30,* **2010**	*2009 (Adjusted)**	*Nine Months Ended September 30,* **2010**	*2009 (Adjusted)**
Net income	**$ 778**	$ 514	**$ 2,005**	$ 1,341
Other comprehensive income/(loss):				
Defined benefit plans	**-**	-	**4**	(11)
Foreign currency translation	**(1)**	1	**-**	2
Derivatives	**-**	-	**1**	-
Total other comprehensive income/(loss) [a]	**(1)**	1	**5**	(9)
Total comprehensive income	**$ 777**	$ 515	**$ 2,010**	$ 1,332

* *Certain amounts have been adjusted for the retrospective change in accounting principle for rail grinding (See Note 3).*

[a] *Net of deferred taxes of $(1) million and $0 million during the three and nine months ended September 30, 2010, respectively, and $1 million and $2 million during the three and nine months ended September 30, 2009, respectively.*

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

Millions	***Sep. 30, 2010***	*Dec. 31, 2009*
Defined benefit plans	**$ (611)**	$ (615)
Foreign currency translation	**(35)**	(35)
Derivatives	**(3)**	(4)
Total	**$ (649)**	$ (654)

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

Millions, Except Percentages *As of September 30, 2010*	*Cost*	*Accumulated Depreciation*	*Net Book Value*	*Depreciation Rate for 2010*

Land	$ 4,910	$ N/A	$ 4,910	N/A
Road:				
Rail and other track material [a]	11,861	4,418	7,443	3.0%
Ties	7,564	1,847	5,717	2.8%
Ballast	3,968	922	3,046	3.0%
Other [b]	13,334	2,334	11,000	2.5%
Total road	36,727	9,521	27,206	2.8%
Equipment:				
Locomotives	6,153	2,651	3,502	5.6%
Freight cars	1,840	1,029	811	3.6%
Work equipment and other	220	39	181	4.4%
Total equipment	8,213	3,719	4,494	5.1%
Technology and other	554	233	321	13.2%
Construction in progress	818	-	818	N/A
Total	$ 51,222	$ 13,473	$ 37,749	N/A

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

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

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Millions, Except Percentages *As of December 31, 2009 (Adjusted)**	*Cost*	*Accumulated Depreciation*	*Net Book Value*	*Depreciation Rate for 2009*
Land	$ 4,891	$ N/A	$ 4,891	N/A
Road:				
Rail and other track material [a]	11,584	4,414	7,170	3.6%
Ties	7,254	1,767	5,487	2.7%
Ballast	3,841	869	2,972	2.9%
Other [b]	12,988	2,237	10,751	2.4%
Total road	35,667	9,287	26,380	2.9%
Equipment:				
Locomotives	6,156	2,470	3,686	5.0%
Freight cars	1,885	1,015	870	4.2%
Work equipment and other	168	32	136	3.6%
Total equipment	8,209	3,517	4,692	4.8%
Technology and other	477	204	273	12.5%
Construction in progress	966	-	966	N/A
Total	$ 50,210	$ 13,008	$ 37,202	N/A

* *Certain amounts have been adjusted for the retrospective change in accounting principle for rail grinding (See Note 3).*

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

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

12. Accounts Payable and Other Current Liabilities

Millions	***Sep. 30, 2010***	*Dec. 31, 2009*
Accounts payable	**$ 634**	$ 612
Accrued casualty costs	**340**	379
Accrued wages and vacation	**349**	339
Dividends and interest	**304**	347
Income and other taxes	**273**	224
Equipment rents payable	**95**	89
Other	**531**	480

Total accounts payable and other current liabilities	**$ 2,526**	$ 2,470

13. Financial Instruments

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

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 September 30, 2010 and December 31, 2009, we were not required to provide collateral, nor had we received collateral, relating to our hedging activities.

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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; 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:

Millions, Except Percentages	***Sep. 30, 2010***	*Dec. 31, 2009*
Amount of debt hedged	**$ -**	$ 250
Percentage of total debt portfolio	**-**	3%
Gross fair value asset position	**$ -**	$ 15

On February 25, 2010, we elected to terminate an interest rate swap agreement with a notional amount of $250 million prior to the scheduled maturity and received cash of $20 million (which is comprised of $16 million for the fair value of the swap that was terminated and $4 million of accrued but unpaid interest receivable). We designated the swap agreement as a fair value hedge, and as such the unamortized adjustment to debt for the change in fair value of the swap remains classified as debt due after one year in our Condensed Consolidated Statements of Financial Position and will be amortized as a reduction to interest expense through April 15, 2012. As of September 30, 2010, we do not have any interest rate fair value hedges outstanding.

Interest Rate Cash Flow Hedges We report changes in the fair value of cash flow hedges in accumulated other comprehensive loss until the hedged item affects earnings. At September 30, 2010 and December 31, 2009, we had reductions of $3 million recorded as an accumulated other comprehensive loss that is being amortized on a straight-line basis through September 30, 2014. As of September 30, 2010 and December 31, 2009, 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:

Millions, *for the Nine Months Ended September 30,*	***2010***	*2009*
Decrease in interest expense from interest rate hedging	**$ 2**	$ 6
Increase in pre-tax income	**$ 2**	$ 6

14. Debt

Credit Facilities On September 30, 2010, 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 nine months ended September 30, 2010. Commitment fees and interest rates payable under the facility are similar to fees and rates available to comparably rated, investment-grade borrowers. The facility allows for borrowings at floating rates based on London Interbank Offered Rates, plus a spread, depending upon our senior unsecured debt ratings. The facility requires Union Pacific Corporation to maintain a debt-to-net-worth coverage ratio as a condition to making a borrowing. At September 30, 2010 and December 31, 2009 (and at all times during the year), we were in compliance with this covenant.

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The definition of debt used for purposes of calculating the debt-to-net-worth coverage ratio includes, among other things, certain credit arrangements, capital leases, guarantees and unfunded and vested pension benefits under Title IV of ERISA. At September 30, 2010 the debt-to-net-worth coverage ratio allowed us to carry up to $34.9 billion of debt (as defined in the facility), and we had $10.3 billion of debt (as defined in the facility) outstanding at that date. 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 September 30, 2010, we had no commercial paper 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 nine months ended September 30, 2010, we did not issue or repay any commercial paper.

Receivables Securitization Facility As discussed in Note 2, we adopted new accounting guidance on January 1, 2010. As a result, we no longer account for the value of the outstanding undivided interest held by investors under our receivables securitization facility as a sale. In addition, transfers of receivables occurring on or after January 1, 2010, are reflected as debt issued in our Condensed Consolidated Statements of Cash Flows, and the value of the outstanding undivided interest held by investors at September 30, 2010, is accounted for as a secured borrowing and is included in our Condensed Consolidated Statements of Financial Position as debt due after one year.

Under the receivables securitization facility, the Railroad sells most of its accounts receivable to Union Pacific Receivables, Inc. (UPRI), a bankruptcy-remote subsidiary. UPRI may subsequently transfer, without recourse on a 364-day revolving basis, an undivided interest in eligible accounts receivable to investors. The total capacity to transfer undivided interests to investors under the facility was $600 million at September 30, 2010, and December 31, 2009. The value of the outstanding undivided interest held by investors under the facility was $100 million and $400 million at September 30, 2010, and December 31, 2009, respectively. The value of the undivided interest held by investors was supported by $1,076 million and $817 million of accounts receivable at September 30, 2010, and December 31, 2009, respectively. At September 30, 2010, and December 31, 2009, the value of the interest retained by UPRI was $1,076 million and $417 million, respectively. This retained interest is included in accounts receivable, net in our Condensed Consolidated Statements of Financial Position.

The value of the outstanding undivided interest held by investors could fluctuate based upon the availability of eligible receivables and is directly affected by changing business volumes and credit risks, including default and dilution. If default or dilution ratios increase one percent, the value of the outstanding undivided interest held by investors would not change as of September 30, 2010. 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 the Railroad for these responsibilities. The Railroad collected approximately $4.3 billion and $3.4 billion during the three months ended September 30, 2010 and 2009, respectively, and $12.0 billion and $10.1 billion during the nine months ended September 30, 2010 and 2009, respectively. UPRI used certain of these proceeds to purchase new receivables under the facility.

The costs of the receivables securitization facility include interest, which will vary based on prevailing commercial paper rates, program fees paid to banks, commercial paper issuing costs, and fees for unused commitment availability. The costs of the receivables securitization facility are included in interest expense and were $2 million and $5 million for the three and nine months ended September 30, 2010. Prior to adoption of the new accounting guidance, the costs of the receivables securitization facility were included in other income and were $2 million and $7 million for the three and nine months ended September 30, 2009.

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

In August 2010, the receivables securitization facility was renewed for an additional 364-day period at comparable terms and conditions.

Shelf Registration Statement and Significant New Borrowings We filed a shelf registration statement, which became effective upon filing on February 10, 2010. Our Board of Directors authorized the issuance of up to $3 billion of debt securities, replacing the $2.25 billion of authority remaining under our shelf registration filed in March 2007. Under the shelf registration, we may issue, from time to time, any combination of debt securities, preferred stock, common stock, or warrants for debt securities or preferred stock in one or more offerings. We have no immediate plans to issue equity securities; however, we will continue to explore opportunities to replace existing debt or access capital through issuances of debt securities under our shelf registration, and, therefore, we may issue additional debt securities at any time.

On August 2, 2010, we issued a total of $500 million of 4.0% unsecured fixed-rate notes under our shelf-registration statement. The notes will be due on February 1, 2021; proceeds from this offering are for general corporate purposes.

As of September 30, 2010, and December 31, 2009, we reclassified as long-term debt approximately $110 million and $320 million, respectively, of debt due within one year that we intend to refinance. This reclassification reflects our ability and intent to refinance any short-term borrowings and certain current maturities of long-term debt on a long-term basis.

Debt Exchange On July 14, 2010, we exchanged $376 million of 7.875% notes due in 2019 (Existing Notes) for 5.78% notes (New Notes) due July 15, 2040, plus cash consideration of approximately $96 million and $15 million for accrued and unpaid interest on the Existing Notes. The cash consideration, was recorded as an adjustment to the carrying value of debt, and the balance of the unamortized discount and issue costs from the Existing Notes is being amortized as an adjustment of interest expense over the term of the New Notes. There was no gain or loss recognized as a result of the exchange. Costs related to the debt exchange that were payable to parties other than the debtholders totaled approximately $2 million and were included in interest expense during the third quarter.

Debt Redemption On March 22, 2010, we redeemed $175 million of our 6.5% notes due April 15, 2012. The redemption resulted in an early extinguishment charge of $16 million in the first quarter of 2010. In addition, we reduced the amount of the outstanding undivided interest under our receivables securitization facility from $400 million to $100 million during the first quarter of 2010.

Subsequent Event Debt Redemption On September 30, 2010, we notified the holders of our 6.65% notes due January 15, 2011, of our intent to redeem all of the outstanding notes. The redemption is to occur on November 1, 2010, and will result in an estimated $5 million premium payment as well as accrued and unpaid interest totaling $8 million. The outstanding principal amount of the notes is $400 million, which has been classified as debt due within one year.

Fair Value of Debt Instruments The fair value of our short- and long-term debt was estimated using quoted market prices, where available, or current borrowing rates. At September 30, 2010, the fair value of total debt was $11.4 billion, approximately $1.7 billion more than the carrying value. At December 31, 2009, the fair value of total debt was $10.8 billion, approximately $945 million more than the carrying value. At September 30, 2010, and December 31, 2009, approximately $320 million of fixed-rate debt securities contained call provisions that allowed us to retire the debt instruments prior to final maturity, with the payment of fixed call premiums, or, in certain cases, at par.

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

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

We are not considered to be the primary beneficiary and do not consolidate these VIEs because our actions and decisions do not have the most significant effect on the VIE s performance and our fixed-price purchase price options are not considered to be potentially significant to the VIE s. The future minimum lease payments associated with the VIE leases totaled $4.2 billion as of September 30, 2010.

16. Commitments and Contingencies

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

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

Our personal injury liability is discounted to present value using applicable U.S. Treasury rates. Approximately 87% of the recorded liability related to asserted claims, and approximately 13% related to unasserted claims at September 30, 2010. Estimates can vary over time due to evolving trends in litigation.

Our personal injury liability activity was as follows:

Millions, for the Nine Months Ended September 30,	***2010***	*2009*
Beginning balance	**$ 545**	$ 621
Current year accruals	**125**	149
Changes in estimates for prior years	**(69)**	(50)
Payments	**(141)**	(126)
Ending balance at September 30	**$ 460**	$ 594
Current portion, ending balance at September 30	**$ 157**	$ 185

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.

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Our asbestos-related liability activity was as follows:

Millions, for the Nine Months Ended September 30,	***2010***	*2009*
Beginning balance	**$ 174**	$ 213
Accruals	**-**	-
Payments	**(8)**	(8)
Ending balance at September 30	**$ 166**	$ 205
Current portion, ending balance at September 30	**$ 13**	$ 12

We have insurance coverage for a portion of the costs incurred to resolve asbestos-related claims, and we have recognized an asset for estimated insurance recoveries at September 30, 2010 and December 31, 2009.

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 300 sites at which we are or may be liable for remediation costs associated with alleged contamination or for violations of environmental requirements. This includes 31 sites that are the subject of actions taken by the U.S. government, 17 of which are currently on the Superfund National Priorities List. Certain federal legislation imposes joint and several liability for the remediation of identified sites; consequently, our ultimate environmental liability may include costs relating to activities of other parties, in addition to costs relating to our own activities at each site.

When 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 September 30, 2010, approximately 6% of our environmental liability was discounted at 2.7%, while approximately 12% of our environmental liability was discounted at 3.4% at December 31, 2009.

Our environmental liability activity was as follows:

Millions, for the Nine Months Ended September 30,	***2010***	*2009*
Beginning balance	**$ 217**	$ 209
Accruals	**23**	26
Payments	**(26)**	(35)
Ending balance at September 30	**$ 214**	$ 200
Current portion, ending balance at September 30	**$ 61**	$ 60

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

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

Guarantees At September 30, 2010, we were contingently liable for $382 million in guarantees. We have recorded a liability of $3 million for the fair value of these obligations as of both September 30, 2010, and December 31, 2009. 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.

17. Share Repurchase Program On May 1, 2008, our Board of Directors authorized the repurchase of 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. Any share repurchases under this program are expected to be funded through cash generated from operations, the sale or lease of various operating and non-operating properties, debt issuances, and cash on hand. Repurchased shares are recorded in treasury stock at cost, which includes any applicable commissions and fees.

	Number of Shares Purchased		*Average Price Paid*	
	2010	*2009*	***2010***	*2009*
First quarter	**-**	-	**$ -**	$ -
Second quarter	**6,496,400**	-	**71.74**	-
Third quarter	**7,643,400**	-	**73.19**	-
Total	**14,139,800**	-	**$ 72.52**	$ -
Remaining number of shares that may yet be repurchased				18,437,290

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

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

RESULTS OF OPERATIONS

Three and Nine Months Ended September 30, 2010, Compared to

Three and Nine Months Ended September 30, 2009

For purposes of this report, unless the context otherwise requires, all references to UPC , Corporation , we , us , and our mean Union Pa 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. We make available free of charge on our website (under the Investors caption link) our Annual Reports on Form 10-K; our Quarterly Reports on Form 10-Q; eXtensible Business Reporting Language (XBRL) documents for our 2009 Annual Report on Form 10-K, our 2010 Quarterly Reports on Form 10-Q, and our 2009 Quarterly Reports on Form 10-Q for the second and third quarters; 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. Additionally, our corporate governance materials, including By-Laws, Board Committee charters, governance guidelines and policies, and codes of conduct and ethics for directors, officers, and employees are available on our website. From time to time, the corporate governance materials on our website may be updated as necessary to comply with rules issued by the SEC and the New York Stock Exchange or as desirable to promote the effective and efficient governance of our company. Any security holder wishing to receive, without charge, a copy of any of our SEC filings or corporate governance materials should send a written request to: Secretary, Union Pacific Corporation, 1400 Douglas Street, Omaha, NE 68179.

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

Critical Accounting Policies and Estimates

We base our discussion and analysis of our financial condition and results of operations upon our Condensed Consolidated Financial Statements. The preparation of these financial statements requires estimation and judgment that affect the reported amounts of revenues, expenses, assets, and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. If these estimates differ materially from actual results, the impact on the Condensed Consolidated Financial Statements may be material. Our critical accounting policies are available in Item 7 of our 2009 Annual Report on Form 10-K. There have not been any significant changes with respect to these policies during the first nine months of 2010.

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Change in Accounting Principle

Effective January 1, 2010, we changed our accounting policy for rail grinding costs from a capitalization method, under which we capitalized the cost of rail grinding and depreciated such capitalized costs, to a direct expense method, under which we expense rail grinding costs as incurred. This change was reflected as a change in accounting principle from an acceptable accounting principle to a preferable accounting principle. The expense as incurred method is preferable, as it eliminates the subjectivity in determining the period of benefit associated with rail grinding over which to depreciate the associated capitalized costs. All prior period financial information presented herein has been adjusted to reflect the retrospective application of the change in our method of accounting for rail grinding costs, as more fully discussed in Item 1, Note 3 of our Condensed Consolidated Financial Statements.

RESULTS OF OPERATIONS

Quarterly Summary

We reported earnings of $1.56 per diluted share on net income of $778 million in the third quarter of 2010, compared to earnings of $1.01 per diluted share on net income of $514 million for the third quarter of 2009. Year-to-date, net income was $2.0 billion versus $1.3 billion for the same period in 2009. Freight revenues (excluding fuel surcharges) increased $545 million in the third quarter compared to the same period of 2009, driven by volume growth of 14% and core pricing gains. Demand for our services increased compared to the third quarter of 2009, as adverse economic conditions during 2009 substantially reduced demand for rail service. As business levels increased, we continued adjusting our resources to reflect these demand levels. We leveraged additional traffic volumes during the quarter by effectively utilizing our assets and minimizing operational cost increases compared to the third quarter of 2009. As of September 30, 2010, we had 14% of our road locomotives and 11% of our freight car inventory in storage or maintained off-line, compared to 28% and 19%, respectively, at September 30, 2009. Additionally, our overall workforce level remained flat compared to the third quarter of 2009 as we effectively leveraged the increased traffic volumes and realized continued benefits from our productivity initiatives.

A large real estate transaction generated earnings in the second quarter and year-to-date period of 2009, creating an unfavorable variance with 2010. In June of 2009, we closed a $118 million sale of land to the Regional Transportation District (RTD) in Colorado, resulting in a $116 million pre-tax gain.

During the quarter, we continued operating an efficient and fluid network, effectively handling the 14% increase in carloads compared to last year. As reported to the Association of American Railroads (AAR), average train speed decreased 6% in the third quarter of 2010 compared to a record in the third quarter of 2009. The effects of Hurricane Alex and subsequent flooding in Mexico resulted in embargoes of the Laredo and Brownsville, Texas gateways for almost the entire month of July, negatively impacting our average train speed for the third quarter of 2010. Average terminal dwell increased 2% while average rail car inventory decreased 3% in the third quarter of 2010 compared to 2009. We maintained more freight cars off-line and retired a number of old freight cars, which drove the decrease in average rail car inventory during the period.

Operating Revenues

Millions	*Three Months Ended September 30,* ***2010***	*2009*	***% Change***	*Nine Months Ended September 30,* ***2010***	*2009*	***% Change***
Freight revenues	**$ 4,187**	$ 3,471	**21%**	**$ 11,898**	$ 9,832	**21%**
Other revenues	**221**	200	**11**	**657**	557	**18**
Total	**$ 4,408**	$ 3,671	**20%**	**$ 12,555**	$ 10,389	**21%**

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). Changes in price, traffic mix, and fuel surcharges drive ARC. We provide some of our customers with contractual incentives for meeting or exceeding specified cumulative volumes or shipping to and from specific locations, which we record as a reduction to freight revenues based on the actual or projected

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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.

Other revenues include revenues earned by our subsidiaries, revenues from our commuter rail operations and Amtrak, 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 increased during the third quarter and year-to-date period of 2010 compared to 2009, as a result of economic improvements in many market sectors, with particularly strong growth in intermodal, automotive, and industrial products shipments. Higher fuel surcharges also increased freight revenues in the third quarter and year-to-date period of 2010. ARC increased 6% and 5% during the third quarter and year-to-date period driven by core pricing gains and higher 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 $331 million and $896 million in freight revenues in the third quarter and year-to-date period of 2010, compared to $160 million and $391 million in the same periods of 2009, respectively. Higher fuel prices, volume growth, and new fuel surcharge provisions in recently negotiated contracts increased fuel surcharge amounts in both periods. In addition, fuel surcharge recoveries in 2009 were at low levels as fuel prices had declined to a four year low for both the third quarter and year-to-date period. Furthermore, for certain periods during 2009, fuel prices dropped below the base at which our mileage-based fuel surcharge begins, which resulted in no fuel surcharge recovery for the associated shipments during those periods.

Fuel surcharge revenue is not entirely comparable to prior periods due to implementation of new mileage-based fuel surcharge programs. In April 2007, we converted regulated traffic, which represents approximately 17% 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. At the time of the conversion, we also reset the base fuel price at which the new mileage-based fuel surcharges take effect. Resetting 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, does 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:

Freight Revenues	*Three Months Ended September 30,*		*%*	*Nine Months Ended September 30,*		*%*
Millions	***2010***	*2009*	***Change***	***2010***	*2009*	***Change***
Agricultural	**$ 750**	$ 649	**16%**	**$ 2,178**	$ 1,928	**13%**
Automotive	**309**	227	**36**	**948**	552	**72**
Chemicals	**629**	551	**14**	**1,808**	1,563	**16**
Energy	**922**	831	**11**	**2,602**	2,353	**11**
Industrial Products	**697**	557	**25**	**1,987**	1,634	**22**
Intermodal	**880**	656	**34**	**2,375**	1,802	**32**
Total	**$ 4,187**	$ 3,471	**21%**	**$ 11,898**	$ 9,832	**21%**

Revenue Carloads *Thousands*	*Three Months Ended September 30,* **2010**	*2009*	*%* ***Change***	*Nine Months Ended September 30,* **2010**	*2009*	*%* ***Change***
Agricultural	**229**	215	**7%**	**670**	630	**6%**
Automotive	**146**	124	**18**	**456**	314	**45**
Chemicals	**221**	202	**9**	**633**	570	**11**
Energy	**535**	531	**1**	**1,537**	1,522	**1**
Industrial Products	**282**	235	**20**	**810**	686	**18**
Intermodal	**903**	728	**24**	**2,472**	2,012	**23**
Total	**2,316**	2,035	**14%**	**6,578**	5,734	**15%**

Average Revenue per Car	*Three Months Ended September 30,* **2010**	*2009*	*%* ***Change***	*Nine Months Ended September 30,* **2010**	*2009*	*%* ***Change***
Agricultural	**$ 3,271**	$ 3,026	**8%**	**$ 3,249**	$ 3,062	**6%**
Automotive	**2,114**	1,827	**16**	**2,076**	1,759	**18**
Chemicals	**2,858**	2,730	**5**	**2,858**	2,742	**4**
Energy	**1,721**	1,564	**10**	**1,692**	1,546	**9**
Industrial Products	**2,470**	2,367	**4**	**2,453**	2,381	**3**
Intermodal	**974**	901	**8**	**961**	896	**7**
Average	**$ 1,807**	$ 1,706	**6%**	**$ 1,809**	$ 1,715	**5%**

Agricultural Products Higher volume, fuel surcharges, and price improvements increased agricultural freight revenue in the third quarter and nine-month period of 2010 versus 2009. Increased shipments from the Midwest to export ports in the Pacific Northwest combined with heightened demand in Mexico drove higher corn and feed grain shipments in the third quarter of 2010. Increased corn and feed grain shipments into ethanol plants in California and Idaho also drove the year-to-date increase. In 2009, some ethanol plants temporarily ceased operations due to lower ethanol margins, which contributed to the favorable year-over-year comparison. In addition, strong export demand for U.S. wheat via the Gulf ports increased shipments of wheat and food grains compared to the third quarter and nine-month period of 2009. Declines in domestic wheat and food shipments partially offset the growth in export shipments. Continued growth in ethanol shipments and new business in feed and animal protein shipments also increased agricultural shipments in the third quarter and year-to-date period of 2010 compared to 2009.

Automotive 32% and 57% increases in shipments of finished vehicles in the third quarter and nine-month period of 2010, respectively, combined with core pricing gains and fuel surcharges drove higher freight revenue compared to 2009. Economic conditions in the nine months of 2009 led to poor auto sales and reduced vehicle production, which in turn reduced shipments of finished vehicles and parts during both periods.

Chemicals Higher volume, fuel surcharges, and price improvements increased freight revenue from chemicals in the third quarter and nine-month period of 2010 versus 2009. Reduced inventories and delayed purchases from 2009 drove a 26% and 34% increase in fertilizer shipments during the third quarter and year-to-date period of 2010 versus 2009. A modest rebound in market conditions and more normalized inventory levels increased demand for industrial chemicals in the third quarter and nine-month period of 2010 compared to 2009, driving volume levels up 5% and 10%, respectively. Continued strong demand for finished lubricants and new business consisting of crude oil shipments to Louisiana increased shipments of petroleum products during the quarter. In addition, year-to-date shipments of soda ash increased as continued strong export demand outpaced weak 2009 export demand.

Energy Core pricing gains, higher fuel surcharges and modest volume growth increased freight revenue from energy shipments in the third quarter and year-to-date period of 2010 versus 2009. Shipments from the Southern Powder River Basin (SPRB) were up 3% in the third quarter driven by warmer summer weather (the fourth hottest on record), improvement in economic conditions, and more efficient deliveries. Year-to-date shipments from the SPRB were also up 3% as modest improvement in economic conditions increased energy demand. Higher inventory levels carried over from 2009 partially offset this demand increase. Shipments from Colorado and Utah mines were down 12% and 6%

in the third quarter and

year-to-date period of 2010 versus 2009 due to mine production interruptions and increased competition from other low cost fuel options (natural gas and eastern coal), weaker demand from our industrial customers, and high utility inventories at some locations.

Industrial Products Volume gains, higher fuel surcharges, and core pricing improvement increased freight revenue from industrial products in the third quarter and nine-month period of 2010 versus 2009. A federal government remediation program involving removal of uranium mill tailings from a Moab, Utah site drove an increase in short-haul hazardous waste shipments in both periods versus 2009. Shipments under this program began modestly during the second quarter of 2009. Steel shipments also increased due to improving economic conditions, while shipments of non-metallic minerals (primarily frac sand) grew in response to more drilling for natural gas. Stone, sand and gravel shipments grew in the third quarter and nine-month period of 2010 compared to 2009 as increased oil drilling more than offset the decline in commercial construction activity.

Intermodal Increased volume, higher fuel surcharges (including new recovery provisions in recently negotiated contracts), and pricing gains drove the increase in freight revenue from intermodal shipments in the third quarter and year-to-date period of 2010 versus 2009. Volume from domestic and international traffic increased in both periods compared to 2009, reflecting improvements in economic conditions. International volumes grew in response to continued inventory restocking and higher consumer demand. Domestic shipments increased as a result of conversions from truck to rail fueled by improved service operations. A new contract with Hub Group, Inc., which included additional shipments, was executed in the second quarter of 2009 and contributed to the year-to-date increase in domestic shipments.

Mexico Business Each of our commodity groups include revenue from shipments to and from Mexico. Revenue from Mexico business increased 32% in the third quarter of 2010 versus 2009 to $400 million. Volume levels for all six commodity groups increased during the third quarter, up 22% in aggregate versus the third quarter of 2009, with particularly strong growth in intermodal shipments. Year-to-date, revenue grew 34% versus 2009 to $1.2 billion, driven by volume growth of 30% versus 2009.

Operating Expenses

Millions	*Three Months Ended September 30,* ***2010***	*2009*	*%* ***Change***	*Nine Months Ended September 30,* ***2010***	*2009*	*%* ***Change***
Compensation and benefits	**$ 1,092**	$ 999	**9%**	**$ 3,202**	$ 3,045	**5%**
Fuel	**608**	466	**30**	**1,799**	1,222	**47**
Purchased services and materials	**465**	413	**13**	**1,369**	1,216	**13**
Depreciation	**372**	363	**2**	**1,107**	1,054	**5**
Equipment and other rents	**292**	290	**1**	**864**	914	**(5)**
Other	**178**	179	**(1)**	**546**	558	**(2)**
Total	**$ 3,007**	$ 2,710	**11%**	**$ 8,887**	$ 8,009	**11%**

Operating expenses increased $297 million and $878 million in the third quarter and nine-month period of 2010 versus the comparable periods in 2009. Our fuel price per gallon increased 20% and 35% during the third quarter and year-to-date period, accounting for $97 million and $454 million of the increases, respectively. Wage and benefit inflation, depreciation, and volume-related costs also contributed to higher expenses during both periods. In addition, a one-time payment related to a transaction with CSX Intermodal, Inc. (CSXI) increased operating expenses during the nine-month period compared to 2009. Cost savings from productivity improvements, better resource utilization, and lower personal injury expense partially offset these increases in both periods.

Compensation and Benefits Compensation and benefits include wages, payroll taxes, health and welfare costs, pension costs, other postretirement benefits, and incentive costs. General wage and benefit inflation increased costs by approximately $45 million and $155 million in the third quarter and nine-month period of 2010 compared to 2009. Volume-related expenses and higher equity and incentive compensation also drove costs up in the third quarter and year-to-date period. Workforce levels in the third quarter of 2010 remained flat compared to the third quarter of 2009 as network efficiencies and ongoing productivity initiatives enabled us to effectively handle the 14% increase in volume levels.

Fuel Fuel includes locomotive fuel and gasoline for highway and non-highway vehicles and heavy equipment. Higher diesel fuel prices, which averaged $2.24 and $2.23 per gallon (including taxes and transportation costs) in the third quarter and nine-month period of 2010 compared to $1.87 and $1.65 per gallon in the same periods in 2009, increased expenses by $97 million and $454 million. Volume, as measured by gross ton-miles, increased 9% and 11% in the third quarter and nine-month period versus 2009, driving expenses up by $42 million and $121 million, respectively. Conversely, the use of newer, more fuel efficient locomotives, our fuel conservation programs, and efficient network operations drove 1% and 2% improvements in our fuel consumption rate in the third quarter and nine-month period, resulting in $6 million and $24 million of cost savings versus 2009.

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. Increased contract services expense of $36 million and $120 million were primary drivers of higher expenses in the third quarter and nine-month period of 2010 versus 2009. Contract services expense includes equipment maintenance, contract expenses incurred by our subsidiaries for volume-related external transportation services, and various other types of contractual services. Volume-related trucking and lift costs for intermodal containers and crew transportation and lodging costs also drove higher costs in both periods compared to 2009. In addition, an increase in locomotive maintenance materials used to prepare a portion of our locomotive fleet for return to active service increased expenses in the third quarter and year-to-date period compared to 2009. Expenses associated with jointly owned facilities increased costs in the year-to-date period of 2010. Conversely, a decrease in freight car maintenance activity drove lower freight car material costs, partially offsetting the cost increases during the third quarter and nine-month period of 2010 versus 2009.

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 third quarter and year-to-date period of 2010 compared to 2009. Costs also increased $25 million in the nine-month period of 2010 due to the restructuring of certain locomotive leases in the second quarter of 2009. Lower depreciation rates for rail and other track material partially offset the increases. The lower rates, which became effective January 1, 2010, resulted from reduced track usage (based on lower gross ton-miles) in 2009.

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. Short-term freight car rental expense increased in the third quarter and nine-month period of 2010 compared to 2009, reflecting increased shipments of finished vehicles and intermodal containers. Conversely, lower lease expense for freight cars and locomotives decreased costs in both periods compared to 2009. The restructuring of locomotive leases (completed in May 2009) also reduced lease expense by $36 million in the nine-month period of 2010.

Other Other expenses include personal injury, freight and property damage, destruction of foreign equipment, insurance, environmental, bad debt, state and local taxes, utilities, telephone and cellular, employee travel, computer software, and other general expenses. Other costs were essentially flat in the third quarter of 2010 compared to 2009, as lower personal injury expenses were offset by higher state taxes and other costs. Our lower personal injury expense reflects continued improvements in our safety experience. Year-to-date, lower personal injury expenses and other casualty costs more than offset higher state taxes and the $45 million one-time payment in the first quarter of 2010 related to a transaction with CSXI.

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Non-Operating Items

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
Millions	***2010***	*2009*	***Change***	***2010***	*2009*	***Change***
Other income	**$ 25**	$ 14	**79%**	**$ 45**	$ 172	**(74)%**
Interest expense	**(153)**	(156)	**(2)**	**(460)**	(447)	**3**
Income taxes	**(495)**	(305)	**62**	**(1,248)**	(764)	**63**

Other Income Other income increased in the third quarter of 2010 compared to 2009 due to lower environmental remediation costs associated with non-operating properties and higher rental and licensing income. Conversely, other income decreased in the year-to-date period of 2010 versus 2009 due to lower gains from real estate sales (the second quarter of 2009 included the $116 million pre-tax gain from the RTD transaction) and premiums paid for early debt redemption.

Interest Expense Interest expense decreased in the third quarter of 2010 versus 2009 due to a lower weighted average debt level of $9.5 billion, compared to $9.9 billion in 2009, partially offset by a higher effective interest rate of 6.4% in the third quarter of 2010 compared to 6.3% in the third quarter of 2009. Year-to-date, a higher weighted-average debt level of $9.7 billion in 2010 versus $9.5 billion in 2009 drove the increase in interest expense. The effective interest rate was 6.3% in both the year-to-date period of 2010 and 2009.

Income Taxes Income taxes were higher in the third quarter and year-to-date period of 2010 compared to 2009, driven by higher pre-tax income. Our effective tax rates were 38.9% and 38.4% in the third quarter and year-to-date period of 2010 compared to 37.2% and 36.3% for the corresponding periods of 2009. The higher 2010 effective tax rates were driven by changes in the distribution of taxable income between states. In addition, the 2009 year-to-date effective rate was lower primarily due to California legislation that changed how we determine the amount of income subject to California tax.

OTHER OPERATING/PERFORMANCE AND FINANCIAL STATISTICS

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

Operating/Performance Statistics

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

Three Months Ended September 30,		%	Nine Months Ended September 30,		%
2010	*2009*	***Change***	***2010***	*2009*	***Change***

Average train speed (miles per hour)	**25.7**	27.4	**(6)%**	**26.1**	27.3	**(4)%**
Average terminal dwell time (hours)	**25.0**	24.5	**2 %**	**25.3**	24.4	**4 %**
Average rail car inventory (thousands)	**274.4**	281.5	**(3)%**	**275.7**	283.2	**(3)%**
Gross ton-miles (billions)	**239.5**	218.8	**9 %**	**692.3**	626.2	**11 %**
Revenue ton-miles (billions)	**134.5**	124.0	**8 %**	**387.6**	355.7	**9 %**
Operating ratio	**68.2**	73.8	**(5.6) pts**	**70.8**	77.1	**(6.3) pts**
Employees (average)	**43,375**	43,248	**-**	**42,692**	43,989	**(3)%**
Customer satisfaction index	**90**	88	**2 pts**	**89**	87	**2 pts**

Average Train Speed Average train speed is calculated by dividing train miles by hours operated on our main lines between terminals. Average train speed decreased 6% in the third quarter of 2010 compared to a record in the third quarter of 2009. The effects of Hurricane Alex in July and subsequent flooding in Mexico negatively impacted our average train speed for the third quarter of 2010. Overall, we continued operating a fluid and efficient network during the nine-month period of 2010, effectively handling the 15% increase in carloads compared to the same period in 2009.

Average Terminal Dwell Time Average terminal dwell time is the average time that a rail car spends at our terminals. Lower average terminal dwell time improves asset utilization and service. Average terminal dwell time increased 2% in the third quarter of 2010 compared to 2009 driven by the effects of Hurricane Alex in July and the subsequent flooding in Mexico. Year-to-date, average terminal dwell time increased 4% compared to 2009 driven in part by our network plan to increase the length of particular trains to improve overall operational efficiency, which resulted in higher terminal dwell time for some cars.

Average Rail Car Inventory Average rail car inventory is the daily average number of rail cars on our lines, including rail cars in storage. Lower average rail car inventory reduces congestion in our yards and sidings, which increases train speed, reduces average terminal dwell time, and improves rail car utilization. Average rail car inventory decreased 3% in both the third quarter and year-to-date period of 2010 compared to 2009, while we handled 14% and 15% increases in carloads during these periods compared to 2009. We maintained more freight cars off-line and retired a number of old freight cars, which drove the decreases.

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 increased 9% and 8% in the third quarter of 2010 compared to 2009, due to a 14% increase in carloads during the same period. Commodity mix changes (notably automotive and intermodal shipments) drove the variance in year-over-year growth between gross ton-miles, revenue ton-miles and carloads. Year-to-date, gross and revenue ton-miles increased 11% and 9% compared to 2009, due to a 15% increase in carloads.

Operating Ratio Operating ratio is defined as our operating expense as a percentage of operating revenues. Our operating ratio improved 5.6 points to 68.2% in the third quarter of 2010 compared to 2009 and 6.3 points to 70.8% in the nine-month period of 2010 versus 2009. Efficiently leveraging volume increases, core pricing gains, and other productivity initiatives drove the improvement and more than offset the impact of higher fuel prices.

Employees Employee levels remained flat in the third quarter of 2010 compared to 2009 despite a 14% increase in volume levels. Year-to-date, employee levels decreased 3% with volumes increasing 15% during the period compared to 2009. We leveraged the additional volumes in both periods through network efficiencies and other productivity initiatives. In addition, we successfully managed the growth of our full-time equivalent train and engine force levels at a rate less than carloading growth in both periods. All other operating functions and support organizations realized decreases in their full-time equivalent force levels, benefiting from continued productivity initiatives.

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 improvements in survey results for the third quarter and year-to-date period of 2010 generally reflect customer recognition of our service.

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Debt to Capital / Adjusted Debt to Capital

Millions, Except Percentages	***Sept. 30, 2010***	*Dec. 31, 2009*
Debt (a)	**$ 9,719**	$ 9,848
Equity	**17,436**	16,801
Capital (b)	**$ 27,155**	$ 26,649
Debt to capital (a/b)	**35.8%**	37.0%

Millions, Except Percentages	***Sept. 30, 2010***	*Dec. 31, 2009*
Debt	**$ 9,719**	$ 9,848
Value of sold receivables	**-**	400
Debt including value of sold receivables	**9,719**	10,248
Net present value of operating leases	**3,520**	3,672
Unfunded pension and OPEB	**456**	456
Adjusted debt (a)	**$ 13,695**	$ 14,376
Equity	**17,436**	16,801
Adjusted capital (b)	**$ 31,131**	$ 31,177
Adjusted debt to capital (a/b)	**44.0%**	46.1%

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. Effective January 1, 2010, the value of the outstanding undivided interest held by investors under our receivables securitization facility is included in our Condensed Consolidated Statement of Financial Position as debt due after one year. At September 30, 2010, that amount was $100 million. Operating leases were discounted using 6.3% at both September 30, 2010 and December 31, 2009. The discount rates reflect any 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

Cash Flows
Millions,

for the Nine Months Ended September 30,	***2010***	*2009*
Cash provided by operating activities	**$ 2,720**	$ 2,199
Cash used in investing activities	**(1,673)**	(1,718)

Cash used in financing activities		**(1,539)**		(295)
Net change in cash and cash equivalents	**$**	**(492)**	$	186

Cash Provided by Operating Activities Higher net income in the first nine months of 2010 increased cash provided by operating activities compared to 2009. In addition, lower voluntary pension contributions of $100 million in the nine-month period of 2010 compared to $205 million in the same period of 2009 favorably impacted the year-over-year variance in cash provided by operating activities. Conversely, the change in accounting treatment for our receivable securitization facility from a sale of undivided interests (recorded as an operating activity) to a secured borrowing (recorded as a financing activity) decreased cash provided by operating activities by $400 million in the nine-month period of 2010 versus $184 million in the nine-month period of 2009.

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Cash Used in Investing Activities Lower capital investments drove the decrease in cash used in investing activities. In addition, we purchased equipment in the first nine months of 2009 totaling $100 million that was pending financing at September 30, 2009; no purchases were pending financing during the first nine months of 2010. Lower proceeds from asset sales in the year-to-date period of 2010 compared to 2009 partially offset the year-over-year decrease in capital investments.

The table below details cash capital investments:

Millions, *for the Nine Months Ended September 30,*	***2010***	*2009*
Rail and other track material	**$ 497**	$ 491
Ties	**355**	356
Ballast	**149**	174
Other [a]	**221**	236
Total road infrastructure replacements	**1,222**	1,257
Line expansion and other capacity projects	**67**	135
Commercial facilities	**114**	80
Total capacity and commercial facilities	**181**	215
Locomotives and freight cars	**150**	256
Positive train control	**50**	13
Technology and other	**83**	67
Total cash capital investments	**$ 1,686**	$ 1,808

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

Cash Used in Financing Activities Cash used in financing activities increased in the first nine months of 2010 versus 2009 due to an increase of $1.0 billion in the repurchase of common shares and a net debt reduction of $39 million in 2010 compared to a net debt increase of $17 million in 2009.

Free Cash Flow Free cash flow is defined as cash provided by operating activities less cash used in investing and dividends paid. Free cash flow is a non-GAAP financial measure under SEC Regulation G and Item 10 of SEC Regulation S-K. 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).

Millions, *for the Nine Months Ended September 30,*	***2010***	*2009*
Cash provided by operating activities	**$ 2,720**	$ 2,199
Receivables securitization facility [a]	**400**	184
Cash provided by operating activities excl. receivables securitization facility	**3,120**	2,383
Cash used in investing activities	**(1,673)**	(1,718)
Dividends paid	**(438)**	(408)
Free cash flow	**$ 1,009**	$ 257

[a] *Effective January 1, 2010, new accounting guidance requires us to account for receivables transferred under our receivables securitization facility as secured borrowings in our Condensed Consolidated Statements of Financial Position and as financing activities in our Condensed Consolidated Statements of Cash Flows. The receivables securitization facility line in the above table is included in our free cash flow calculation to adjust cash provided by operating activities as though our receivables securitization facility had been accounted for under the new accounting guidance for all periods presented.*

Financing Activities

Credit Facilities At September 30, 2010, 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 nine months ended September 30, 2010. 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 us to maintain a debt-to-net-worth coverage ratio as a condition to making a borrowing. At September 30, 2010, and December 31, 2009 (and at all times during the year), we were in compliance with this covenant.

The definition of debt used for purposes of calculating the debt-to-net-worth coverage ratio includes, among other things, certain credit arrangements, capital leases, guarantees and unfunded and vested pension benefits under Title IV of ERISA. At September 30, 2010, the debt-to-net-worth coverage ratio allowed us to carry up to $34.9 billion of debt (as defined in the facility), and we had $10.3 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 September 30, 2010, we had no commercial paper 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 nine months ended September 30, 2010, we did not issue or repay any commercial paper.

Receivables Securitization Facility In June 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2009-16, *Accounting for Transfers of Financial Assets* (ASU 2009-16). ASU 2009-16 limits the circumstances in which transferred financial assets can be derecognized and requires enhanced disclosures regarding transfers of financial assets and a transferor s continuing involvement with transferred financial assets. We adopted the authoritative accounting guidance on January 1, 2010. As a result, we no longer account for the value of the outstanding undivided interest held by investors under our receivables securitization facility as a sale. In addition, transfers of receivables occurring on or after January 1, 2010, are reflected as debt issued in our Condensed Consolidated Statements of Cash Flows, and the value of the outstanding undivided interest held by investors at September 30, 2010, is accounted for as a secured borrowing and is included in our Condensed Consolidated Statements of Financial Position as debt due after one year.

Under the receivables securitization facility, the Railroad sells most of its accounts receivable to Union Pacific Receivables, Inc. (UPRI), a bankruptcy-remote subsidiary. UPRI may subsequently transfer, without recourse on a 364-day revolving basis, an undivided interest in eligible accounts receivable to investors. The total capacity to transfer undivided interests to investors under the facility was $600 million at September 30, 2010, and December 31, 2009. The value of the outstanding undivided interest held by investors under the facility was $100 million and $400 million at September 30, 2010, and December 31, 2009, respectively. The value of the undivided interest held by investors was supported by $1,076 million and $817 million of accounts receivable at September 30, 2010, and December 31, 2009, respectively. At September 30, 2010, and December 31, 2009, the value of the interest retained by UPRI was $1,076 million and $417 million, respectively. This retained interest is included in accounts receivable, net in our Condensed Consolidated Statements of Financial Position.

The value of the outstanding undivided interest held by investors could fluctuate based upon the availability of eligible receivables and is directly affected by changing business volumes and credit risks, including default and dilution. If default or dilution ratios increase one percent, the value of the outstanding undivided interest held by investors would not change as of September 30, 2010. 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 the Railroad for these responsibilities. The Railroad collected approximately $4.3 billion and $3.4 billion during the three months ended September 30, 2010 and 2009, respectively, and $12.0 billion and $10.1 billion during the nine months ended September 30, 2010 and 2009, respectively. UPRI used certain of these proceeds to purchase new receivables under the facility.

The costs of the receivables securitization facility include interest, which will vary based on prevailing commercial paper rates, program fees paid to banks, commercial paper issuing costs, and fees for unused commitment availability. The costs of the receivables securitization facility are included in interest expense and were $2 million and $5 million for the three and nine months ended September 30, 2010. Prior to adoption of the new accounting guidance, the costs of the receivables securitization facility were included in other income and were $2 million and $7 million for the three and nine months ended September 30, 2009.

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

In August 2010, the receivables securitization facility was renewed from an additional 364-day period at comparable terms and conditions.

Shelf Registration Statement and Significant New Borrowings We filed a shelf registration statement, which became effective upon filing on February 10, 2010. Our Board of Directors authorized the issuance of up to $3 billion of debt securities, replacing the $2.25 billion of authority remaining under our shelf registration filed in March 2007. Under the shelf registration, we may issue, from time to time, any combination of debt securities, preferred stock, common stock, or warrants for debt securities or preferred stock in one or more offerings. We have no immediate plans to issue equity securities; however, we will continue to explore opportunities to replace existing debt or access capital through issuances of debt securities under our shelf registration, and, therefore, we may issue additional debt securities at any time.

On August 2, 2010, we issued a total of $500 million of 4.0% unsecured fixed-rate notes under our shelf-registration statement. The notes will be due on February 1, 2021; proceeds from this offering are for general corporate purposes.

As of September 30, 2010, and December 31, 2009, we reclassified as long-term debt approximately $110 million and $320 million, respectively, of debt due within one year that we intend to refinance. This reclassification reflects our ability and intent to refinance any short-term borrowings and certain current maturities of long-term debt on a long-term basis.

Debt Exchange On July 14, 2010, we exchanged $376 million of 7.875% notes due in 2019 (Existing Notes) for 5.78% notes (New Notes) due July 15, 2040, plus cash consideration of approximately $96 million and $15 million for accrued and unpaid interest on the Existing Notes. The cash consideration, was recorded as an adjustment to the carrying value of debt, and the balance of the unamortized discount and issue costs from the Existing Notes is being amortized as an adjustment of interest expense over the term of the New Notes. There was no gain or loss recognized as a result of the exchange. Costs related to the debt exchange that were payable to parties other than the debtholders totaled approximately $2 million and were included in interest expense during the third quarter.

Debt Redemption On March 22, 2010, we redeemed $175 million of our 6.5% notes due April 15, 2012. The redemption resulted in an early extinguishment charge of $16 million in the first quarter of 2010. In addition, we reduced the amount of the outstanding undivided interest under our receivables securitization facility from $400 million to $100 million during the first half of 2010.

Subsequent Event Debt Redemption On September 30, 2010, we notified the holders of our 6.65% notes due January 15, 2011, of our intent to redeem all of the outstanding notes. The redemption is to occur on November 1, 2010, and will result in an estimated $5 million premium payment as well as accrued and unpaid interest totaling $8 million. The outstanding principal amount of the notes is $400 million, which has been classified as debt due within one year.

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Share Repurchase Program On May 1, 2008, our Board of Directors authorized the repurchase of 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. Any share repurchases under this program are expected to be funded through cash generated from operations, the sale or lease of various operating and non-operating properties, debt issuances, and cash on hand. Repurchased shares are recorded in treasury stock at cost, which includes any applicable commissions and fees.

	Number of Shares Purchased		*Average Price Paid*	
	2010	*2009*	***2010***	*2009*
First quarter	**-**	-	**$ -**	$ -
Second quarter	**6,496,400**	-	**71.74**	-
Third quarter	**7,643,400**	-	**73.19**	-
Total	**14,139,800**	-	**$ 72.52**	$ -
Remaining number of shares that may yet be repurchased				18,437,290

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 September 30, 2010:

Contractual Obligations		*Payments Due by Dec. 31,*						
		Oct. 1 through Dec. 31,					*After*	
Millions	*Total*	*2010*	*2011*	*2012*	*2013*	*2014*	*2014*	*Other*
Debt [a]	$ 12,903	$ 511	595	926	998	978	8,895	-
Operating leases [b]	4,989	80	608	522	457	382	2,940	-
Capital lease obligations [c]	2,767	66	292	251	257	268	1,633	-
Purchase obligations [d]	2,559	335	311	234	229	209	1,209	32
Other postretirement benefits [e]	404	10	42	43	43	44	222	-
Income tax contingencies [f]	78	4	-	-	-	-	-	74
Total contractual obligations	$ 23,700	$ 1,006	$ 1,848	$ 1,976	$ 1,984	$ 1,881	$ 14,899	$ 106

[a] *Excludes capital lease obligations of $1,953 million and unamortized discount of $(197) million. Includes an interest component of $4,940 million.*

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

[c] *Represents total obligations, including interest component of $814 million.*

[d] *Purchase obligations include locomotive maintenance contracts; purchase commitments for 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.*

[e] *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.*

[f] *Future cash flows for income tax contingencies reflect the recorded liability for unrecognized tax benefits, including interest and penalties, as of September 30, 2010. 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.*

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Other Commercial Commitments		*Oct. 1 through Dec. 31,*	*Amount of Commitment Expiration by Dec. 31,*				*After*
Millions	*Total*	*2010*	*2011*	*2012*	*2013*	*2014*	*2014*
Credit facilities [a]	$ 1,900	$ -	$ -	$ 1,900	$ -	$ -	$ -
Receivables securitization facility [b]	600	-	600	-	-	-	-
Guarantees [c]	382	2	70	23	8	214	65
Standby letters of credit [d]	24	9	15	-	-	-	-
Total commercial commitments	$ 2,906	$ 11	$ 685	$ 1,923	$ 8	$ 214	$ 65

[a] None of the credit facility was used as of September 30, 2010.

[b] $100 million of the receivables securitization facility was utilized at September 30, 2010, which is accounted for as debt. The full program matures in August 2011.

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

[d] None of the letters of credit were drawn upon as of September 30, 2010.

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.

Accounting Pronouncements In June 2010, the FASB issued Accounting Standards Update No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (ASU 2010-20). ASU 2010-20 requires enhanced disclosures about the credit quality of financing receivables and the allowance for credit losses. Entities will be required to provide a greater level of disaggregated information about the credit quality of their financing receivables and their allowances for credit losses. In addition, entities will be required to disclose credit quality indicators, past due information, and modifications of financing receivables. The required disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The required disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of ASU 2010-20 will only impact our disclosures and will not affect our consolidated financial position, results of operations, or cash flows.

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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, and the transportation plan; 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 may be identified by their use of forward-looking terminology, such as believes, expects, may, should, would, will, intends, plans, anticipates, projects, and similar words, phrases, or expressions.

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 2009 Annual Report on Form 10-K, filed February 5, 2010, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements, and this report, including this Item 2, should be read in conjunction with these Risk Factors. To the extent circumstances require or we deem it otherwise necessary, we will update or amend these risk factors in a Form 10-Q or Form 8-K. Information regarding new risk factors or material changes to our risk factors, if any, is set forth in Item 1A of Part II of this report. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times that, or by which, such performance or results will be achieved. Forward-looking information is subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes to the Quantitative and Qualitative Disclosures About Market Risk previously disclosed in our 2009 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.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Environmental Matters

As we reported in our Annual Report on Form 10-K for 2005, the EPA considers the Railroad a potentially responsible party for the Omaha Lead Site. The Omaha Lead Site consists of approximately 25 square miles of residential property in the eastern part of Omaha, Nebraska, allegedly impacted by air emissions from two former lead smelters/refineries. One refinery was operated by ASARCO. The EPA identified the Railroad as a potentially responsible party because more than 60 years ago the Railroad owned land that was leased to ASARCO. The Railroad disputes both the legal and technical basis of the EPA s allegations. It has nonetheless engaged in extensive negotiations with the EPA. These negotiations reached an apparent impasse. The EPA issued a Unilateral Administrative Order with an effective date of December 16, 2005, directing the Railroad to implement an interim remedy at the site at an estimated cost of $50 million. Failure to comply with the order without just cause could subject the Railroad to penalties of (up to $37,500) per day and triple the EPA s costs in performing the work. The Railroad believes it has just cause not to comply with the order, but it offered to perform some of the work specified in the order as a compromise. On August 5, 2009, the Railroad received a Special Notice Letter from EPA directing us to perform environmental remediation at approximately 9,000 residential yards in Omaha and to take other remedial measures as part of a final remedy. The Railroad continues to contest its purported liability for these costs but has submitted an offer to the EPA to attempt to negotiate a resolution of the matter. To date, the EPA has rejected all of the Railroad s offers to settle or resolve this matter. On June 23, 2010, the Railroad filed suit in federal district court in Omaha, Nebraska against the EPA and its Administrator under the Freedom of Information Act (FOIA), the Administrative Procedure Act and the Federal Records Act asking the court to compel EPA to respond fully to outstanding FOIA requests and to prevent EPA from destroying records. The court granted the Railroad a temporary restraining order prohibiting further document destruction. The Railroad will seek both a preliminary and a permanent injunction to prevent EPA from any further document destruction. On August 26, 2010, the Court entered an agreed Preliminary Injunction preventing destruction of records by EPA.

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.

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Other Matters

As we reported in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, the U.S. Customs and Border Protection (CBP) directed its field offices to issue penalties against the Railroad in December 2007 for discoveries of illegal drugs in railcars crossing the border from Mexico. The cars are in trains delivered by Mexican railroads directly to CBP; the Railroad receives the trains only after CBP inspects them. Additionally, CBP imposed or reinstated earlier penalties that had been held in abeyance while the Railroad and CBP pursued a collective plan to address drug smuggling. In some instances, CBP seized railcars in which drugs were found.

On July 31, 2008, the Railroad filed a complaint in the U.S. District Court for the District of Nebraska asking the court to enter (1) a judgment declaring that CBP s penalties and seizures are invalid and unenforceable and (2) preliminary and permanent injunctions prohibiting CBP from enforcing penalties and holding seized cars and directing CBP to refrain from issuing additional penalties and from future equipment seizures. The total amount of penalties assessed against the Railroad at that time was approximately $61.4 million. The parties discussed settlement, and the case in the District Court was stayed. During this period, no new penalties were issued and no cars were seized.

Settlement discussions were unsuccessful. As a result, the Railroad reinstituted its lawsuit on February 18, 2009. U.S. Department of Justice (DOJ) then filed enforcement actions in the U.S. District Court for the Southern District of Texas on March 17, 2009, and in the U.S. District Court for the Southern District of California on March 18, 2009, and nine separate forfeiture complaints in the U.S. District Court for the District of Arizona on March 19, 2009 (covering ten seized cars).

In the Nebraska case, DOJ filed a motion to dismiss, asserting that (1) the Court lacked jurisdiction, (2) the Court could not grant declaratory relief because of sovereign immunity, (3) there had been no final agency action from which to seek declaratory relief, and (4) the Railroad has an adequate remedy elsewhere available. DOJ also alleged that the Railroad had filed suit in Nebraska because it was forum shopping. The Nebraska court denied this motion on June 11, 2010.

On April 8, 2010, the Railroad filed a Motion for Summary Judgment, requesting that the Nebraska court find that the Railroad is neither a person in charge or the owner of trains carrying drugs, nor directly or indirectly responsible for the presence of drugs, and that the seized railcars at issue are not subject to forfeiture. The Railroad also filed Motions in California, Texas, and Arizona to Transfer (to Nebraska), Dismiss or Stay the cases in those courts. There have been no rulings on these motions.

On June 30, 2010, DOJ filed its answer and enforcement counterclaims in the Nebraska court. It also filed a motion for a continuance in order to conduct discovery. That motion remains pending.

On July 19, 2010, CBP notified the Railroad of additional penalties totaling approximately $101 million for drug discoveries at border crossings in California from May 14, 2008, to June 4, 2010. Since that date, the Railroad received additional penalties for other drug discoveries. The total outstanding penalty amount as of September 30, 2010, was approximately $357 million. Because the Railroad is not in charge of trains on which drugs are found and believes that CBP lacks statutory authority to act against the Railroad, it will continue pursuing its complaint and vigorously defend against the counterclaims.

Item 1A. Risk Factors

There were no material changes from the risk factors previously disclosed in our 2009 Annual Report on Form 10-K.

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

Purchases of Equity Securities The following table presents common stock repurchases during each month for the third quarter of 2010:

Period	*Total Number of Shares Purchased [a]*	*Average Price Paid Per Share*	*Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program [b]*	*Maximum Number of Shares That May Yet Be Purchased Under the Plan or Program [b]*
Jul. 1 through Jul. 31	3,861,047	$ 70.83	3,860,900	22,219,790
Aug. 1 through Aug. 31	2,628,267	73.99	2,607,500	19,612,290
Sep. 1 through Sep. 30	1,323,034	79.23	1,175,000	18,437,290
Total	7,812,348	$ 73.32	7,643,400	N/A

[a] Total number of shares purchased during the quarter includes 168,948 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 May 1, 2008, our Board of Directors authorized repurchases of up to 40 million shares of our common stock through March 31, 2011. These repurchases may be made on the open market or through other transactions. Our management has sole discretion with respect to determining the timing and amount of these transactions.

Dividend Restrictions Our revolving credit facility includes a debt-to-net worth covenant that, under certain circumstances, restricts the payment of cash dividends to our shareholders. The amount of retained earnings available for dividends was $12.3 billion and $11.7 billion at September 30, 2010 and December 31, 2009, respectively.

Item 3. Defaults Upon Senior Securities

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
Filed with this Statement	
12(a)	Ratio of Earnings to Fixed Charges for the Three Months Ended September 30, 2010 and 2009.
12(b)	Ratio of Earnings to Fixed Charges for the Nine Months Ended September 30, 2010 and 2009.
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.
101	eXtensible Business Reporting Language (XBRL) documents submitted electronically: 101.INS (XBRL Instance Document), 101.SCH (XBRL Taxonomy Extension Schema Document), 101.CAL (XBRL Calculation Linkbase Document), 101.LAB (XBRL Taxonomy Label Linkbase Document), 101.DEF (XBRL Taxonomy Definition Linkbase Document) and 101.PRE (XBRL Taxonomy Presentation Linkbase Document). The following financial and related information from Union Pacific Corporation s Quarterly Report on Form 10-Q for the period ended September 30, 2010 (filed with the SEC on October 22, 2010), is formatted in XBRL and submitted electronically herewith: (i) Consolidated Statements of Income for the periods ended September 30, 2010 and 2009, (ii) Consolidated Statements of Financial Position at September 30, 2010 and December 31, 2009, (iii) Consolidated Statements of Cash Flows for the periods ended September 30, 2010 and 2009, (iv) Consolidated Statements of Changes in Common Shareholders Equity for the periods ended September 30, 2010 and 2009, and (v) the Notes to the Consolidated Financial Statements.
Incorporated by Reference	
3(a)	By-Laws of UPC, as amended, effective May 14, 2009, are incorporated herein by reference to Exhibit 3.2 to the Corporation s Current Report on Form 8-K dated May 15, 2009.
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	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 August 2, 2010.

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SIGNATURES

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

Dated: October 22, 2010

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)