

UNION PACIFIC CORP  
Form 10-Q  
October 26, 2017  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

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)

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UTAH	13-2626465
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1400 DOUGLAS STREET, OMAHA, NEBRASKA

(Address of principal executive offices)

68179

(Zip Code)

(402) 544-5000

(Registrant's telephone number, including area code)

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

Yes      No

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

Yes      No

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

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

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

Yes      No

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

As of October 20, 2017, there were 787,168,815 shares of the Registrant's Common Stock outstanding.

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## PART I. FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements

## Condensed Consolidated Statements of Income (Unaudited)

## Union Pacific Corporation and Subsidiary Companies

Millions, Except Per Share Amounts,

for the Three Months Ended September 30,	2017	2016
Operating revenues:		
Freight revenues	\$ 5,050	\$ 4,837
Other revenues	358	337
Total operating revenues	5,408	5,174
Operating expenses:		
Compensation and benefits	1,298	1,191
Purchased services and materials	615	566
Depreciation	528	512
Fuel	450	392
Equipment and other rents	275	282
Other	230	271
Total operating expenses	3,396	3,214
Operating income	2,012	1,960
Other income (Note 7)	151	29
Interest expense	(180)	(184)
Income before income taxes	1,983	1,805
Income taxes	(789)	(674)
Net income	\$ 1,194	\$ 1,131
Share and Per Share (Note 9):		
Earnings per share - basic	\$ 1.50	\$ 1.36
Earnings per share - diluted	\$ 1.50	\$ 1.36
Weighted average number of shares - basic	794.5	829.0
Weighted average number of shares - diluted	797.6	832.2
Dividends declared per share	\$ 0.605	\$ 0.55

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

Union Pacific Corporation and Subsidiary Companies

Millions, for the Three Months Ended September 30,	2017	2016
Net income	\$ 1,194	\$ 1,131
Other comprehensive income/(loss):		
Defined benefit plans	40	14
Foreign currency translation	9	(1)
Total other comprehensive income/(loss) [a]	49	13
Comprehensive income	\$ 1,243	\$ 1,144

[a]Net of deferred taxes of \$(27) million and \$(7) million during the three months ended September 30, 2017, and 2016, respectively.

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

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## Condensed Consolidated Statements of Income (Unaudited)

## Union Pacific Corporation and Subsidiary Companies

Millions, Except Per Share Amounts,

for the Nine Months Ended September 30,	2017	2016
Operating revenues:		
Freight revenues	\$ 14,750	\$ 13,769
Other revenues	1,040	1,004
Total operating revenues	15,790	14,773
Operating expenses:		
Compensation and benefits	3,752	3,564
Purchased services and materials	1,778	1,705
Depreciation	1,573	1,518
Fuel	1,344	1,058
Equipment and other rents	824	857
Other	709	764
Total operating expenses	9,980	9,466
Operating income	5,810	5,307
Other income (Note 7)	261	152
Interest expense	(531)	(524)
Income before income taxes	5,540	4,935
Income taxes	(2,106)	(1,846)
Net income	\$ 3,434	\$ 3,089
Share and Per Share (Note 9):		
Earnings per share - basic	\$ 4.27	\$ 3.69
Earnings per share - diluted	\$ 4.26	\$ 3.68
Weighted average number of shares - basic	803.4	836.8
Weighted average number of shares - diluted	806.5	839.6
Dividends declared per share	\$ 1.815	\$ 1.65

## Condensed Consolidated Statements of Comprehensive Income (Unaudited)

## Union Pacific Corporation and Subsidiary Companies



Millions, for the Nine Months Ended September 30,	2017	2016
Net income	\$ 3,434	\$ 3,089
Other comprehensive income/(loss):		
Defined benefit plans	66	35
Foreign currency translation	34	(25)
Total other comprehensive income/(loss) [a]	100	10
Comprehensive income	\$ 3,534	\$ 3,099

[a]Net of deferred taxes of \$(59) million and \$(8) million during the nine months ended September 30, 2017, and 2016, respectively.

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

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## Condensed Consolidated Statements of Financial Position (Unaudited)

## Union Pacific Corporation and Subsidiary Companies

Millions, Except Share and Per Share Amounts	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,847	\$ 1,277
Short-term investments (Note 14)	90	60
Accounts receivable, net (Note 11)	1,428	1,258
Materials and supplies	742	717
Other current assets	342	284
Total current assets	4,449	3,596
Investments	1,566	1,457
Net properties (Note 12)	51,036	50,389
Other assets	346	276
Total assets	\$ 57,397	\$ 55,718
Liabilities and Common Shareholders' Equity		
Current liabilities:		
Accounts payable and other current liabilities (Note 13)	\$ 2,928	\$ 2,882
Debt due within one year (Note 15)	903	758
Total current liabilities	3,831	3,640
Debt due after one year (Note 15)	15,930	14,249
Deferred income taxes	16,524	15,996
Other long-term liabilities	1,961	1,901
Commitments and contingencies (Note 17)		
Total liabilities	38,246	35,786
Common shareholders' equity:		
Common shares, \$2.50 par value, 1,400,000,000 authorized; 1,111,418,228 and 1,110,986,415 issued; 789,834,578 and 815,824,413 outstanding, respectively	2,778	2,777
Paid-in-surplus	4,454	4,421
Retained earnings	34,561	32,587
Treasury stock	(21,470)	(18,581)
Accumulated other comprehensive loss (Note 10)	(1,172)	(1,272)
Total common shareholders' equity	19,151	19,932
Total liabilities and common shareholders' equity	\$ 57,397	\$ 55,718

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,	2017	2016
<b>Operating Activities</b>		
Net income	\$ 3,434	\$ 3,089
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	1,573	1,518
Deferred and other income taxes	514	519
Other operating activities, net	85	(268)
Changes in current assets and liabilities:		
Accounts receivable, net	(170)	5
Materials and supplies	(25)	46
Other current assets	(58)	(15)
Accounts payable and other current liabilities	(43)	79
Income and other taxes	88	494
Cash provided by operating activities	5,398	5,467
<b>Investing Activities</b>		
Capital investments	(2,379)	(2,604)
Proceeds from asset sales	152	116
Purchases of short-term investments (Note 14)	(90)	(580)
Maturities of short-term investments (Note 14)	60	250
Other investing activities, net	(3)	(1)
Cash used in investing activities	(2,260)	(2,819)
<b>Financing Activities</b>		
Common share repurchases (Note 18)	(2,882)	(2,100)
Debt issued (Note 15)	2,285	1,883
Dividends paid	(1,460)	(1,382)
Debt repaid	(471)	(481)
Other financing activities, net	(40)	(50)
Cash used in financing activities	(2,568)	(2,130)
Net change in cash and cash equivalents	570	518
Cash and cash equivalents at beginning of year	1,277	1,391
Cash and cash equivalents at end of period	\$ 1,847	\$ 1,909
<b>Supplemental Cash Flow Information</b>		
Non-cash investing and financing activities:		
Capital investments accrued but not yet paid	\$ 120	\$ 106
Common shares repurchased but not yet paid	29	65
Cash (paid for)/received from:		

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Income taxes, net of refunds	\$ (1,557)	\$ (877)
Interest, net of amounts capitalized	(532)	(540)

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

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

## Union Pacific Corporation and Subsidiary Companies

Millions	Common Shares	Treasury Shares	Common Shares	Paid-in-Surplus	Retained Earnings	Treasury Stock	AOCI [a]	Total
Balance at January 1, 2016	1,110.4	(261.2)	\$ 2,776	\$ 4,417	\$ 30,233	\$ (15,529)	\$ (1,195)	\$ 20,702
Net income			-	-	3,089	-	-	3,089
Other comprehensive income			-	-	-	-	10	10
Conversion, stock option exercises, forfeitures, and other	0.6	0.8	1	(11)	-	40	-	30
Share repurchases (Note 18)	-	(25.4)	-	-	-	(2,165)	-	(2,165)
Cash dividends declared (\$1.65 per share)	-	-	-	-	(1,382)	-	-	(1,382)
Balance at September 30, 2016	1,111.0	(285.8)	\$ 2,777	\$ 4,406	\$ 31,940	\$ (17,654)	\$ (1,185)	\$ 20,284
Balance at January 1, 2017	1,111.0	(295.2)	\$ 2,777	\$ 4,421	\$ 32,587	\$ (18,581)	\$ (1,272)	\$ 19,932
Net income			-	-	3,434	-	-	3,434
Other comprehensive income			-	-	-	-	100	100
Conversion, stock option exercises, forfeitures, and other	0.4	0.7	1	33	-	22	-	56
Share repurchases	-	(27.1)	-	-	-	(2,911)	-	(2,911)

(Note 18)

Cash dividends

declared

(\$1.815 per share)	-	-	-	-	(1,460)	-	-	(1,460)
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Balance at

September 30, 2017	1,111.4	(321.6)	\$ 2,778	\$ 4,454	\$ 34,561	\$ (21,470)	\$ (1,172)	\$ 19,151
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[a]AOCI = Accumulated Other Comprehensive Income/(Loss) (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 herein to the “Corporation”, “Company”, “UPC”, “we”, “us”, and “our” mean Union Pacific Corporation and its subsidiaries, including Union Pacific Railroad Company, which will be separately referred to herein as “UPRR” or the “Railroad”.

1. Basis of Presentation

Our Condensed Consolidated Financial Statements are unaudited and reflect all adjustments (consisting of normal and recurring adjustments) that are, in the opinion of management, necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Pursuant to the rules and regulations of the Securities and Exchange Commission (SEC), certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. Accordingly, this Quarterly Report on Form 10-Q should be read in conjunction with our Consolidated Financial Statements and notes thereto contained in our 2016 Annual Report on Form 10-K. Our Consolidated Statement of Financial Position at December 31, 2016, is derived from audited financial statements. The results of operations for the nine months ended September 30, 2017, are not necessarily indicative of the results for the entire year ending December 31, 2017.

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

2. Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), Revenue from Contracts with Customers (Topic 606). ASU 2014-09 supersedes the revenue recognition guidance in Topic 605, Revenue Recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to



be entitled in the exchange for those goods or services. This may require the use of more judgment and estimates in order to correctly recognize the revenue expected as an outcome of each specific performance obligation. Additionally, this guidance will require the disclosure of the nature, amount, and timing of revenue arising from contracts so as to aid in the understanding of the users of financial statements.

This standard is effective for annual reporting periods beginning after December 15, 2017, and we intend to adopt the standard beginning in 2018 using the modified retrospective transition method. The Company has analyzed a significant proportion of our freight and other revenues and we expect to continue to recognize freight revenues as freight moves from origin to destination and to recognize other revenues as identified performance obligations are satisfied. We are currently analyzing freight and other revenues in the context of the new guidance on principal versus agent considerations and evaluating the required new disclosures. At this time, ASU 2014-09 is not expected to have a material impact on our consolidated financial position, results of operations, or cash flows.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01 (ASU 2016-01), Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10). ASU 2016-01 provides guidance for the recognition, measurement, presentation, and disclosure of financial instruments. This guidance is effective for annual and interim periods beginning after December 15, 2017, and early adoption is not permitted. ASU 2016-01 is not expected to have a material impact on our consolidated financial position, results of operations, or cash flows.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (ASU 2016-02), Leases (Subtopic 842). ASU 2016-02 will require companies to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. For public companies, this standard is effective for annual reporting periods beginning after December 15, 2018, and early adoption is permitted. Management is currently evaluating the impact of this standard on our consolidated financial

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position, results of operations, and cash flows, but expects that the adoption will result in a significant increase in the Company's assets and liabilities.

In March 2017, the FASB issued Accounting Standards Update No. 2017-07 (ASU 2017-07), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (Topic 715). ASU 2017-07 requires the service cost component be reported separately from the other components of net benefit costs in the income statement, provides explicit guidance on the presentation of the service cost component and the other components of net benefit cost in the income statement, and allows only the service cost component of net benefit cost to be eligible for capitalization. This standard is effective for annual and interim reporting periods beginning after December 15, 2017, and requires retrospective adoption. Early adoption is permitted. ASU 2017-07 is not expected to have an impact on our consolidated financial position, results of operations, cash flows, net income or earnings per share as a result of adopting this new standard. The Company currently records service costs and net benefit costs within compensation and benefits expense. Upon adoption, only the service cost will be recorded within compensation and benefits expense, and the other components of net benefit costs, including \$67 million related to the 2017 workforce reduction plan as described in Note 6, will be recorded in other income. The retrospective impact of future adoption is shown in the table below:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Millions				
Increase/(decrease) in operating income	\$ 61	\$ (8)	\$ 49	\$ (24)
Increase/(decrease) in other income	(61)	8	(49)	24

### 3. Workforce Reduction Plan

On August 16, 2017, the Company approved and commenced a management and administrative personnel reorganization plan (the "Plan") furthering its on-going efforts to increase efficiency and more effectively align Company resources. The Plan implemented productivity initiatives identified during a recently completed Company-wide organizational review that included the reduction of approximately 460 management positions and 150 agreement positions. An additional 100 agreement positions have been identified and will be eliminated throughout the remainder of 2017. The Plan resulted in a pretax charge recognized in the third quarter of 2017 within compensation and benefits expense in our Condensed Consolidated Statements of Income. This charge consisted of management employee termination benefits, including pension expenses, severance costs, and acceleration of equity compensation expense as shown in the table below. The actions associated with the Plan are substantially complete, and we do not expect to incur additional charges for the Plan in subsequent years.

Millions	Compensation and	
As of September 30, 2017	Benefits Expense	Liability
Pension	\$ 67	\$ 67
Severance	12	12
Equity Compensation	5	5
Total	\$ 84	\$ 84