

UNION PACIFIC CORP  
Form DEF 14A  
March 31, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**  
**(Amendment No. \_\_)**

Filed by the Registrant  Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

# Union Pacific Corporation

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**Notice of Annual Meeting  
of Shareholders**

Union Pacific Corporation

1400 Douglas Street

19<sup>th</sup> Floor

Omaha, NE 68179

To the Shareholders:

March 31, 2010

The 2010 Annual Meeting of Shareholders (the Annual Meeting) of Union Pacific Corporation (the Company) will be held at the Little America Hotel, 500 S. Main Street, Salt Lake City, Utah, at 11:00 A.M., Mountain Daylight Time, on Thursday, May 6, 2010 for the following purposes:

- (1) to elect the twelve directors named in the Proxy Statement, each to serve for a term of one year and until their successors are elected and qualified;
- (2) to ratify the appointment of Deloitte & Touche LLP as the independent registered public accounting firm of the Company for 2010;
- (3) to consider and vote upon two shareholder proposals if properly presented at the Annual Meeting; and
- (4) to transact such other business as may properly come before the Annual Meeting.

Only shareholders of record at the close of business on February 26, 2010 are entitled to notice of, and to vote at, the Annual Meeting.

**Your vote is very important. Because of a change in New York Stock Exchange rules, if your shares are held by a broker, your broker will NOT be able to vote your shares in the election of directors unless you provide directions to your broker. We strongly encourage you to submit your proxy card to your broker or utilize your broker's telephone or internet voting if available and exercise your right to vote as a shareholder.**

**Barbara W. Schaefer**

Senior Vice President-Human Resources

and Secretary

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**UNION PACIFIC CORPORATION**

**2010 ANNUAL MEETING OF SHAREHOLDERS**

**PROXY STATEMENT**

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**UNION PACIFIC CORPORATION**

1400 Douglas Street, 19<sup>th</sup> Floor

Omaha, NE 68179

**PROXY STATEMENT**

**For Annual Meeting of Shareholders to Be Held on May 6, 2010**

**Important Notice Regarding the Availability of Proxy Materials**

**for the Shareholder Meeting to Be Held on May 6, 2010.**

**This Proxy Statement and our 2009 Annual Report on Form 10-K are available at**

**[www.up.com](http://www.up.com) under the Investors caption link.**

**Information About the Annual Meeting, Voting and Proxies**

**Date, Time and Place of Meeting**

This Proxy Statement is being furnished to shareholders of Union Pacific Corporation (the Company) in connection with the solicitation of proxies by the Board of Directors of the Company (the Board) for use in voting at the Annual Meeting of Shareholders or any adjournment or postponement thereof (the Annual Meeting). The Annual Meeting will be held on Thursday, May 6, 2010 at 11:00 A.M., Mountain Daylight Time at Little America Hotel, 500 S. Main Street, Salt Lake City, Utah. We are initially mailing this Proxy Statement and the accompanying proxy card to shareholders of the Company on or about March 31, 2010.

**Record Date, Outstanding Shares and Quorum**

Only holders of record of the Company's common stock at the close of business on February 26, 2010 (the Record Date), will be entitled to vote at the Annual Meeting. On the Record Date, we had 505,905,383 shares of common stock outstanding and entitled to vote. If a majority of the shares outstanding on the Record Date are present at the Annual Meeting, either in person or by proxy, we will have a quorum at the Annual Meeting. Any shares represented by proxies that are marked for, against or to abstain from voting on a proposal will be counted as present in determining whether we have a quorum. If a broker, bank, custodian, nominee or other record holder of the Company's common stock indicates on a proxy card that it does not have discretionary authority to vote certain shares on a particular matter, the shares held by that record holder (referred to as broker non-votes) will also be counted as present in determining whether we have a quorum, but will not be counted or entitled to

vote on that particular matter.

**Voting Rights and Voting of Proxies**

Holders of our common stock are entitled to one vote for each share they held as of the Record Date. Directors will be elected by a majority of the votes cast by the shares of common stock present at the Annual Meeting (either in person or by proxy) and entitled to vote on the election of directors, which means that a nominee will be elected if he or she receives more for votes than against votes. Pursuant to Section 9 of Article I of the Company s By-Laws and applicable laws of the State of Utah, if the nominee does not receive more for votes than against votes, he or she will be elected to a shortened term of not more than 90 days. Approval of Proposal Number 2 (ratification of the appointment of independent registered public accounting firm), Proposal Number 3 (independent chairman) and Proposal Number 4 (simple majority vote) require the affirmative vote of a majority of the votes cast on the proposal (either in person or by proxy). In accordance with Utah law, abstentions and broker non-votes are treated as neither a vote for nor against and, therefore, will not affect the outcome of the vote in the election of directors and for Proposal Numbers 2, 3 and 4.



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### **Solicitation and Voting of Proxies**

The proxy included with this Proxy Statement is solicited by the Board for use at the Annual Meeting. You can submit your proxy card by mailing it in the envelope provided. You may also use the toll free telephone number or access the Internet address listed on the proxy card to submit your proxy. Specific directions for using the telephone and Internet voting system are set forth on the proxy card. If your proxy is properly received, and it is not revoked before the Annual Meeting, your shares will be voted at the Annual Meeting according to the instructions indicated on your proxy card. If you sign and return your proxy card but do not give any voting instructions, your shares will be voted for the election of each of the director nominees listed in Proposal Number 1 below, in favor of Proposal Number 2 and against Proposals Numbers 3 and 4. To our knowledge, no other matters will be presented at the Annual Meeting. However, if any other matters of business are properly presented, the proxy holders named on the proxy card are authorized to vote the shares represented by proxies according to their judgment.

### **Confidential Voting Policy**

The Board maintains a confidential voting policy pursuant to which the Company's stock transfer agent, Computershare Investor Services, receives shareholder proxies or voting instructions, and officers of Computershare, serving as independent inspectors of election, certify the vote. Proxies and ballots as well as telephone and Internet voting instructions will be kept confidential from the management of the Company, except in certain cases where it is necessary to meet legal requirements, as in a contested proxy solicitation or where a shareholder writes comments on the proxy card. Reports concerning the vote may be made available to the Company, provided such reports do not reveal how any particular shareholder voted.

### **Revocation of Proxies**

After you submit your proxy you may revoke it at any time before voting takes place at the Annual Meeting. There are three ways you can revoke your proxy: (i) deliver to the Secretary of the Company a written notice, dated later than the proxy you want to revoke, stating that the proxy is revoked; (ii) submit new telephone or Internet instructions or deliver a validly executed later-dated proxy; or (iii) attend the Annual Meeting and vote in person. For this purpose, communications to the Secretary of the Company should be addressed to 1400 Douglas Street, 19th Floor, Omaha, Nebraska 68179 and must be received before the time that the proxy you wish to revoke is voted at the Annual Meeting. Please note that if your shares are held through a broker, bank or other nominee and you wish to revoke a previously given proxy, you must contact that entity. If your shares are held through a broker, bank or other nominee and you wish to vote at the Annual Meeting, prior to the Annual Meeting you must obtain from that entity a proxy covering the shares you beneficially own.

### **Expenses of Solicitation**

The Company will pay the costs of preparing, printing and mailing this Notice of Annual Meeting of Shareholders and Proxy Statement, the enclosed proxy card and the Company's 2009 Annual Report on Form 10-K. In addition to the use of the mail, proxies may be solicited by personal interview, telephone and electronic communication by the directors, officers and employees of the Company acting without special compensation. We also make arrangements with brokerage houses and other custodians, nominees and fiduciaries for the forwarding of solicitation material to the beneficial owners of shares held of record by such persons, and the Company will reimburse such custodians, nominees and fiduciaries for reasonable out-of-pocket expenses incurred by them in connection with such solicitation. In addition, Morrow & Co., LLC, 470 West Avenue, Stamford, CT 06902 has been engaged to solicit proxies for the Company. The anticipated fees of Morrow & Co., LLC are \$16,000 plus certain expenses.



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### **Information Regarding the Company**

References to the Company's website included in this Proxy Statement and in the Company's Annual Report on Form 10-K are provided as a convenience and do not constitute, and should not be deemed, an incorporation by reference of the information contained in, or available through, the website.

### **Board Corporate Governance Matters**

#### **Board of Directors Meetings and Committees**

In accordance with applicable Utah law and the By-Laws of the Company, the business and affairs of the Company are managed under the direction of its Board. The Board has established certain standing Committees and adopted certain guidelines and policies to assist it in fulfilling its responsibilities as described below.

During 2009, the Board met six times. None of the directors attended fewer than 87.5% of the aggregate number of meetings of the Board and the Committees on which he or she served. The average attendance of all directors at Board and Committee meetings was 98%. The Corporate Governance Guidelines and Policies included in this Proxy Statement beginning on page 8 require that all directors attend the Annual Meeting. In accordance with this policy, all directors attended last year's Annual Meeting.

The Board has four standing committees—the Audit Committee, Finance Committee, Compensation and Benefits Committee, and Corporate Governance and Nominating Committee. Each of the committees operates under a written charter adopted by the Board, copies of which are available on the Company's website at [www.up.com/investors/governance](http://www.up.com/investors/governance), and a printed copy may be obtained by contacting the Secretary of the Company at the address set forth on the notice page of this Proxy Statement. All Board Committees are comprised entirely of independent directors.

**Audit Committee.** The members of the Audit Committee are Mr. Card, Mrs. Hope, General Krulak, Mr. McCarthy and Mr. McConnell. Mrs. Hope serves as chairperson of the Committee. The Committee met 9 times in 2009.

In accordance with New York Stock Exchange (the Exchange) and Securities and Exchange Commission (the SEC) requirements and the Director Independence Standards set forth in the Company's Corporate Governance Guidelines and Policies, the Board has determined that all members of the Committee are independent directors and satisfy the additional independence criteria applicable to audit committee members. The Board also reviewed the experience and training of the members of the Committee and determined that each member is financially literate, and that at least one member has accounting or related financial management expertise. Additionally, the Board determined that Mr. McCarthy and Mr. McConnell qualify as audit committee financial experts within the meaning of the rules and regulations of the SEC.

The Audit Committee meets regularly with the independent registered public accounting firm of the Company, financial management, the internal auditors, the chief compliance officer and the general counsel to provide oversight of the financial reporting process, internal control

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structure, and the Company's compliance requirements and activities. The independent registered public accounting firm, the internal auditors, and the general counsel have unrestricted access to the Committee and meet regularly with the Committee, without Company management representatives present, to discuss the results of their examinations, their opinions on the adequacy of internal controls and quality of financial reporting, and various legal matters. Furthermore, the Committee meets to review and discuss the Company's earnings releases, audited annual financial statements and unaudited quarterly financial statements with management and the independent registered public accounting firm, including reviewing the Company's specific disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations.

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The Committee appoints the independent registered public accounting firm of the Company, reviews the scope of audits as well as the annual audit plan, evaluates the independent registered public accounting firm through assessments of quality control procedures, peer reviews, and results of inquiries or investigations, and establishes hiring policies with respect to employees and former employees of the independent registered public accounting firm. The Committee reviews the adequacy of disclosures to be included in the Annual Report on Form 10-K regarding the Company's contractual obligations and commercial commitments, including off-balance sheet financing arrangements. The Committee periodically receives from, and discusses with, management reports on the Company's programs for assessing and managing financial risk. As part of this process, the Committee reviews with management the status of pending litigation, regulatory, tax and safety matters. In addition, the Committee reviews the Company's compliance program and risk assessments, including the annual Enterprise Risk Management plan as described in more detail in the Risk Oversight of the Company section below. The Committee also oversees the administration of the Company's Code of Ethics for the CEO and Senior Financial Officers and the Statement of Policy on Ethics and Business Conduct for employees, as well as policies concerning derivatives, environmental management, use of corporate aircraft and officers' travel and business expenses.

The Audit Committee's charter requires the Committee to approve in advance all audit engagement fees and the terms of all audit services to be provided by the independent registered public accounting firm. By approving the engagement, which is performed in conjunction with the first Board meeting of each year, the audit services are deemed to be pre-approved. With respect to non-audit services provided by the independent registered public accounting firm, the Audit Committee has adopted procedures requiring the independent registered public accounting firm to present a budget for the three categories of non-audit services: (i) audit-related services, (ii) tax services and (iii) other services. The budget will be detailed as to the particular services to be provided so that the Committee will know what services it is being requested to pre-approve in order to facilitate a well-reasoned assessment of the impact of the services on the auditor's independence. After review and approval of the annual budget by the Committee, no further approval by the Committee is required to undertake the specific projects within the three categories of non-audit services. If the Company determines that it requires any other non-audit services after approval of the budget, either the Committee Chair or the full Committee must pre-approve the additional non-audit services, depending on the anticipated cost of the services. In addition, the Committee Chair must review and approve any projects involving non-audit services that have exceeded budget costs during the year. Any non-audit services pre-approved by the Committee Chair pursuant to delegated authority and any projects involving non-audit services that have exceeded budget costs will be reported to the full Committee at the next regularly scheduled Committee meeting.

***Finance Committee.*** The members of the Finance Committee are Mr. Card, Mr. Dunham, Mrs. Hope, General Krulak, Mr. McCarthy and Mr. Villarreal. Mr. Dunham serves as chairperson of the Committee. The Committee met five times in 2009.

The Committee is responsible for review and oversight of the Company's financial position. The Committee meets regularly with management to review the Company's capital structure, balance sheet, short- and long-term financing plans and programs, dividend policy and actions, investor relations activities, access to sources of liquidity, insurance programs, market conditions and other related matters. The Committee also reviews the performance of the Company's internal investment committee that oversees the investment management of assets held by the Company's pension, thrift and other funded employee benefit programs.

***Compensation and Benefits Committee.*** The members of the Compensation and Benefits Committee are Mr. Davis, Mr. Donohue, Mr. McConnell, Mr. McLarty and Mr. Rogel. Mr. Donohue serves as chairperson of the Committee. The Committee met six times in 2009.

The Committee has direct responsibility to review and approve corporate goals and objectives relevant to the compensation of the Company's CEO, evaluate the CEO's performance and, together

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with the other independent directors, determine and approve the CEO's compensation level based on such evaluation. The Committee has direct responsibility to review and refer to the Board for approval compensation of the Company's other elected executives and for other executives as determined by the Committee or the Board. The Committee also has direct responsibility for oversight of the Company's executive incentive plans and determines the amounts of awards, and the individuals who will receive awards thereunder. The Committee refers its determinations with respect to the annual incentive program to the Board for approval. The Committee is responsible for reviewing and recommending to the Board all material amendments to the Company's pension, thrift and employee stock plans. The Committee also oversees the administration of the Company's general compensation plans and employee benefit plans. In addition, the Committee periodically reviews the Company's benefit plans to ensure that these benefit plans remain competitive with comparably situated companies. The Committee reviews and discusses the Compensation Discussion and Analysis (CD&A) and recommends to the Board that the CD&A be included in the Company's Proxy Statement and Annual Report on Form 10-K.

In early 2010, the Committee oversaw an evaluation of our employee compensation programs to confirm that they are designed and operate within a system of guidelines and controls to avoid creating any material adverse risks to the Company. The Company's evaluation of this matter entailed a review by the Committee's outside compensation consultant, Frederic W. Cook & Co., Inc., together with our Human Resources Compensation Group and the senior executive responsible for the administration of the Company's enterprise risk management process. The evaluation consisted of a review of the design and features of the Company's annual cash bonus program for management and executive employees and the long-term incentives for executive employees, in addition to an assessment and evaluation of these compensation programs in the context of our enterprise risk management process. The evaluation also noted that all other employees of the Company are covered by collective bargaining agreements that specify compensation and health and welfare terms, but do not provide any provisions for bonus payments. These labor union arrangements are not subject to this evaluation and review. The results of this assessment were presented to, and discussed with, the Committee.

In accordance with its charter, the Committee may form subcommittees for any purpose that the Committee deems appropriate and may delegate to such subcommittees such power and authority as the Committee deems appropriate. No subcommittee can have fewer than two members. The Committee cannot delegate to a subcommittee any power or authority required by law, regulation or listing standards to be exercised by the Committee as a whole.

Under its charter, the Committee has the authority to retain, terminate and approve fees for advisors and consultants as it deems necessary. The Committee, in its discretion, uses outside advisors and experts to assist it in performing its duties and fulfilling its responsibilities. Frederic W. Cook & Co., Inc., (FWC) is an outside compensation consulting firm that reports directly to the Committee. A representative of FWC has attended all Committee meetings since its engagement began in 2005. The Committee is solely responsible for the engagement and termination of this relationship. FWC advises the Committee on its compensation philosophy and matters related to CEO and other executive compensation. The Committee annually requests FWC to update compensation and performance data on the peer companies selected by the Committee, as described in the CD&A beginning on page 29 of this Proxy Statement, as well as to provide an assessment of the Committee's performance. In addition, the Committee periodically requests FWC to make presentations on various topics such as compensation trends and best practices, regulatory changes, long-term incentive components and award mix and stock plan utilization. The Committee Chair reviews and approves all charges for Committee consulting.

Under the Committee's engagement, FWC also confers with management on a limited basis to promote consistency and efficiency. The Committee Chair reviews and approves any major projects for which management requests the assistance of FWC. Such projects involve the amount and form

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of executive or director compensation only and may include analysis of competitive director compensation data, design and development of new compensation and stock plans, calculation of compensation amounts reported in this Proxy Statement and review of materials prior to distribution to the Committee to ensure the materials are consistent with the Committee's philosophy and policies. The Committee Chair reviews and approves all charges for any projects requested by management. During 2009, the Company paid fees to FWC only for advising on the amount or form of executive and director compensation. No fees were paid for any additional projects or services.

The role of the CEO and Senior Vice President-Human Resources (SVP-HR) in recommending the forms and amounts of executive compensation is described on page 30 in the CD&A section of this Proxy Statement.

***Corporate Governance and Nominating Committee.*** The members of the Corporate Governance and Nominating Committee are Mr. Davis, Mr. Donohue, Mr. Dunham, Mr. McLarty, Mr. Rogel and Mr. Villarreal. Mr. Rogel serves as chairperson of the Committee. The Committee met four times in 2009.

The Committee oversees the Company's corporate governance, assists management concerning matters of succession, and reviews and recommends changes in compensation for the Board. The Committee reviews the qualifications of candidates for director positions in accordance with the criteria approved by the Board and recommends candidates to the Board as director nominees for election at Annual Meetings or to fill such Board vacancies as may occur during the year. The Committee also is responsible for the oversight of the Corporate Governance Guidelines and Policies discussed below to promote Board independence and excellence in governance. In addition, the Committee oversees the Company's Code of Business Conduct and Ethics for members of the Board, reviews and approves related party transactions, reviews current trends and practices in corporate governance and recommends programs pertinent to the Company for the Board's adoption. In connection with performing these duties, the Committee periodically reviews the composition and activities of the Board, including, but not limited to, committee memberships, Board evaluation, size, continuing education, retirement policy and stock ownership.

The Committee reviews director compensation periodically to assess whether the annual retainer paid to non-management directors is competitive and reflects their duties and responsibilities as Board members. The Committee considers competitive director compensation data of comparable companies provided by FWC in reviewing the appropriateness of annual retainers and Committee fees. In accordance with the Corporate Governance Guidelines and Policies, non-management Board members generally are paid an annual retainer valued between the median and seventy-fifth percentile of compensation at comparable companies. A substantial portion of the annual retainer is paid in units equivalent to our common stock, which is payable only upon a director's separation from service from the Board as described on page 20.

In accordance with its charter, the Committee may form subcommittees for any purpose that the Committee deems appropriate and may delegate to such subcommittees such power and authority as the Committee deems appropriate. No subcommittee can have fewer than two members. The Committee cannot delegate to a subcommittee any power or authority required by law, regulation or listing standards to be exercised by the Committee as a whole. The Committee has not delegated any of its authority with respect to director compensation.

## **Board Leadership Structure**

Currently, Mr. Young serves as Chairman and CEO of the Company. The Board of Directors believes it is in the best interest of the Company for the Board to periodically evaluate the leadership structure of the Company and make a determination regarding whether to separate or combine the roles of Chairman and CEO based on circumstances at the time of its decision. Pursuant to the Company's Corporate Governance Guidelines and Policies as set forth on page 9 of this Proxy





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Statement, the Board will annually elect a Chairman of the Board, who may or may not be the CEO of the Company. Additionally, the Guidelines provide that if the individual elected as Chairman of the Board is not an independent director, the independent directors will also elect a lead independent director. At this time, and for the reasons discussed below, the Board believes that the Company is best served by having the same individual serve as Chairman and CEO. In addition, the Board has selected Mr. Rogel, the former Chairman and CEO of Weyerhaeuser Company, as the lead independent director with the following responsibilities: (i) preside at meetings of the Board at which the Chairman and CEO is not present, including executive sessions of the independent directors; (ii) approve the nature of information sent to the Board, and approve the agenda, schedule and what materials are sent for the Board meetings; (iii) serve as the liaison between the independent directors and the Chairman and CEO; and (iv) be available for consultation and communication with major shareholders as appropriate. Mr. Rogel also has the authority to call executive sessions of the independent directors.

The Board believes that the current combination of the Chairman and CEO roles fosters clear accountability, effective decision-making and alignment on corporate strategy. Unified leadership for the Board and the Company best allows the Board and management to focus on the oversight and implementation of the Company's strategic initiatives and business plan. Combining the roles of Chairman and CEO allows the Chairman to speak on behalf of both the Company and the Board when addressing investors, employees and other key constituencies. To provide for effective independent oversight, the Board has adopted a number of strong corporate governance practices, including (i) maintaining an independent, clearly-defined lead director (with the responsibilities delineated above), (ii) holding executive sessions of the independent directors after every board meeting, and (iii) performing an annual performance evaluation of the Chairman and CEO by the independent directors. The Board believes that a combined Chairman and CEO coupled with a lead independent director provides effective, independent oversight of management and responsiveness to shareholders, while also unifying leadership of the Company and the Board to effect execution of the Company's strategic plans and provide a single spokesperson for the Company and the Board.

## **Risk Oversight of the Company**

The Board of Directors is responsible for overseeing the processes and procedures that management has established for assessing and managing the critical enterprise risks affecting the Company. The Board has delegated to the Audit Committee primary responsibility for oversight of financial reporting, environmental and compliance risks.

Enterprise risks, essentially those risk factors disclosed in our Annual Report on Form 10-K, are identified and prioritized by management and regularly presented to, and reviewed by, the Board. The senior executives responsible for implementation of appropriate mitigation strategies for each of the Company's enterprise risks, along with the chief compliance officer, provide reports directly to the Board during the year. The senior executives, including the chief compliance officer, responsible for the areas of risk overseen by the Audit Committee also report to the Audit Committee throughout the year.

In addition, the Audit Committee oversees the Company's internal audit of enterprise risks selected for review and evaluation throughout a given year based upon the Company's annual risk assessment model with the purpose of evaluating the effectiveness of mitigating controls and activities of Company personnel. The Company's internal auditors present to the Audit Committee findings regarding the mitigating controls and processes with respect to those enterprise risks selected for review. The Audit Committee, in turn, reports those findings to the entire Board, which validates the Company's enterprise risk management systems. The Company's enterprise risk management process is dynamic and continually monitored to adapt to the ever-changing economic, political and legal environment in which the Company operates.

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### **Corporate Governance Guidelines and Policies**

The Corporate Governance and Nominating Committee, with the assistance of counsel, reviews and recommends from time to time changes to the Company's corporate governance guidelines and policies to include those best practices that the Committee believes will be effective and advisable for the Company and to satisfy SEC requirements and the listing standards of the Exchange. The Board approved the guidelines and policies presented below. The Committee and the Board will continue to assess the appropriateness of these guidelines and policies and implement such changes and adopt such additions as may be necessary or desirable to promote the effective governance of the Company. The Corporate Governance Guidelines and Policies are available on the Company's website at [www.up.com/investors/governance](http://www.up.com/investors/governance), and a printed copy may be obtained by contacting the Secretary of the Company at the address set forth on the notice page of this Proxy Statement.

*Director Independence.* A majority of the members of the Board will be independent. All members of the Audit, Compensation and Benefits and Corporate Governance and Nominating Committees will be independent. An independent director is a director who, as determined by the Board in its business judgment, meets the Exchange definition of independence as well as the Director Independence Standards adopted by the Board and set forth in the section titled Director Independence Standards. In addition, directors who serve on the Audit Committee must meet additional independence criteria applicable to audit committee members under Exchange listing standards, as described in the section titled Audit Committee Independence Standard. Independence is determined annually by the Board based on the recommendation of the Corporate Governance and Nominating Committee.

*Board Membership Criteria.* The Corporate Governance and Nominating Committee is responsible for developing and periodically reviewing the appropriate skills and characteristics required of Board members in the context of the current make-up of the Board. The Corporate Governance and Nominating Committee develops and recommends membership criteria to the Board. Such criteria include business and management experience, familiarity with the business, customers and suppliers of the Company, diverse talents, backgrounds and perspectives and relevant regulatory and stock exchange membership requirements for the Board and its committees.

*Selection of Director Nominee Candidates.* The Corporate Governance and Nominating Committee is responsible for recommending to the Board the selection of director nominee candidates.

*Board Size.* The Board's guideline is to maintain a Board size of 10 to 12 members with no more than two management directors.

*Election of Directors-Majority Voting.* Directors shall be elected by majority vote pursuant to the Company's By-Laws.

*Retirement Age for Non-management Directors.* Non-management directors who are 75 years of age will not be eligible to stand for election to the Board at the next Annual Meeting of Shareholders. Non-management directors who turn 75 during their term are eligible to finish out that term. The Corporate Governance and Nominating Committee may consider a director's nomination beyond the age of 75 if it believes that the nomination is in the best interest of the shareholders.

*Director Orientation and Continuing Education.* Upon election to the Board, new members are provided with a comprehensive set of materials on the operations, finances, governance and business plan of the Company, visit at least two major facilities during the first year of service and meet informally with as many members of senior management as practical. The Board encourages directors to periodically attend appropriate programs and sessions and obtain and review appropriate materials to assist them in performing their Board responsibilities. The Company will

recommend programs and sessions to directors and will pay any fees and expenses associated with attendance.

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*Change in Principal Occupation.* Upon a director's retirement, resignation or other significant change in professional duties and responsibilities, the director shall submit his or her resignation from the Board to the Corporate Governance and Nominating Committee for its consideration and recommendation as to acceptance.

*Service on Outside Boards.* When the CEO or another senior officer of the Company is invited to serve on outside boards of directors, the CEO or officer must present the issue to the Board for review and approval. Directors must notify the Board prior to accepting a position on the board of another company. No member of the Audit Committee may serve on the audit committees of more than three public companies.

*Board Leadership.* The Board will annually elect a Chairman of the Board, who may or may not be the CEO of the Company. If the individual elected as Chairman of the Board is not an independent director, the independent directors will also elect a lead independent director. The lead independent director will serve for a period of at least one year. The lead independent director's responsibilities will include: (1) presiding at meetings of the Board at which the Chairman and CEO is not present, including executive sessions of the independent directors; (2) approving the flow of information sent to the Board, and approving the agenda, schedule and what materials are sent for Board meetings; (3) serving as the liaison between the independent directors and the Chairman and CEO; and (4) being available for consultation and communication with major shareholders as appropriate. The lead independent director also has the authority to call executive sessions of the independent directors.

*Number of Committees.* The current standing committees are the Audit Committee, Finance Committee, Compensation and Benefits Committee and the Corporate Governance and Nominating Committee. The Board has the authority to create additional committees.

*Board Meeting Agendas.* The directors and management of the Company may originate action items relating to the business and affairs of the Company for the Board agenda and the scheduling of reports on aspects of parent or subsidiary operations.

*Board Committee Meeting Agendas.* The departments of the Company that administer the area of responsibility charged to each committee may submit items for inclusion on committee agendas, and committee members may suggest topics for inclusion or request additional information with respect to any program previously reviewed by the committee.

*Distribution of Board Materials.* Information and materials for Board consideration are generally distributed to directors at least five days in advance of the meeting, with additional time provided when the complexity of an issue demands, unless an issue for Board consideration arises without sufficient time to complete distribution of materials within this time frame.

*Board Presentations.* The Board encourages broad management participation in Board presentations and the involvement of those managers who are directly responsible for the recommendations or other matters before the Board.

*Strategic Planning Review.* Management presents an annual strategic plan to the Board for its review and assessment, and the Board will make such recommendations to management regarding the strategic plan as it deems necessary.

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*Reporting to the Board of Directors.* The Board will receive reporting on at least an annual basis by (1) the Chief Compliance Officer with respect to the Company's implementation of its compliance program; (2) the Chief Safety Officer with respect to the safety performance of the Company's railroad operations, including applicable safety metrics and Federal Railroad Administration (FRA) regulatory developments and compliance, including the outcome of claims conferences held with the FRA; and (3) the General Counsel with respect to pending litigation involving railroad operations.

*Safety of Railroad Operations.* Management presents an annual strategic safety plan to the Board for its review and assessment, and the Board will make such recommendations to management regarding the strategic plan as it deems necessary.

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*Director Access to Management and Independent Advisors.* The Company provides each director with access to the management of the Company. The Board and committees, as set forth in the applicable committee charter, have the right to consult and retain independent counsel and other advisors at the expense of the Company.

*Director Attendance at Board Meetings.* Directors are expected to attend in person all regularly scheduled Board and committee meetings and to participate telephonically when they are unable to attend in person.

*Executive Sessions of Independent Directors.* Regularly scheduled sessions of independent directors are held at every meeting of the Board. The lead independent director presides at these sessions and has the authority to call additional executive sessions as appropriate.

*Board Member Compensation.* Non-management Board members generally are paid an annual retainer valued between the median and seventy-fifth percentile of compensation at comparable companies, and the retainer is reviewed periodically by the Corporate Governance and Nominating Committee. A substantial portion of the annual retainer will be paid in Common Stock equivalents, which will not be payable until after termination of service from the Board.

*Board Member Equity Ownership.* Board members must own equity in the Company equal to at least four times the cash portion of the annual retainer, with such ownership goal to be reached within four years of joining the Board, unless special circumstances of a member as determined by the Board delay the achievement of the ownership goal.

*Evaluation of the Chairman and CEO.* The performance of the Chairman and CEO is evaluated annually. A questionnaire and business objectives summary is distributed to all non-management directors prior to the January Board meeting for purposes of evaluating the Chairman and CEO. The questionnaire, not a recorded item, provides each director the opportunity to assess individual elements of performance in major categories such as leadership, strategic planning, financial performance, operations, human resources, external relations and communications, and Board relations. The questionnaire and business objectives summary serve as the basis for a discussion, led by the Chair of the Corporate Governance and Nominating Committee, during an executive session, of Company and Chairman and CEO performance for the year. The Compensation and Benefits Committee then meets following the executive session to determine bonuses, if any, to be awarded to the Chairman and CEO and management of the Company. The Chairs of the Corporate Governance and Nominating Committee and the Compensation and Benefits Committee then review with the Chairman and CEO his performance and any recommended areas for improvement.

*Succession Planning.* The CEO reports periodically to an executive session of the Board on succession planning, including an assessment of senior managers and their potential to succeed him or her. The CEO will also make available, on a continuing basis, the CEO's recommendation concerning who should assume the CEO's role in the event the CEO becomes unable or unwilling to perform his or her duties.

*Evaluation of Board and Committee Performance.* The Board and its committees, to the extent required by their respective charters, conduct self-evaluations annually to assess their performance. The Board and committee evaluation process involves the distribution of a self-assessment questionnaire to all Board and committee members that invites written comments on all aspects of the Board and each committee's process. The evaluations are then summarized and serve as the basis for a discussion of Board and committee performance and any recommended improvements.

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*Evaluation of Director Performance.* The Corporate Governance and Nominating Committee assesses the contributions and independence of current directors in connection with their renomination to stand for election to the Board.

*Director Attendance at Annual Shareholder Meetings.* It shall be the policy of this Company that all directors shall attend the Annual Meeting of Shareholders.

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*Future Severance Agreements.* The Company shall not enter into a future severance agreement with a senior executive that provides for benefits in an amount generally exceeding 2.99 times salary plus bonus unless such agreement is approved by a vote of the Company's shareholders. The full text of the policy may be found on the Company's website at [www.up.com/investors/governance/severance.pdf](http://www.up.com/investors/governance/severance.pdf).

*Confidential Voting.* It is the Board's policy that all stockholder proxies, consents, ballots and voting materials that identify the votes of specific shareholders be kept confidential from the Company with access to proxies, consents, ballots and other stockholder voting records to be limited to inspectors of election who are not employees of the Company, except as may be required by law or to assist in the pursuit or defense of claims or judicial actions or in the event of a contested proxy solicitation.

## **Codes of Conduct and Ethics**

The Board has adopted the Union Pacific Corporation Code of Ethics for the CEO and Senior Financial Officers (the Code), the Statement of Policy on Ethics and Business Conduct for employees and the Union Pacific Corporation Code of Business Conduct and Ethics for Members of the Board of Directors. These codes of conduct are posted on our website at [www.up.com/investors/governance](http://www.up.com/investors/governance), and printed copies are available to any shareholder upon request to the Secretary of the Company at the address set forth on the notice page of this Proxy Statement. To the extent permitted by SEC rules and the Exchange listing standards, we intend to disclose any future amendments to, or waivers from, certain provisions of the Code on our website.

## **Communications with the Board**

Interested parties wishing to communicate with the Board may do so by U.S. mail c/o the Secretary, Union Pacific Corporation, 1400 Douglas Street, 19<sup>th</sup> Floor, Omaha, NE 68179. Communications intended for a specific director or directors (e.g., the lead independent director, a committee chairperson or all of the non-management directors) should be addressed to their attention and sent, by U.S. mail, to the address above. The Board has appointed and authorized the Secretary of the Company to process communications received through these procedures and forward such communications to directors. All communications from shareholders are forwarded directly to the appropriate Board members. If a communication is illegal, unduly hostile or threatening, or similarly inappropriate, the Secretary of the Company has the authority to disregard or take appropriate action regarding any such communication.

## **Director Independence**

To assist it in making determinations of a director's independence, the Board has adopted the independence standards set forth below. The Board has affirmatively determined that each of Mrs. Hope, Messrs. Card, Davis, Donohue, Dunham, McCarthy, McConnell, McLarty, Rogel and Villarreal, and General Krulak has no material relationship with the Company or any of its consolidated subsidiaries (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company) and is independent within the meaning of the applicable listing standards of the Exchange and the Director Independence Standards adopted by the Board. Additionally, all Board Committees are comprised entirely of independent directors and all members of the Audit Committee meet the additional independence standards applicable to audit committee members as set forth below.

Three of the Company's current directors, who are also director nominees, have certain relationships with the Company that the Board considered when assessing the independence of each director nominee. The Board reviewed the information below with respect to Mr. Donohue, Mr. Rogel



and Mr. Villarreal.

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*Mr. Donohue.* In 2009, the Company made a \$100,000 contribution to the U.S. Chamber of Commerce Leadership Fund. Mr. Donohue is the President and Chief Executive Officer of the Chamber. The Company also made \$100,000 contributions to the Chamber's Leadership Fund in 2007 and 2008. In 2007, the Company also made a one-time contribution of \$100,000 to the Chamber's International Business Hall of Fame, which honored the Company's past Chairman, President and Chief Executive Officer, Richard K. Davidson.

*Mr. Rogel.* Weyerhaeuser Company paid Union Pacific Railroad Company (the Railroad) approximately \$38 million for transportation services and \$117,000 for miscellaneous leases and equipment usage charges during 2009. These payments were 0.69% of Weyerhaeuser's consolidated gross revenues of approximately \$5.5 billion for 2009. Mr. Rogel retired as the Chairman of Weyerhaeuser Company on April 15, 2009. In 2008, Weyerhaeuser paid the Railroad approximately \$59 million for transportation services and \$118,000 for miscellaneous leases, which represented 0.74% of Weyerhaeuser's consolidated gross revenues for 2008. In 2007, Weyerhaeuser paid the Railroad approximately \$131 million for transportation services and \$118,000 for miscellaneous leases, which represented 0.80% of Weyerhaeuser's consolidated gross revenues for 2007.

*Mr. Villarreal.* Mr. Villarreal's sister is a partner at Morgan, Lewis & Bockius LLP. The Company paid \$88,000 to Morgan Lewis in 2009 for legal services related to ERISA and federal tax matters and \$93,775 in 2007 for legal services related to environmental and labor and employment matters. No payments for legal services were made to Morgan Lewis in 2008. Mr. Villarreal's sister was not personally involved in the 2007 and 2009 engagements.

The Board determined that these specific relationships do not affect the independence of these director nominees. The Board concluded that the Company's \$100,000 contribution to the U.S. Chamber of Commerce does not confer any personal benefit on Mr. Donohue and does not affect his independence. For Mr. Rogel, the Board noted that the amounts paid to the Railroad by Weyerhaeuser were less than 2% of Weyerhaeuser's consolidated gross revenues in 2007, 2008 and 2009 and did not violate the director independence standards set forth below. In addition, the Board noted the fact that Mr. Rogel retired as Chairman of Weyerhaeuser Company in April 2009. For Mr. Villarreal, the Board concluded that the amounts paid by the Company to Morgan Lewis were less than 2% of Morgan Lewis' consolidated gross revenue in 2007 and 2009 and did not violate the director independence standards set forth below.

***Director Independence Standards***

An independent director is a director whom the Board has affirmatively determined has no material relationship with the Company or any of its consolidated subsidiaries either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company. Accordingly, a director is also not independent if:

- (1) the director is, or within the last three years has been, an employee of the Company or an immediate family member of the director is, or within the last three years has been, an executive officer of the Company;
- (2) the director (a) or an immediate family member is a current partner of a firm that is the Company's internal or external auditor; (b) is a current employee of such a firm; (c) has an immediate family member who is a current employee of such firm and personally works on the Company's audit; or (d) or an immediate family member was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the Company's audit within that time;
- (3) the director, or a member of the director's immediate family, is, or within the last three years has been, an executive officer of another company where any of the Company's present executives at the same time serves or served on that company's compensation committee;



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- (4) the director, or a member of the director's immediate family, received or has received during any 12-month period within the last three years any direct compensation from the Company in excess of \$120,000, other than compensation for Board service and pension or other forms of deferred compensation for prior service with the Company, and compensation received by the director's immediate family member for service as a non-executive employee of the Company;
- (5) the director is a current employee of a company, including a professional services firm, that has made payments to or received payments from the Company, or during any of the last three years has made payments to or received payments from the Company, for property or services in an amount that, in any of the last three fiscal years, exceeded the greater of \$1 million or 2% of the other company's or firm's consolidated gross revenues;
- (6) a member of the director's immediate family is a current executive officer of another company, or a partner, principal or member of a professional services firm, that has made payments to or received payments from the Company, or during any of the last three fiscal years has made payments to or received payments from the Company, for property or services in an amount that, in any of the last three fiscal years, exceeded the greater of \$1 million or 2% of the other company's or firm's consolidated gross revenues; and
- (7) the director is an executive officer, director or trustee of a non-profit organization to which the Company or Union Pacific Foundation makes, or within the last three years has made, payments that, in any single fiscal year, exceeded the greater of \$1 million or 2% of the non-profit organization's consolidated gross revenues (amounts that the Company or Union Pacific Foundation contribute under matching gifts programs are not included in the payments calculated for purposes of this standard).

For purposes of these standards, an immediate family member includes a director's spouse, parents, children, siblings, mother and father-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than a domestic employee) who shares the director's home.

### ***Audit Committee Independence Standard***

In addition to the Board's Director Independence Standards above, a director is not considered independent for purposes of serving on the Audit Committee, and may not serve on the Audit Committee, if the director: (a) accepts, directly or indirectly, from the Company or any of its subsidiaries, any consulting, advisory, or other compensatory fee, other than Board and committee fees and fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Company; or (b) is an affiliated person of the Company or any of its subsidiaries; each as determined in accordance with SEC regulations.

### **Related Party Matters**

#### ***Policy and Procedures with Respect to Related Party Transactions***

The Board annually reviews related party transactions involving directors and director nominees in conjunction with its director independence determinations and preparation of the annual Proxy Statement. Executive officers are required to report any transactions with the Company under the written Statement of Policy on Ethics and Business Conduct (the Business Conduct Policy) that covers all Company employees. Under the Business Conduct Policy, the Audit Committee reviews any transaction reported by executive officers and refers any reported transactions to the Corporate Governance and Nominating Committee for evaluation pursuant to the Company's Related Party Transaction Policies and Procedures (the Related Party Policy) described below. The Business Conduct Policy and the Board's procedures with respect to directors and director nominees pre-date but continue in operation following the adoption of the Related Party Policy.

In February 2007, the Board formalized the Company's policy and procedures for reviewing related party transactions by approving the Company's Related Party Policy. Under this written policy,

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all transactions with related parties are subject to approval or ratification by the Corporate Governance and Nominating Committee. Transactions subject to Committee review and approval include any transaction in which (i) the aggregate amount involved will or may be expected to exceed \$120,000 in any calendar year, (ii) the Company is a participant, and (iii) any related party will have a direct or indirect interest (other than solely as a result of being a director or a less than 10% beneficial owner of another entity).

Related party is defined under the policy as any (i) person who is or was during the last fiscal year an executive officer or director of the Company or nominee for election as a director, (ii) greater than 5% beneficial owner of the Company's common stock, or (iii) immediate family member of any of the foregoing. Immediate family member includes a person's spouse, parents, stepparents, children, stepchildren, siblings, mothers and fathers-in-law, sons and daughters-in-law, and brothers and sisters-in-law and anyone residing in such person's home (other than a tenant or employee).

If advance Corporate Governance and Nominating Committee approval of a transaction is not feasible, then the transaction will be considered and, if the Committee determines it to be appropriate, ratified at the Committee's next regularly scheduled meeting. In determining whether to approve or ratify a transaction, the Committee will consider, among other factors it deems appropriate, whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances and the extent of the related party's interest in the transaction.

Under the Related Party Policy, the Committee may pre-approve certain transactions, even if the aggregate amount involved exceeds \$120,000. Such transactions may include (i) any transaction with another company at which a related party's only relationship is as an employee (other than an executive officer), direct or beneficial owner of less than 10% of that company's shares, if the aggregate amount involved does not exceed the greater of \$1 million or 2% of that company's total annual revenues; and (ii) any charitable contribution, grant or endowment by the Company to a charitable organization, foundation, or university at which a related party's only relationship is as an employee (other than an executive officer) or a director, if the aggregate amount involved does not exceed the lesser of \$1 million or 2% of the charitable organization's total annual receipts. Additionally, the Board has delegated to the Chair of the Committee the authority to pre-approve or ratify, as applicable, any transaction with any related party in which the aggregate amount involved is expected to be less than \$1 million. At each regularly scheduled meeting of the Committee, a summary of each new transaction deemed pre-approved will be provided to the Committee for its review.

### ***Related Party Transactions***

There were no related party transactions reported to the Corporate Governance and Nominating Committee or the Audit Committee that require disclosure under this policy or the rules and regulations of the SEC. However, the Corporate Governance and Nominating Committee reviewed and approved or ratified the director relationships described on page 12 of this Proxy Statement.

### **Compensation Committee Interlocks and Insider Participation**

The Compensation and Benefits Committee includes the following independent directors: Thomas J. Donohue, Erroll B. Davis, Jr., Michael W. McConnell, Thomas F. McLarty III and Steven R. Rogel.

The Compensation and Benefits Committee has no interlocks or insider participation.

**Consideration of Director Nominees**

The Corporate Governance and Nominating Committee will consider director candidates recommended by shareholders of the Company. Shareholders desiring to recommend candidates for

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consideration at the 2011 Annual Meeting should advise the Secretary of the Company in writing during the period beginning on January 6, 2011, and ending at the close of business on February 5, 2011, and should include the following information as specified by the nomination procedures set forth in the Company's By-Laws as well as any other information that would assist the Committee in evaluating the recommended candidates: (i) the name, age, and business and residence addresses of the candidate, (ii) the principal occupation of the candidate, and (iii) the number of shares of Company common stock beneficially owned by the candidate. A shareholder should also provide (i) his or her name and address, (ii) the number of shares of Company common stock beneficially owned, (iii) a description of all arrangements between himself or herself and the candidate and any other person pursuant to which the recommendation for nomination is being made, and (iv) the candidate's written consent agreeing to any resulting nomination and to serve as a director if elected. The Company's By-Laws are available on the Company's website at [www.up.com/investors/governance](http://www.up.com/investors/governance), and a printed copy may be obtained by contacting the Secretary of the Company at the address set forth on the notice page of this Proxy Statement.

In addition to evaluating candidates recommended by shareholders of the Company, the Committee will consider and evaluate individuals for service on the Board suggested by directors and other interested parties. The Company from time to time employs a search firm on behalf of the Committee to identify and help evaluate suitable candidates.

The Committee is responsible for developing and periodically reviewing and recommending to the Board the appropriate skills and characteristics required of Board members in the context of the current make-up of the Board. Such criteria, as described in the Company's Corporate Governance Guidelines and Policies, include: business and management experience; familiarity with the business, customers and suppliers of the Company; diverse talents, backgrounds and perspectives; and relevant legal, regulatory and stock exchange requirements applicable to the Board and certain of its Committees. The Committee ultimately seeks to identify and nominate candidates with diverse talents, backgrounds and perspectives who will enhance and complement the skills and expertise of the Board and satisfy the Board membership criteria included in the Company's Corporate Governance Guidelines and Policies. In determining the independence of a candidate, the Committee relies upon the then effective independence standards adopted by the Board. In addition, the Committee requires that all candidates:

exhibit a high degree of integrity and ethics consistent with the values of the Company and the Board;

have demonstrable and significant professional accomplishments; and

have effective management and leadership capabilities.

The Committee also emphasizes familiarity with the rail transportation industry and considers the number of other public boards on which candidates serve when determining whether the individual circumstances of each candidate will allow the candidate sufficient time to effectively serve on the Board and contribute to its function and activities.

The Committee meets every February to consider the inclusion of nominees in the Company's Proxy Statement. During this meeting the Committee considers each nominee by:

reviewing relevant information provided by the nominee in his or her mandatory Company questionnaire;

applying the criteria listed above; and



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assessing the performance of the Board and each nominee during the previous year with respect to current members of the Board.

The Committee assesses the effectiveness of the criteria listed above when evaluating new director candidates and when assessing the composition of the Board. The Committee will consider

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candidates recommended by shareholders under the same standards after concluding that any such candidate recommendations have been made in compliance with the requirements outlined above.

All of our nominees are current members of the Board and have been nominated by the Committee and elected by the shareholders in prior years.

**PROPOSAL NUMBER 1****Election of Directors**

The Board currently has twelve members. The Corporate Governance and Nominating Committee of the Board proposed and the Board recommended that the twelve individuals currently serving as directors each be nominated for re-election to the Board at the Annual Meeting. Each of the nominees has consented to serve if elected, and the Company is not aware of any nominee who is unable or unwilling to serve. If any nominee(s) for director for any reason should become unavailable for election, it is intended that discretionary authority will be exercised by the persons named in the enclosed proxy in respect of the election of such other person(s) as they shall nominate. The Board is not aware of any circumstances likely to cause any nominee for director to become unavailable for election.

**Vote Required for Approval**

Directors will be elected by a majority of the votes cast by the shares present at the Annual Meeting and entitled to vote on the election of directors, which means that a nominee will be elected if he or she receives more for votes than against votes. Pursuant to Section 9 of Article I of the Company's By-Laws and applicable laws of the State of Utah, if the nominee does not receive more for votes than against votes, he or she will be elected to a shortened term that terminates on the earlier of: (i) 90 days after the day on which the Company certifies the voting results of the election; or (ii) the day on which a person is selected by the Board to fill the office held by the director.

**Directors/Nominees**

The following table shows the Company's nominees for election to the Board. Each of the nominees currently serves as a director. Each nominee, if elected, will serve for a term of one year or until his or her successor is elected.

<b>Name of Director Nominee</b>	<b>Age</b>	<b>Principal Occupation</b>	<b>Director Since</b>
Andrew H. Card, Jr.	62	Consultant and Professional Speaker	2006
Erroll B. Davis, Jr.	65	Chancellor, University System of Georgia	2004
Thomas J. Donohue	71	President and Chief Executive Officer, U.S. Chamber of Commerce	1998
Archie W. Dunham	71	Retired Chairman, ConocoPhillips	2000
Judith Richards Hope	69	Distinguished Visitor from Practice and Professor of Law, Georgetown University Law Center	1988
Charles C. Krulak	68	Retired General, United States Marine Corps	2006

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Michael R. McCarthy	58	Chairman, McCarthy Group, LLC	2008
Michael W. McConnell	67	General Partner, Brown Brothers Harriman & Co.	2004
Thomas F. McLarty III	63	President, McLarty Associates	2006
Steven R. Rogel	67	Retired Chairman, Weyerhaeuser Company	2000
Jose H. Villarreal	56	Advisor, Akin, Gump, Strauss, Hauer & Feld LLP	2009
James R. Young	57	Chairman, President and Chief Executive Officer, Union Pacific Corporation and Union Pacific Railroad	2005

**The Board recommends a vote FOR the election of each of the nominated directors.**

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**Table of Contents****Director Qualifications and Biographical Information**

The Corporate Governance and Nominating Committee considered the character, experience, qualifications and skills of each director nominee when determining whether he or she should serve as a director of the Company. In keeping with its stated criteria for director nominees described on page 15 above and included in the Company's Corporate Governance Guidelines and Policies, the Committee determined that each director nominee exhibits a high degree of integrity, has significant professional accomplishments and has proven leadership experience. Each director nominee is or has been a leader in their respective field and brings diverse talents and perspectives to the Board. The Committee also considered the experience and qualifications that each director nominee brings to the Board as outlined below in the biographical information as well as other public company board service.

The Committee noted the following particular attributes and qualities it considers when evaluating director nominees. The Committee believes that nominees with business and strategic management experience gained from service as a CEO is a critical leadership component to Board service. The Committee also seeks nominees with backgrounds in finance, banking, economics, and the securities and financial markets, both domestic and international, in order to have directors who can assess and evaluate the Company's financial and competitive position. The Committee considers experience in the legal profession and political and governmental affairs, including legislative or executive service in Washington D.C. or related activities, to be a highly desirable skill given the heavily regulated nature of the rail industry. Also important to the Committee is public service in state government, especially in states where the Company has a significant operating presence. The Committee emphasizes familiarity with the rail industry and rail operations and considers customer perspectives to be important when evaluating director nominees. Given the significant rail interchange operations with Canadian and Mexican rail systems, the Committee also values directors with an international background or expertise. Although the director nominees listed below each possess a number of these attributes, the Committee considered the specific areas noted below for each director nominee when determining which of the nominees' qualifications best suited the needs of the Company.

*Andrew H. Card, Jr.* has been a director since July 2006. Mr. Card served as Chief of Staff to President George W. Bush from November 2000 to April 2006. Prior to joining the White House, Mr. Card was Vice President-Government Relations for General Motors Corporation, one of the world's largest auto makers. From 1993 to 1998, Mr. Card was President and Chief Executive Officer of the American Automobile Manufacturers Association. Mr. Card served as the 11<sup>th</sup> Secretary of Transportation under President George H.W. Bush from 1992 to 1993. He also served as a Deputy Assistant to the President and Director of Intergovernmental Affairs for President Ronald Reagan. Mr. Card brings to the Board top-level federal government and transportation industry experience, business leadership and experience in economic and international affairs.

*Erroll B. Davis, Jr.* has been a director since June 2004. Mr. Davis has been Chancellor of the University System of Georgia since February 2006. From 1998 until July 2005, Mr. Davis was President and Chief Executive Officer of Alliant Energy Corporation, an energy holding company. He was also named Chairman in April 2000 and remained Chairman of Alliant until January 31, 2006. Mr. Davis was a director of PPG industries, Inc. from 1994 to 2007 and has served as a director of General Motors Corporation since 2009 and BP plc since 1998. Mr. Davis brings to the Board business experience and strategic leadership as a CEO, his international business experience and his familiarity with rail operations from a customer perspective.

*Thomas J. Donohue* has been a director since November 1998. Mr. Donohue has been President and Chief Executive Officer of the U.S. Chamber of Commerce, the world's largest business federation, since September 1997. Mr. Donohue was a director of XM Satellite Radio Holdings Inc. from 1999 to 2009 and has served as a director of Sunrise Senior Living, Inc since 1995. Mr. Donohue brings to the Board his background as an advocate for business, his government affairs experience and experience in international business.

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*Archie W. Dunham* has been a director since August 2000. Mr. Dunham was President and Chief Executive Officer of Conoco, Inc., an integrated energy company, from January 1996 until August 30, 2002. He was also elected Chairman in August 1999 and was Chairman of ConocoPhillips from August 2002 until his retirement on September 30, 2004. Mr. Dunham was a director of Phelps Dodge Corporation from 1998 to 2007 and has served as a director of Louisiana-Pacific Corporation since 1996 and Pride International, Inc since 2005. Mr. Dunham brings to the Board business experience and strategic leadership as a CEO, his familiarity with rail operations from a customer perspective, along with his experience in finance, economics and the securities markets.

*Judith Richards Hope* has been a director since April 1988. Mrs. Hope was Adjunct Professor of Law at Georgetown University from January 2002 to March 2003 and was named Distinguished Visitor from Practice and Professor of Law on March 7, 2005. Mrs. Hope was a co-founder and partner of Paul, Hastings, Janofsky & Walker, a law firm, from December 1981 to January 2002, a non-equity partner from February 2002 to December 31, 2003 and a Senior Advisor to the Paul, Hastings firm from January 1, 2004 to January 31, 2005. Mrs. Hope serves as a director of General Mills, Inc., Altius Associates Ltd, Altius Holdings Ltd and Russell Reynolds Associates. Mrs. Hope brings to the Board experience as a director of the Company, which has permitted her to develop extensive knowledge of the operational and financial aspects of the Company as well as broad familiarity with the rail industry, together with her significant legal expertise and high-level background in the Washington legal arena.

*Charles C. Krulak* has been a director since January 2006. General Krulak was Vice Chairman and Head of Mergers and Acquisitions for MBNA, a bank holding company, from April 2004 until his retirement from MBNA on June 1, 2005. From 1999 until March 2004, General Krulak was Chairman and Chief Executive Officer of MBNA Europe Bank Limited, international banking. General Krulak retired as Commandant of the United States Marine Corps in 1999 after 35 years of distinguished service. General Krulak served as a director of Conoco from 2000 to 2002 and continued to serve as a director of the merged ConocoPhillips until 2008. General Krulak served as a director of Phelps Dodge Corporation from 2005 to 2007 when it was acquired by Freeport-McMoRan Copper & Gold, Inc. (FMC&G), and has served as a director of FMC&G since 2007. General Krulak brings to the Board proven leadership experience from the military, together with executive experience in the domestic and international banking industry.

*Michael R. McCarthy* has been a director since October 2008. Mr. McCarthy serves as chairman of McCarthy Group, LLC, a private investment group, which he co-founded in 1986. Mr. McCarthy serves as a director of Peter Kiewit Sons , Inc., and Cabela s Incorporated. Mr. McCarthy brings to the Board his background in advising businesses in various sectors of the economy, and forming and leading successful investment companies, including the financial expertise required to support that success.

*Michael W. McConnell* has been a director since January 2004. Mr. McConnell has been a Partner of Brown Brothers Harriman & Co., a private banking firm, since January 1984, Chief Financial Partner from January 1995 to January 2002, Managing Partner from February 2002 to December 31, 2007 and a General Partner since January 1, 2008. Mr. McConnell has extensive banking and financial markets experience that provides the Board with important expertise.

*Thomas F. McLarty III* has been a director since November 2006. Mr. McLarty has been President of McLarty Associates (formerly Kissinger McLarty Associates), an international strategic advisory and advocacy firm, since 1999. From 1992 to 1997, Mr. McLarty served in several positions in the Clinton White House, including Chief of Staff to the President, Counselor to the President and Special Envoy for the Americas. In 1998, Mr. McLarty returned to be Chairman and President of the McLarty Companies, a fourth generation family-owned transportation business. From 1983 to 1992, Mr. McLarty served as Chairman and Chief Executive Officer of Arkla, Inc., a Fortune 500 natural gas company. Mr. McLarty brings to the Board business leadership experience, international expertise and significant government service at the highest levels.

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*Steven R. Rogel* has been a director since November 2000, and is our lead independent director. Mr. Rogel was Chairman, President and Chief Executive Officer of Weyerhaeuser Company, an integrated forest products company, from December 1997 through December 31, 2007, Chairman and Chief Executive Officer of Weyerhaeuser Company from January 1 through April 2008 and Chairman until April 15, 2009. Mr. Rogel serves as a director of Kroger Company and is non-executive Chairman of the Board of EnergySolutions, Inc. Mr. Rogel brings to the Board business experience and strategic leadership as a CEO, international background and his familiarity with rail operations from a customer perspective.

*Jose H. Villarreal* has been a director since January 2009. Mr. Villarreal was a partner with Akin, Gump, a law firm, from 1994 through 2008 and has held the title of Advisor since 2008. Prior thereto, Mr. Villarreal served as assistant attorney general in the Public Finance Division of the Texas attorney general's office. Mr. Villarreal also has served in senior roles in numerous presidential campaigns. Mr. Villarreal was a director of Wal-Mart Stores, Inc., from 1998 to 2006 and has served as a director of First Solar, Inc. since 2007 and PMI Group, Inc. since 2005. Mr. Villarreal currently serves as United States Commissioner General to the Shanghai, 2010 World Expo. Mr. Villarreal brings to the Board legal expertise and government affairs experience from significant state and federal public service and advising presidential campaigns and candidates.

*James R. Young* has been a director since March 2005 and our President and Chief Executive Officer since December 31, 2005. Mr. Young was elected to the position of Chairman effective February 1, 2007. Mr. Young was Executive Vice President-Finance of the Company and Chief Financial Officer of the Railroad, the principal operating subsidiary of the Company, from December 1999 until February 1, 2004 and President and Chief Operating Officer of the Railroad from February 2004 until December 31, 2005. Mr. Young brings to the Board his extensive experience in many operational and financial positions with the Railroad, including his tenure as CEO of the Company and the Railroad since 2005.

**Director Compensation in Fiscal Year 2009**

***Non-Management Directors Fees***

In 2009, directors who are not employees received an annual retainer of \$220,000, plus expenses. Directors were required to invest \$100,000 of the retainer in the Stock Unit Account referred to below. Chairs of Board Committees received additional annual retainers of \$15,000 each, and members of the Audit Committee received additional annual retainers of \$10,000 each. Directors who are employees receive no retainers.

At its February 4, 2010 meeting, the Board, upon recommendation of the Corporate Governance and Nominating Committee, reviewed and revised the compensation arrangements of the Company's non-management directors. FWC provided the Board and the Corporate Governance and Nominating Committee with data and information regarding compensation arrangements for directors of comparable companies. Based on this information, the Board increased the annual retainer from \$220,000 to \$250,000 for non-management directors, with the \$30,000 increase to be deferred into the Stock Unit Accounts. Although this increase places the compensation for the Company's non-management directors above the seventy-fifth percentile range articulated in the Company's Corporate Governance Guidelines and Policies, the Board determined that this increase placed non-management directors' compensation more in line with the compensation practices at the other major rail competitors of the Company. In addition, the Board has no expectation of additional retainer increases for the next two years. Following the change, directors are required to invest \$130,000 of the annual retainer in their Stock Unit Accounts and may invest additional amounts in their Stock Unit Accounts at their election. Chairs of Board Committees will continue to receive additional annual retainers of \$15,000 each, and members of the Audit Committee will continue to receive an additional \$10,000 each.



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The Board, upon recommendation of the Corporate Governance and Nominating Committee, also approved in February 2010 an additional annual retainer of \$25,000 for the lead independent director.

### ***Stock Unit Grant and Deferred Compensation Plan for the Board of Directors***

Under our Stock Unit Grant and Deferred Compensation Plan for non-management directors, a director may, by December 31 of any year, elect to defer all or a portion of any compensation (in addition to the amount required to be invested in their Stock Unit Account) for service as a director in the ensuing year or years, excluding reimbursement for expenses. Such deferred amounts may be invested, at the option of the director, in (i) a Fixed Rate Fund administered by us, (ii) a Stock Unit Account administered by us, or (iii) various notional accounts administered by The Vanguard Group. These accounts are unfunded, unsecured obligations of the Company. The Company Fixed Rate Fund bears interest equal to 120% of the applicable federal long-term annual rate. The Stock Unit Account fluctuates in value based on changes in the price of our common stock, and equivalents to cash dividends paid on the common stock are deemed to be reinvested in the Stock Unit Account. The Vanguard Accounts experience earnings and value fluctuations as determined by Vanguard's investment experiences. Payment of such deferred amounts begins, for amounts in the Stock Unit Account, Fixed Rate Fund or Vanguard Accounts, in January of the year following separation from service as a director. Deferred amounts may be paid, at the election of the director, in either a lump sum or in up to 15 equal annual installments.

### ***2000 Directors Stock Plan***

Under the 2000 Directors Stock Plan (the 2000 Plan) adopted by the shareholders on April 21, 2000, the Company may grant options to purchase shares of our common stock to non-management directors. Upon recommendation of the Corporate Governance and Nominating Committee in September 2007, the Board eliminated the annual grant of options for 2008 and future years. No options were awarded to non-management directors in 2009.

The 2000 Plan also provides that each non-management director, upon election to the Board of Directors, will receive a grant of 2,000 restricted shares of our common stock or restricted share units (adjusted to reflect the Company's two-for-one stock split on May 28, 2008), such units to represent the right to receive our common stock in the future. The restricted shares or share units vest on the date a director ceases to be a director by reason of death, disability or retirement, as defined in the 2000 Plan. During the restricted period, the director has the right to vote such shares and receive dividends or dividend equivalents on such shares or units, but may not transfer or encumber such shares or units and will forfeit such shares or units upon ceasing to be a director for any reason other than death, disability or retirement.

### ***Frozen Pension Plan Covering Certain Directors***

In January 1996, the Board terminated, with respect to newly elected directors subsequent to that date, a pension plan that was maintained for directors. Each non-management director elected to the Board prior to January 1996 participates in the pension plan, which provides an annual pension benefit of \$36,000 upon retirement from the Board of Directors with at least five years of service and attainment of age 65. Mrs. Hope is the only current director eligible to receive pension benefits upon retirement.



**Table of Contents****Non-Management Director Compensation in Fiscal Year 2009**

The following table provides a summary of compensation of our non-management directors for 2009.

Name	Fees Earned or Paid in Cash	Stock Awards (a)	Option Awards	All Other Compensation (b)	Total
Andrew H. Card, Jr.	\$ 230,000	\$ 0	\$ 0	\$ 1,100	\$ 231,100
Erroll B. Davis, Jr.	220,000	0	0	1,100	221,100
Thomas J. Donohue	235,000	0	0	1,100	236,100
Archie W. Dunham	235,000	0	0	1,100	236,100
Judith Richards Hope	245,000	0	0	12,869(c)	257,869
Charles C. Krulak	230,000	0	0	1,100	231,100
Michael R. McCarthy	230,000	0	0	1,100	231,100
Michael W. McConnell	230,000	0	0	1,100	231,100
Thomas F. McLarty III	220,000	0	0	1,100	221,100
Steven R. Rogel	235,000	0	0	1,100	236,100
Jose H. Villarreal	220,000	100,260(d)	0	1,100	321,360

- (a) Amounts reported reflect the grant date fair value of Stock Awards calculated in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718, Stock Compensation, for the 2009 fiscal year. The following table provides the outstanding equity awards at fiscal year-end for all current non-management directors. The Number of Shares in the Vesting Upon Termination column represents the shares granted to each director upon election to the Board and required to be held until his or her service as a member of the Board ends. The share amounts included in the table are adjusted to reflect the Company's two-for-one stock split on May 28, 2008.

Name	Number of Shares Underlying Unexercised Options	Number of Shares Vesting Upon Termination	Number of Units Deferred
Andrew H. Card, Jr.	3,700	2,000	4,810
Erroll B. Davis, Jr.	14,000	2,000	7,681
Thomas J. Donohue	39,000	3,570	20,010
Archie W. Dunham	39,000	2,000	13,095
Judith Richards Hope	31,800	3,570	18,798
Charles C. Krulak	7,900	2,000	5,411
Michael R. McCarthy	0	2,000	4,903
Michael W. McConnell	19,500	2,000	15,528
Thomas F. McLarty III	3,700	2,000	4,544
Steven R. Rogel	39,000	2,000	12,680
Jose H. Villarreal	0	2,000	1,905

- (b) The \$1,100 represents the amount paid in 2009 for each non-management director (including Mrs. Hope) for excess liability insurance premiums.
- (c) Directors elected to the Board prior to April 21, 2000 are eligible to participate in a contributory health care plan that we sponsored. Medical and dental benefits are paid only after payment of benefits under any other group plan in which a director participates. The amount paid in 2009 for Mrs. Hope's participation in the health care plan was \$12,969 reduced by an annual medical premium payment of \$1,200 (deducted from her annual retainer). Medical coverage for directors elected after April 21, 2000 was terminated upon adoption of the 2000 Directors Stock Plan by the shareholders on April 21, 2000.

- (d) Mr. Villarreal was elected to the Board of Directors effective January 1, 2009 and, pursuant to the 2000 Directors Stock Plan, received a grant of 2,000 restricted shares of common stock.

**Table of Contents****PROPOSAL NUMBER 2****Ratification of Appointment of Deloitte & Touche LLP****as Independent Registered Public Accounting Firm for the Year Ending December 31, 2010**

The Audit Committee has appointed Deloitte & Touche LLP as the independent registered public accounting firm to audit the books and accounts of the Company and its consolidated subsidiaries for the year 2010 and submits this selection for ratification by a vote of shareholders as a matter of good corporate governance. In the event that the Audit Committee's selection of Deloitte & Touche LLP does not receive an affirmative vote of a majority of the votes cast, the Audit Committee will review its future selection of an independent registered public accounting firm.

A representative of Deloitte & Touche LLP is expected to be present at the Annual Meeting and will have an opportunity to make a statement if such representative desires to do so and will be available to respond to appropriate questions by shareholders.

**Vote Required for Approval**

Ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the year ending December 31, 2010 requires the affirmative vote of a majority of the votes cast on this proposal at the Annual Meeting.

**The Board recommends a vote FOR ratification of the appointment of Deloitte & Touche LLP as independent registered public accounting firm for the year ending December 31, 2010.**

**Independent Registered Public Accounting Firm's Fees and Services**

Fees paid to our independent registered public accounting firm for each of the past two years are set forth below:

	<b>Year Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
Audit Fees	\$ 2,558,700	\$ 2,914,008
Audit-Related Fees	760,434	1,338,644
Tax Fees	65,676	19,527
All Other Fees	0	0
<b>Total</b>	<b>\$ 3,384,810</b>	<b>\$ 4,272,179</b>

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*Audit Fees.* Audit services include the integrated audit of financial statements and internal control, quarterly reviews, comfort letters provided in conjunction with the issuance of debt, and agreed-upon procedures performed on the Annual Report R-1 filed with the Surface Transportation Board.

*Audit-Related Fees.* Audit-related services include consultation on accounting standards and transactions, audits of employee benefit plans, audits of subsidiary companies, and pre-implementation internal control reviews related to new financial systems.

*Tax Fees.* Tax fees include work performed primarily for international tax compliance.

*All Other Fees.* No other services were provided to the Company by Deloitte & Touche LLP during the years ended December 31, 2009 and 2008.

### **Audit Committee Report**

The Committee has reviewed and discussed with management the Company's audited consolidated financial statements for the year ended December 31, 2009. The Committee has discussed with the Company's independent registered public accounting firm, Deloitte & Touche LLP, the matters required to be discussed with the Audit Committee under applicable Public Company

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Accounting Oversight Board (PCAOB) standards and SEC Rule 2-07 of Regulation S-X. The Committee also has received and reviewed a report from Deloitte & Touche LLP required by applicable PCAOB standards regarding Deloitte & Touche LLP communications with the Committee concerning independence and has discussed with them their independence. Based on the foregoing reviews and discussions, the Committee recommended to the Board that the audited financial statements referred to above be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, for filing with the SEC.

The Audit Committee

Judith Richards Hope, Chair

Andrew H. Card, Jr.

General Charles C. Krulak, USMC (Ret.)

Michael R. McCarthy

Michael W. McConnell

**PROPOSAL NUMBER 3**

**Shareholder Proposal Regarding Independent Chairman**

Pax World Management Corp., 30 Penhallow Street, Suite 400, Portsmouth, NH 03801, the owner of 22,500 shares of the Company's common stock, has submitted the following proposal. **The Board of Directors recommends a vote AGAINST this proposal.**

Independent Chairman

RESOLVED: That shareholders of Union Pacific Corporation ( "Union Pacific" or "Company" ) ask the Board of Directors to adopt a policy that the Board's Chairman not be a previous CEO of the Company, and be an independent director according to the definition set forth in the New York Stock Exchange listing standards, unless Union Pacific stock ceases being listed there and is listed on another exchange, at which point, that exchange's standard of independence should apply. If the Board determines that a Chairman who was independent when he or she was selected is no longer independent, the Board shall promptly select a new Chairman who satisfies this independence requirement, although compliance with this requirement may be excused if no director who qualifies as independent is elected by shareholders or if no independent director is willing to serve as Chairman. This independence requirement shall apply prospectively so as not to violate any Company contractual obligation at the time this resolution is adopted.

SUPPORTING STATEMENT

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Currently at Union Pacific, one person holds both the positions of Chairman of the Board and CEO. We believe this arrangement may not be in the best interest of Company shareholders.

Sound corporate governance is a prerequisite for long-term value creation. Such governance begins with directors effectively overseeing executive management and corporate strategy for a dispersed set of shareowners. Because the roles of the Chairman and CEO are fundamentally different, we believe they should not be held by the same person. Union Pacific's Board should be led by an independent Chairman, to be in a better position to make independent evaluations, hire and oversee executive management, set compensation policy that encourages sustainable performance, provide strategic direction, and have the support to take long-term views in the development of Union Pacific's business—separate from the shorter-term pressures often facing management. We believe an independent Chairman is also better positioned to oversee both succession planning and provide accurate appraisal of the CEO's current performance. This effectively strengthens the system of checks and balances within the corporate structure and enhances shareholder value.

The appointment of independent Chairmen to corporate boards has been gaining traction in the U.S. in recent years, through shareholder proposals, market demand for proper risk oversight, and

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through proposed legislation. Both houses of the U.S. Congress introduced bills in 2009 containing provisions that would require independent Chairmen for public company boards. In a 2009 report, the Millstein Center at Yale School of Management recommended splitting the positions of Chairman and CEO as the default provision for U.S. companies. And a 2009 Deloitte web poll (9/2/09) of 1,100 directors, executives, and others found that 77.6% of participants agreed that U.S. companies should separate the roles of Chairman and CEO.

In our view, no matter how many independent directors are on the Board, they are less able to provide independent oversight of executives if the Chairman of that Board is a previous or current company CEO. We urge you to vote FOR this resolution.

## **Recommendation of the Board of Directors**

The Board of Directors opposes the proposal because it believes the Company is best served by the Board retaining the flexibility to determine the most effective leadership structure for the Company, based upon its evaluation of what is best for the Company and the shareholders at any point in time. Currently, the Board may provide that the positions of Chairman and Chief Executive Officer (CEO) should be held by different people when the Board determines that such action is in the best interest of the Company's shareholders. The proposal, however, deprives the Board of the flexibility to act in the shareholders' best interests by organizing its functions and managing its operations in the manner it determines to be most productive and efficient.

The Board believes that effective independence and oversight are currently being maintained through the Board Leadership Structure detailed beginning on page 6 of this Proxy statement, and through our sound Corporate Governance Guidelines and Policies as set forth on pages 8 through 11 of this Proxy Statement and which also can be found on our website. The independence of the Board as a whole satisfies both Company and New York Stock Exchange guidelines and independence standards, as eleven of twelve current directors are outside independent directors, and the Audit, Compensation and Governance Committees are all composed entirely of independent outside directors. Moreover, the Board routinely holds scheduled sessions of independent directors at each Board meeting, and each Director may originate action items for the Board's agenda.

In addition, to demonstrate its continuing commitment to strong corporate governance and Board independence, the Board has appointed a lead independent director. As discussed in the Board Leadership Structure section and in the Company's Corporate Governance Guidelines and Policies, the lead independent director will (i) preside at meetings of the Board at which the Chairman and CEO is not present, including executive sessions of the independent directors; (ii) approve the flow of information sent to the Board, and approve the agenda, schedule and what materials are sent for Board meetings; (iii) serve as the liaison between the independent directors and the Chairman and CEO; and (iv) be available for consultation and communication with major shareholders as appropriate. The lead independent director also has the authority to call executive sessions of the independent directors. Thus, it is unnecessary to permanently separate the Chairman and CEO positions.

In view of the strong independent oversight of management by the Board and the Company's sound governance practices, the Board believes the standard that would be imposed under the proposal is not productive.

**The Board of Directors respectfully requests that shareholders vote AGAINST Proposal 3.**

## **PROPOSAL NUMBER 4**

**Shareholder Proposal to Adopt Simple Majority Vote**

John Chevedden, 2215 Nelson Avenue, No. 205, Redondo Beach, CA 90278, the owner of 75 shares of the Company's common stock, has submitted the following proposal. **The Board of Directors recommends a vote AGAINST this proposal.**



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### 4 Adopt Simple Majority Vote

RESOLVED, Shareholders request that our board take the steps necessary so that each shareholder voting requirement in our charter and bylaws, that calls for a greater than simple majority vote, be changed to a majority of the votes cast for and against the proposal in compliance with applicable laws. This includes each 67% supermajority provision in our charter and/or bylaws.

Currently a 1%-minority can frustrate our 66%-shareholder majority. Also our supermajority vote requirement(s) can be almost impossible to obtain when one considers abstentions and broker non-votes. Supermajority requirements are arguably most often used to block initiatives supported by most shareowners but opposed by management. For example, a Goodyear (GT) management proposal for annual election of each director failed to pass even though 90% of votes cast were yes-votes.

This proposal topic won from 74% to 88% support at the following companies in 2009: Weyerhaeuser (WY), Alcoa (AA), Waste Management (WM), Goldman Sachs (GS), FirstEnergy (FE), McGraw-Hill (MHP) and Macy's (M). The proponents of these proposals included Nick Rossi, William Steiner, James McRitchie and Ray T. Chevedden.

The merits of this Simple Majority Vote proposal should also be considered in the context of the need for improvements in our company's 2009 reported corporate governance status:

The Corporate Library [www.thecorporatelibrary.com](http://www.thecorporatelibrary.com), an independent investment research firm, rated our company High Concern regarding executive pay. The Corporate Library downgraded its rating for our company from B to C due to concerns regarding executive pay. Our executive pay committee determined our CEO's \$3 million bonus at its own discretion, without using predetermined performance metrics.

Although the executive pay discussion and analysis section of our company's proxy compared the bonus awards to diluted earnings per share (EPS), there was no hard and fast dependency on the latter in deciding on the former. By not utilizing objective performance requirements when rewarding executives (especially in the form of cash payments), the link between pay and performance can be weakened. This may ultimately not be in the best of interest of shareholders.

Director Thomas Donohue received our most against-votes (12%) and chaired our executive pay committee. Our directors served on boards rated D or F by The Corporate Library: Erroll Davis, Motors Liquidation Company (GMGMQ.PK); Charles Krulak, Freeport-McMoRan (FCX) and Thomas Donohue, Sunrise Senior Living (SRZ). Judith Richards Hope had 21-years long-tenure (independence concern) and chaired our audit committee. Steven Rogel was inside-related (independence concern) and was assigned to our executive pay committee and our nomination committee. We also had no shareholder right to an independent board chairman or a lead director.

The above concerns shows there is need for improvement. Please encourage our board to respond positively to this proposal: Adopt Simple Majority Vote Yes on 4.

### **Recommendation of the Board of Directors**

A simple majority vote requirement already applies to almost all matters submitted to a vote of the Company's shareholders. The Board of Directors believes that the two matters subject to supermajority voting provisions under the Company's existing Revised Articles of Incorporation are necessary to promote the Company's continuing goal of providing effective governance and stability to advance the long-term benefit of its shareholders.

The existing supermajority provisions apply in a limited number of instances where the actions are so fundamental to the Company that they should require broad shareholder support. The Company's Revised Articles of Incorporation, as amended, require a 66-2/3% vote only with respect

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to: (i) removal of directors and amending these provisions related to removal of directors and (ii) amendment of the Revised Articles of Incorporation to adversely affect the preferences, rights or powers of the Company's preferred stock. In addition, there is no preferred stock outstanding, meaning the Company's supermajority voting provisions currently only apply with respect to one issue—the removal of directors.

With respect to the election of directors, the Board believes that it is important to take into account that the Company provides for the annual election of all directors under a majority voting standard. These provisions further the accountability of directors to shareholders. The Board believes that the supermajority voting requirement that would apply with respect to the removal of directors outside of the annual meeting context is essential to protect shareholders from abusive takeover tactics, given shareholders' ability to call special meetings. As a result, the Board believes that an extraordinary ability to remove directors outside of the annual meeting context is the type of change that should require a vote and consensus from a large cross-section of the Company's shareholders.

**The Board of Directors respectfully requests that shareholders vote AGAINST Proposal 4.**

### Security Ownership of Certain Beneficial Owners and Management

The following table sets forth the number of shares of common stock beneficially owned as of February 26, 2010, by (i) each person known to the Company to own more than 5% of the Company's common stock, (ii) each Named Executive Officer (as defined in the section of this Proxy Statement entitled Executive Compensation), (iii) each director or director nominee and (iv) all current directors and executive officers (as designated in the Company's 2009 Annual Report on Form 10-K) as a group. The table also sets forth ownership information concerning stock units, the value of which is measured by the price of the common stock. Stock units do not confer voting rights and are not considered beneficially owned shares under SEC rules. The number of common shares and stock units included in the table are adjusted to reflect the Company's two-for-one stock split on May 28, 2008.

Name	Number of Shares Beneficially Owned (a)	Stock Units (b)	Percent of Shares Outstanding
Andrew H. Card, Jr.	10,200	4,810	*
Erroll B. Davis, Jr.	16,185	7,681	*
Thomas J. Donohue	43,239	20,010	*
Dennis J. Duffy	746,056	76,158	*
Archie W. Dunham	41,317	13,095	*
J. Michael Hemmer	246,374	75,679	*
Judith Richards Hope	39,570(c)	18,798	*
Robert M. Knight, Jr.	384,987	97,303	*
John J. Koraleski	583,694	91,830	*
Charles C. Krulak	10,020	5,411	*
Michael R. McCarthy	2,052	4,903	*
Michael W. McConnell	21,500	15,528	*
Thomas F. McLarty III	5,700	4,544	*
Steven R. Rogel	41,000	12,680	*
Jose H. Villarreal	2,040	1,905	*
James R. Young	2,169,777	354,885	*
Capital Research Global Investors (d)	40,636,535	0	8.1%
BlackRock, Inc. (e)	27,844,161	0	5.52%
All current directors and executive officers as a group (18 people)	4,690,228	860,560	*

\* Indicates ownership of less than 1%.

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- (a) Includes the maximum number of shares of common stock that may be acquired within 60 days of February 26, 2010 upon the exercise of stock options as follows: Mr. Card 3,700; Mr. Davis 14,000; Mr. Donohue 39,000; Mr. Duffy 296,254; Mr. Dunham 39,000; Mr. Hemmer 188,225; Mrs. Hope 31,800; Mr. Knight 236,226; Mr. Koraleski 223,825; General Krulak 7,900; Mr. McConnell 19,500; Mr. McLarty 3,700; Mr. Rogel 39,000; Mr. Young 1,764,641; and all current directors and executive officers as a group 3,137,322. Also included in the number of shares owned by Messrs. Duffy, Hemmer, Knight, Koraleski and Young are 189,909; 26,222; 49,430; 57,941 and 207,503 deferred stock units, respectively, representing deferred stock option exercise gains and vested retention stock units which they will acquire as shares of common stock at termination of employment or a future designated date.
- (b) Consists of stock units payable in cash to non-management directors after retirement and held in their Stock Unit Accounts. For a discussion of the Stock Unit Grant and Deferred Compensation Plan for non-management directors, see page 20. These amounts for the Named Executive Officers consist of 76,158; 75,679; 97,303; 91,830 and 354,885 unvested stock units owned by Messrs. Duffy, Hemmer, Knight, Koraleski and Young and awarded under Company stock plans. Stock units do not confer voting rights and are not considered beneficially owned shares of common stock under SEC rules.
- (c) In addition, Mrs. Hope is the trustee of a children's trust that owns 600 shares of common stock. Mrs. Hope disclaims beneficial interest in such shares.
- (d) Based solely upon information contained in Schedule 13G filed on February 9, 2010 reporting that, as of December 31, 2009 this holder held sole and shared voting power over 17,417,335 and 0 of these shares, respectively, and sole and shared dispositive power over 40,636,535 and 0 of these shares, respectively. The address of Capital Research Global Investors is 333 South Hope Street, Los Angeles, CA 90071.
- (e) Based solely upon information contained in Schedule 13G filed on January 20, 2010 reporting that, as of December 31, 2009 this holder held sole and shared voting power over 27,844,161 and 0 of these shares, respectively, and sole and shared dispositive power over 27,844,161 and 0 of these shares, respectively. The address of BlackRock, Inc., is 40 East 52nd Street, New York, NY 10022.

***Stock Ownership Requirements for Executives***

The Company's Compensation and Benefits Committee believes that stock ownership will better align the interests of our executives, including the Named Executive Officers, with those of our shareholders by enhancing the focus of executives on the long-term success of the Company. We require our executives to achieve and maintain a minimum amount of stock ownership acquired primarily through the exercise of options and the receipt of retention stock or retention stock units under our equity compensation programs. We require Named Executive Officers to defer all of their retention stock units (which are not performance based) so long as they are employed by the Company. Our Stock Ownership Guidelines require the CEO to hold seven times annual salary and the other Named Executive Officers to hold four times annual salary in stock or stock units. Until the required ownership target is achieved, executives must retain all of the shares of stock they receive from our plans net of the shares of stock required, if any, to cover tax expense and the cost of exercising options. We do not include the following types of equity interests when calculating stock ownership under these guidelines: (i) unexercised stock options, (ii) unvested retention shares or units, and (iii) any investment in the Company stock fund under the Thrift Plan, the Supplemental Thrift Plan and the Executive Incentive Deferral Plan. As of December 31, 2009, all of the Named Executive Officers have met their stock ownership targets described above.

***Trading in Derivatives of our Common Stock***

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Executive officers (including the Named Executive Officers) subject to Section 16 reporting requirements of the Securities Exchange Act of 1934 (Exchange Act) are generally prohibited from,

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and the Compensation and Benefits Committee discourages, (i) buying, selling or writing puts, calls or options related to our common stock and (ii) executing straddles, equity swaps and similar derivative arrangements linked to our common stock. However, the Compensation and Benefits Committee will review any such proposed transaction that does not otherwise violate Company policies or applicable laws and regulations, and the Compensation and Benefits Committee may approve the transaction if there is a compelling reason underlying the proposal. Additionally, the Compensation and Benefits Committee may, in its sole discretion, reject these transactions or arrangements or require modifications prior to approval.

### ***Sales of our Common Stock by Executive Officers under Rule 10b5-1 Trading Plans***

Executive officers (including the Named Executive Officers) who meet their applicable ownership target as described above may sell shares of our common stock subject to the following restrictions:

Executive officers may only sell shares of our common stock that exceed their ownership target (Eligible Shares).

Eligible Shares may only be sold pursuant to a written trading plan designed to comply with SEC Rule 10b5-1, and that:

was adopted when a quarterly trading blackout was not in effect and when such executive officer was not in possession of material nonpublic information regarding the Company,

has been reviewed and approved by the General Counsel's office,

has been disclosed to the public in a manner determined by the General Counsel's office (public disclosure may not be required for certain executives who are not executive officers), and

has been in effect for at least 20 trading days from the date of disclosure of the trading plan to the public or approval by the General Counsel's office for trading plans not announced.

The total sales by an executive officer of Eligible Shares during any calendar year may not exceed 50% of the total shares of our common stock beneficially owned by such executive officer using the immediately preceding February 1<sup>st</sup> measurement date.

For purposes of this policy, the number of shares beneficially owned by an executive officer includes shares and units deferred by the executive officer and excludes any shares the executive officer has disclaimed for Section 16 reporting purposes. All of the reporting obligations of the executive officer under Section 16 of the Exchange Act apply to sales made pursuant to a 10b5-1 trading plan.

## **Executive Compensation**

### **Compensation Discussion and Analysis**

**Compensation Philosophy and Strategy**

Our compensation programs for our Chairman, President and CEO, James R. Young, our CFO and Executive Vice President-Finance, Robert M. Knight, Jr., and the next three most highly compensated executive officers, Dennis J. Duffy, Vice Chairman-Operations (effective January 1, 2010; previously Mr. Duffy was Executive Vice President-Operations), John J. Koraleski, Executive Vice President-Marketing and Sales, and J. Michael Hemmer, Senior Vice President-Law and General Counsel (collectively, the Named Executive Officers), remain guided by the following principles:

***Competitive Compensation*** We design compensation levels to reflect the competitive marketplace for similar positions at other comparable peer group companies in order to attract and retain key executives critical to our long-term success.



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***Pay for Performance*** Under our compensation programs, a significant portion of the executive's compensation is at-risk and tied to annual and long-term corporate performance. Integration of the Company's critical business objectives (safety, service, and financial performance) with our compensation programs allows us to reflect individual performance and management effectiveness, along with other qualitative factors, which we may not be able to measure or quantify with precision, but which nonetheless contribute to the Company's performance.

***Alignment with Shareholder Interests*** By providing equity incentives, we link a substantial portion of executive compensation to both short-term and long-term financial performance that benefits our shareholders and, therefore, aligns the interests of management with those of our shareholders.

We believe this compensation philosophy allows us to reward behavior that produces consistent, long-term performance and effective risk management.

## **Compensation Overview**

The Compensation and Benefits Committee of the Board of Directors (Committee) reviews and approves the compensation of all of the Named Executive Officers. Our CEO provides the Committee with his analysis of the performance of our Named Executive Officers (excluding himself) and his recommendations for their compensation. The Committee also receives information and recommendations from a compensation consultant on matters related to the Named Executive Officers (including the CEO) and other executive compensation. For more information on the operation of the Committee, including information on its compensation consultant, see the Compensation and Benefits Committee section on pages 4 through 6 of this Proxy Statement.

The Committee reviews Total Direct Compensation for each of the Named Executive Officers on an annual basis prior to the first Board meeting of the year and may also reassess Total Direct Compensation during the year in connection with a promotion or significant change in responsibilities. Total Direct Compensation consists of (i) a cash component (Total Cash Compensation) comprised of base salary and annual cash bonus, if any is paid, and (ii) a stock-based component under our long-term incentive compensation programs. Each component is described more fully below. The Committee also periodically reviews other elements of compensation, including deferred compensation, perquisites, benefits and change in control severance payments. Collectively, these programs are designed to motivate our executives toward consistent superior performance.

## **Competitive Market Review**

The Committee benchmarks salary, Total Cash Compensation and Total Direct Compensation for the Named Executive Officers against competitive market information. To assess competitive market information, the Committee looks primarily to proxy statement data among a group of peer companies listed below (the Peer Group). The Committee generally seeks to establish base salaries below the median of the Peer Group, reflecting the Committee's philosophy that a greater proportion of the cash component of our executives' compensation should be at-risk.

The Committee also benchmarks Total Cash Compensation and Total Direct Compensation against the Peer Group. The Committee generally targets a range between the median and seventy-fifth percentile of the Peer Group for Total Cash Compensation and Total Direct Compensation and generally determines compensation within that range based upon relative performance. Total Direct Compensation and Total Cash Compensation may be greater or less than targeted percentiles, depending upon whether and to what degree the Company achieves its business objectives (as described below). Other factors may include the individual performance of each Named Executive Officer and his or her position

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relative to the Company's current internal pay structure or changes in personnel or compensation at the Peer Group companies. In addition, the Committee particularly

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focuses on the competitive pay for railroad executives within the Peer Group and the performance of other comparable railroads. In comparing our executive positions with comparable positions at companies within the Peer Group, the Committee and its consultant review and consider any adjustments that may be required to account for significant differences in tenure or functional responsibilities.

Our Peer Group for 2009 consisted of the following 17 companies:

Alcoa	3M	Burlington Northern Santa Fe
CSX	Deere & Co	Du Pont (El) De Nemours
FedEx	General Dynamics	Halliburton
Honeywell International	Medtronic	Norfolk Southern
Northrop Grumman	Raytheon	Southern Co.
Time Warner Cable	UPS	

The Committee selected this Peer Group after surveying U.S. based public companies in the same Global Industry Classification System (GICS) Industry Group with comparable revenues and market capitalization; and U.S. based public companies with comparable (i) revenues, (ii) net income, (iii) market capitalization, (iv) total assets and (v) employees, while excluding pharmaceuticals, hightech, insurance and financial services companies. These comparative financial measures and the number of employees for the 2009 Peer Group are shown below.

	Peer Group (1)		Union Pacific	
	Median	75 <sup>th</sup> Percentile	Company Data	Percent Rank
Net Revenue	\$ 25,269	\$ 30,529	\$ 17,970	31%
Net Income	\$ 1,807	\$ 2,231	\$ 2,338	78%
Total Assets	\$ 30,197	\$ 36,403	\$ 39,722	88%
Market Capitalization	\$ 21,134	\$ 25,918	\$ 24,207	70%
Employees	60,000	92,300	48,242	32%

(1) Dollars in millions. Based on information as of December 31, 2008.

**Management's Role in the Compensation Process**

Management's role in the compensation process is twofold. First, at the beginning of the year, management conducts its annual operating planning process to determine and recommend business objectives to the Committee and the Board (focusing on safety, service, and financial performance) for the annual cash bonus and performance criteria for the long-term incentive compensation program for the upcoming performance year. Second, at the end of the year, the CEO makes recommendations to the Committee regarding the Total Direct Compensation of the other Named Executive Officers based upon a review and consideration of Company performance and the performance of each Named Executive Officer for the past year.

Management's planning process for developing the Company's annual operating plan encompasses all departments and includes the consideration of many quantitative and qualitative factors, including the Company's financial results and Railroad operations during the prior year; safety, business and leadership initiatives; customer service; strategic initiatives; economic indicators; forecasted demand and volume growth; planned

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capital expenditures; competitive market; and general business forecasts. An integral part of this operating planning process is the establishment of departmental goals and objectives and individual goals and objectives for the Named Executive Officers and other executives that together provide us the framework to meet the business objectives of the Company's annual operating plan.

At the beginning of each year, management presents the proposed operating plan to the Board. Based on the Board's approval of the Company's operating plan, the CEO and Senior Vice President

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Human Resources (SVP-HR) propose to the Committee suggested business objectives for the annual bonus plan and suggested performance criteria and targets for the performance stock units for the upcoming year. The CEO also reviews any recommendations that the SVP-HR (with any input from the Committee's compensation consultant) may make regarding the compensation mix, award types, vesting requirements, targeted percentiles, and any other features of the Company's compensation arrangements applicable to the other Named Executive Officers. The Committee reviews these compensation proposals and makes a recommendation to the Board of Directors for approval. Periodically during the year, the CEO reviews year-to-date performance with each of the other Named Executive Officers.

At the end of the performance year, the CEO reviews the performance of the other Named Executive Officers and competitive data on Total Direct Compensation prepared by the SVP-HR (based upon data supplied by the Committee's compensation consultant) prior to making recommendations for consideration by the Committee. Management, including the CEO and SVP-HR, reviews the Company's performance and the CEO proposes to the Committee amounts for base salary, annual bonuses, and long-term incentives for each of the Named Executive Officers, other than himself, which determination is reserved for the Committee taking into account the advice of its consultant. The Committee's compensation consultant presents to the Committee competitive analyses regarding the Total Direct Compensation with respect to the CEO, which the compensation consultant performs without any participation of, input from or prior review by the CEO. The Committee reviews the relevant compensation analyses and, together with the other independent directors, evaluates the CEO's performance and determines the appropriate level of Total Direct Compensation based upon such evaluation.

## **Company Performance Overview for 2009**

Economic conditions made 2009 a very challenging year. Despite these obstacles, we achieved all-time bests in many of our business objectives (which focus on safety, service and financial performance) by operating a safer railroad, improving customer service and operations, and implementing productivity initiatives to improve efficiency and reduce costs.

*Safety* In 2009, we continued our positive, multi-year trend in safety performance by setting records in many of our safety metrics. These results included surpassing previous milestones in all three safety areas—employee, public, and customer. Our employee injury incident rate per 200,000 man-hours declined 12% from 2008 to its lowest level ever. Our continued focus on derailment prevention resulted in a 10% reduction in our derailment incident rate in 2009, with associated costs declining 3%. We also had the lowest number of crossing incidents on record, and the rate of grade crossing incidents per million train miles decreased 11%.

*Service and Operations* In 2009, we built upon operational improvements achieved during 2008 by significantly improving the fluidity and efficiency of our transportation network and adjusting our resources to reflect lower demand. Although varying throughout the year, our resource reductions included removing from service approximately 26% of our road locomotives and 18% of our freight car inventory by year-end. We also reduced shift levels at most rail facilities and closed or significantly reduced operations in 30 of our 114 principal rail yards. We set records in numerous operational metrics, including velocity, average terminal dwell, freight car utilization and service delivery. Network management initiatives, efforts to improve asset utilization, and lower volume levels drove our operational improvement. In 2009, customer satisfaction improved to record levels, exceeding records established in 2008, an indication that our ongoing efforts to improve operations again translated into better customer service.

*Financial Performance* We generated operating income of \$3.4 billion despite economic conditions that significantly reduced demand for our services across almost all market sectors. While a 16% reduction in volume drove the 17% decrease in operating income, core pricing gains, improved productivity, lower fuel prices, and cost savings from demand-driven resource adjustments



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translated into an all-time record operating ratio of 76.0% for 2009, outpacing our previous record of 77.3% set in 2008. Again in 2009, our Project Operating Ratio and Zero (Project OR & 0), a comprehensive program focused on improving efficiency (operating ratio) without impacting our safety performance or the Company's efforts to improve safety, was instrumental in providing these cost savings and productivity improvements. Net income of \$1.9 billion declined from \$2.3 billion in 2008, but resulted in earnings of \$3.75 per diluted share for 2009, surpassed only by our 2008 performance. We generated free cash flow of \$515 million (after dividends of \$544 million) on the strength of \$3.2 billion cash from operations.<sup>1</sup> We continued to focus on improving the reinvestability of our business in 2009, and we have repriced approximately 85% of our business since 2004. In response to economic conditions we maintained a very solid financial condition throughout the year, ending 2009 with nearly \$1.9 billion cash on hand and a lease adjusted debt-to-capital ratio of 45.9%.<sup>2</sup> Our shareholders also benefited from a 36.6% increase in cumulative total shareholder return in 2009 (assuming reinvestment of dividends).

## **Compensation Elements**

Total Direct Compensation includes the following basic compensation elements: (i) base salary, (ii) annual at-risk cash bonus, and (iii) long-term incentive compensation, which is comprised of performance and retention components, including performance stock units, retention stock units and stock options.

### *Base Salary*

We pay base salary to provide a stable source of income for performing job responsibilities, but not at a level that undermines the objectives of our performance-based compensation programs. The Committee reviews the base salaries of the Named Executive Officers at the beginning of each year.

The CEO reviews base salaries and prior year performance and accomplishments for the other Named Executive Officers and provides the Committee a base salary recommendation for the coming year for each other Named Executive Officer. The Committee considers these base salary recommendations from the CEO. The Committee, with input from its compensation consultant and the Board's review of the CEO evaluation, alone assesses the base salary of the CEO. When the Committee reviews these base salary recommendations, it primarily considers: (i) the executive's position and responsibility in the organization, (ii) the executive's experience and expertise, (iii) Company performance, (iv) individual accomplishments and job performance, (v) Peer Group proxy statement data, (vi) internal benchmarking relative to the Company's pay structure, and (vii) current salary. In making salary recommendations to the Board of Directors, the Committee exercises subjective judgment in evaluating each factor and applies no specific weights to the above factors with respect to each Named Executive Officer.

The Committee did not increase any of the salaries of the Named Executive Officers in 2009. In February 2009, the Committee reviewed and considered the achievement of the Company's business objectives in 2008. Despite the Company's solid performance during 2008, the Committee agreed with the CEO's recommendation that none of the Company's top 150 executives, including the Named Executive Officers, receive base salary increases for 2009 due to the economic outlook at that time.

<sup>1</sup> Free cash flow is not considered a financial measure under accounting principles generally accepted in the United States (GAAP) by SEC Regulation G and Item 10 of Regulation S-K. For a reconciliation to GAAP, please see Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

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<sup>2</sup> Adjusted debt-to-capital is not considered a financial measure under GAAP by SEC Regulation G and Item 10 of Regulation S-K. For a reconciliation to GAAP, please see Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2009.



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In February 2010, the Committee reviewed the salaries of the Named Executive Officers and considered the Company's performance in 2009. Based upon the CEO's recommendation, the Committee approved a salary increase only for Mr. Knight. Mr. Knight was awarded a 2% salary increase primarily based on the fact that his salary was significantly lower relative to CFO positions in our Peer Group. The CEO recommended no salary increases in 2010 for himself and the rest of the Named Executive Officers due to the continued challenges presented by current economic conditions.

**2009/2010 Salary Versus Peer Group**

Name	2008 Salary	Change from Prior Year	2009 Salary	Change from Prior Year	2010 Salary	vs. Peer Group
James R. Young	\$ 1,150,000	0%	\$ 1,150,000	0%	\$ 1,150,000	Below Median
Robert M. Knight, Jr.	455,000	0%	455,000	2%	464,000	Below Median
Dennis J. Duffy	600,000	0%	600,000	0%	600,000	Below Median
John J. Koraleski	470,000	0%	470,000	0%	470,000	Below Median
J. Michael Hemmer	455,000	0%	455,000	0%	455,000	Below Median

*Annual Cash Bonus*

We pay an annual cash bonus in order to link a significant portion of the executive's Total Cash Compensation to specific annual Company results and to reflect individual contributions to Company performance. We do not establish a target performance formula for any of our executives, including the Named Executive Officers. Although specific business objectives (focusing on safety, service, and financial performance) are communicated to the Company as a whole based on the operating plan developed by management and presented to the Board, these business objectives do not exclusively drive executive bonuses. Instead, the Committee uses these business objectives to determine a funding level without using any formulas or assigning specific weight to any one objective. The funding level is a percentage of competitive compensation (i.e., generally the median to the seventy-fifth percentile of Total Cash Compensation less current salaries) depending upon our success in achieving our business objectives and other qualitative factors the Committee considers in awarding annual cash bonuses. Then the individual bonus awards for each Named Executive Officer are determined on a discretionary basis. The Committee believes this is an effective way to reinforce our pay-for-performance philosophy, as annual bonuses are based upon (i) in large part, the Company's performance, and (ii) the review by the CEO and/or the Committee of the individual executive's performance during the period. This discretionary process results in the annual cash bonus being highly variable, ranging in recent years from zero for all Named Executive Officers to an amount that may significantly exceed the executive's base salary.

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The following graph sets forth the amount of average annual cash bonus reported for the Named Executive Officers or the top five listed officers for the applicable performance year versus the Company's diluted earnings per share (EPS) as reported in accordance with GAAP.

- (1) Represents the average annual cash bonus reported for the Named Executive Officers or the top five listed officers for the applicable Performance Year. For Performance Year 2004, no bonuses were paid to Company executives. For Performance Year 2006, the Company had a separate Chairman and CEO who each received bonuses.
- (2) Diluted EPS is net income divided by our weighted average common stock outstanding, assuming dilution. Years 2003-2007 have been adjusted for the Company's May 28, 2008, two-for-one stock split.

When determining annual bonuses, the Committee benchmarks Total Cash Compensation for the Named Executive Officers within a range of the median to seventy-fifth percentile of our Peer Group based on performance. Depending primarily on the position of the Named Executive Officer, Company-level performance and individual performance, this process results in between 50% and 75% of an executive's potential cash compensation being at-risk. At the end of the year, the CEO reviews corporate, operational and individual accomplishments and job performance for the Named Executive Officers, and provides the Committee an annual cash bonus recommendation for each Named Executive Officer. The Committee considers these recommended amounts and may make adjustments in its discretion. The Committee, with input from its consultant and the review of the CEO evaluation by the independent members of the Board, alone assesses and determines the bonus for the CEO.

In February 2010, the Committee reviewed and considered the achievement of the Company's business objectives in 2009, including significant accomplishments and records in the areas of safety and service and the solid financial performance discussed above under the section captioned Company Performance Overview for 2009, as the primary factor in determining each of the Named Executive Officer's annual bonus. In addition, the Committee took into consideration each Named Executive Officer's responsibilities, performance and accomplishments during the year, tenure and award levels relative to the Peer Group. In spite of an unprecedented economic environment that resulted in significantly reduced business volumes that impacted our financial performance, the Committee awarded each Named Executive Officer a bonus (as shown in the table below) for their management actions and leadership contributions as described below.

The Committee evaluated Mr. Young's performance and determined that his oversight and leadership of the Company and the senior management team in achieving all-time bests in many of

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the Company's business objectives in the midst of challenging economic conditions, as well as his direction and execution of the Company's operational and strategic initiatives to maximize shareholder value, merited the bonus shown in the table below.

**2009 Total Cash Compensation Versus Peer Group**

Name	2009 Salary	2009 Bonus	Change in Bonus From 2008	Total 2009 Cash Comp	vs. Peer Group
James R. Young	\$ 1,150,000	\$ 2,500,000	(17%)	\$ 3,650,000	Between Median & 75P
Robert M. Knight, Jr.	455,000	820,000	(20%)	1,275,000	Between Median & 75P
Dennis J. Duffy	600,000	955,000	(15%)	1,555,000	Between Median & 75P
John J. Koraleski	470,000	825,000	(20%)	1,295,000	Above 75P
J. Michael Hemmer	455,000	720,000	(20%)	1,175,000	Above 75P

In addition to the overall solid performance of the Company in 2009, the bonus recommendations provided to the Committee by Mr. Young for the other Named Executive Officers took into account the following subjective assessment of each Named Executive Officer's performance during the year.

Mr. Knight led the Company's implementation of a financial strategy that continued to focus on maximizing long-term shareholder value and produced solid financial results despite the economic recession experienced throughout 2009. Under Mr. Knight's leadership, the Company strengthened its balance sheet, maintaining access to capital markets and the strong liquidity position needed to weather economic uncertainty and volatile financial markets. Through these efforts, the Company's adjusted debt to capital ratio improved 1.5 percentage points. Mr. Knight continued to lead the Company's effort to improve financial returns as part of Project OR & O (described above on page 32), which helped offset the impact of steep business volume declines through substantial cost savings. These efforts resulted in an operating ratio below 74% for the second half of the year, and a fifth consecutive year of operating ratio improvement to a full-year record 76%. Mr. Knight also effectively performed the fiduciary role of overseeing the Company's adherence to the highest standards of financial reporting and controls, including the implementation of a new accounting system to maintain and enhance the integrity of these critical functions.

Mr. Duffy continued to lead the Company's focus on safety while providing superior service to our customers. The Company's safety performance for 2009 continued a multi-year improvement trend that produced all-time record lows for personal injury, grade-crossing and derailment incident rates. In response to the economic environment and declining volumes, Mr. Duffy led the Company's efforts in asset utilization by streamlining operations through consolidating terminals, lengthening trains and resizing the Company's resource base. These actions improved operating cost variability without compromising excellent service and value for our customers. The Company continued to build upon operational improvements to enhance the fluidity and efficiency of our transportation network, setting records in numerous operational metrics, including velocity, average terminal dwell, freight car utilization and service delivery. Mr. Duffy's focus on safety and his efforts to improve the efficiency of network operations contributed directly to the Company's bottom line.

Mr. Koraleski led the marketing and sales team in the pursuit of growth opportunities with existing and new customers by offering our customers a wide range of options to leverage the cost and environmental advantages of rail and the advantage of our rail franchise. Mr. Koraleski and the marketing and sales team, along with the Operating Department, continued their efforts to improve service and operations that translated into increased customer satisfaction. In 2009, our customer satisfaction index reached an all time high, surpassing records established in 2008 by five points. New service offerings and other service enhancements combined with our premier rail franchise allowed the Company to achieve a 4.5% improvement in core pricing for 2009. Mr. Koraleski also led the successful renegotiation of two key expiring legacy contracts and implemented strategies to open new markets and secure future business growth.



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Mr. Hemmer led the efforts of the Company and the rail industry in developing positions on potential legislation affecting our industry and communicating those positions to policymakers. Mr. Hemmer oversaw a legal team that played a leading role in advocating regulatory policies at the U.S. Department of Transportation's Surface Transportation Board. The Law Department achieved significant success in several precedent setting legal proceedings, while continuing to enhance their support activities to critical Company functions. Mr. Hemmer and the legal team continued their compliance oversight and prevention efforts in areas such as safety, regulatory and environmental, ethics and corporate governance. Mr. Hemmer also oversaw the implementation of several Company-wide initiatives that improved document and records management, which saved the Company millions of dollars in litigation expenses and freed valuable database storage.

### *Long-Term Incentive Compensation*

We award long-term incentive compensation to encourage executives to manage for long-term business success and continue their employment with the Company. Currently, the Company's long-term compensation is entirely equity-based, which, together with the Company's stock ownership requirements and other policies, provides motivation to enhance shareholder value and meet the Company's financial objectives. The components of long-term incentive compensation are:

performance stock units, which we award based on return on invested capital (ROIC) over a three-year period;

retention stock units, which vest after a four-year period; and

stock options, with an exercise price based on the closing price of our stock on the date of grant (for a discussion of Company stock option grant practices, see page 41) and that vest ratably over a three-year period.

The Committee generally seeks to award long-term incentives that range between 50% and 70% of each Named Executive Officer's Total Direct Compensation. In setting the size of long-term incentive awards, the Committee's goal is for our Named Executive Officers generally to be between the median and seventy-fifth percentile for Total Direct Compensation of the Peer Group when the Company attains its performance objectives. The CEO recommends to the Committee an aggregate value of long-term incentive awards for each of the Named Executive Officers (other than himself, a determination reserved for the Committee, taking into account advice from its compensation consultant and the Board's evaluation of the CEO). The Committee considers these recommendations and determines the final amount of awards for each of the Named Executive Officers. The Committee may vary the mix of each component of equity compensation to some degree depending on Company and individual performance and retention risk regarding an executive.

The long-term incentive awards granted by the Committee in January of 2009 reflected the Committee's desire to provide long-term incentive compensation to ensure the continued efforts of the Named Executive Officers to meet the long-term goals and strategic plans of the Company and to align this element of their compensation with the long-term interests of the Company's shareholders. The long-term incentive program for the Named Executive Officers in 2009 included the following targeted mix of equity compensation based on grant date fair value: 25% performance stock units, 25% retention stock units and 50% stock options. The long-term incentive awards for the Named Executive Officers and a description of the terms of these awards are set forth on pages 45 and 46 in the Grants of Plan-Based Awards in Fiscal Year 2009 Table and accompanying narrative discussion.

At its meeting in February 2010, the Committee re-evaluated the long-term incentive program for the Named Executive Officers and the targeted mix of equity compensation. Based upon its review of long-term incentives for the Peer Group and its desire to emphasize the Company's long-term strategic focus and the connection between ROIC and the Named Executive Officers' compensation, the Committee changed the targeted mix of equity compensation based on grant date fair value to 40% performance stock units, 20% retention stock units and 40% stock

options.

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The Committee utilizes performance stock units to (i) motivate, reward, and retain executives who make significant contributions to the achievement of the Company's safety, operational and financial goals, (ii) promote and closely align the interests of the Named Executive Officers and other executives with those of our shareholders, and (iii) help ensure that executive compensation remains competitive with our industry peers and companies with which we compete for executive talent.

In February 2009, the Committee awarded the Named Executive Officers performance stock units subject to the attainment and certification of annual ROIC, as adjusted, for a three-year period (Performance Period). We define ROIC as net operating profit after taxes divided by average invested capital. ROIC may be adjusted by the Committee to reflect the effect of special transactions or events, such as excluding the effect of significant gains on the sale of real estate, tax adjustments, accounting charges, or reclassifications. The Committee selected ROIC because it is a key measurement that indicates the success of the Company in making long-term capital investment decisions that improve financial and operational performance and increase shareholder value. In addition, the Board focuses on ROIC as a key area for Company improvement. The table below identifies the ROIC performance criteria for the outstanding performance stock unit grants:

Performance Period		ROIC Threshold	ROIC Target	ROIC Maximum
2007	2009	8.1%	8.6%	9.6%
2008	2010	8.8%	9.3%	10.3%
2009	2011	7.8%	8.8%	10.8%

The Named Executive Officers must also remain employed by the Company for three years from the date of grant. At the end of year one of the Performance Period, the executive may earn up to one-third of the target number of stock units granted to him or her based on the first year of ROIC performance achieved. At the end of year two, the executive may earn additional stock units up to a total of two-thirds of the target number of stock units granted to such executive based on the average of the first two years of ROIC performance achieved. During year three of the Performance Period, the executive may earn up to twice the target number of stock units (less any units earned in years one and two) granted to that executive based on the average of ROIC performance during the whole three-year Performance Period. If the threshold ROIC level is not met, executives are not entitled to any payout of their performance stock units. Stock units that have been earned during the Performance Period will be paid out in shares of our common stock at the end of the Performance Period and will pay or accrue dividend equivalents between the time they are earned and the payment date. Dividend equivalents are not paid on unearned performance stock units. The threshold, target and maximum number of performance stock units that may be earned by each Named Executive Officer is set forth on page 45 in the Grants of Plan-Based Awards in Fiscal Year 2009 table.

For the performance stock units granted in 2007, 2008 and 2009, the Committee certified the ROIC results as shown in the table below.

	2007	2008 (1)	2009 (2)
ROIC as reported in the Company's Annual Report on Form 10-K for the years ended December 31	8.7%	10.2%	8.2%
ROIC as certified by the Committee for Performance Stock Unit Awards	8.74%	10.09%	8.17%

- (1) The Committee, in its discretion, adjusted reported 2008 ROIC downward for a special item. Reported ROIC included the recognition of a loss in Other Comprehensive Income resulting from investment losses in pension assets.

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- (2) For performance stock units granted in 2009, we adjusted the discount rate used in both the numerator and denominator when calculating the present value of our future



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operating lease payments to reflect changes to interest rates and our financing costs. This rate is consistent with the methodology used by Standard & Poor's, and is the same methodology we use to calculate our adjusted debt-to-capital ratio. The performance stock units granted in 2007 and 2008 will continue to be measured through their conclusion using the methodology and assumptions in effect when those performance stock units were granted. As a result, the 2009 ROIC certified by the Committee for the 2007 and 2008 grants was 8.32%.

Performance stock units earned under each of the 2007, 2008, and 2009 grants for each of the Named Executive Officers are included as Earned Performance Stock Units in the Stock Awards column of the Outstanding Equity Awards at 2009 Fiscal Year-End Table on page 46. The table below summarizes how performance stock units were earned in 2009.

**Stock Units Earned in 2009 as a Percent of Target Award**

Performance		Average of ROIC	Percent of Target Achieved to Date	Percent of Target Earned (1)
Period				
2007	2009	9.0%	+40%	140% of the target number of stock units
2008	2010	9.2%	-10%	90% of 2/3 of the target number of stock units
2009	2011	8.1%	-40%	60% of 1/3 of the target number of stock units

- (1) Years one and two of each performance period are capped at 100% of the target award and are subject to continued employment throughout the performance period. Amounts earned at the conclusion of the performance period may be different depending on future years' performance.

At its meeting in February 2010, the Committee awarded the Named Executive Officers performance stock units with the same terms as the 2009 grants discussed above, except the Committee set a new performance target for ROIC.

*Retention Stock Units*

The Committee believes that retention stock units ensure consistency of leadership at the Company by retaining key executives in a competitive labor market. Although equity awards in general include an element of performance incentive, the Committee awards retention stock units primarily to encourage continuity of management. Retention stock generally vests after a four-year period of continued service. Executives holding retention stock units have the right to receive a cash payment equivalent to dividends in such amounts as dividends are paid on our common stock. We require Named Executive Officers to defer all of their retention stock units (which are not performance based) so long as they are employed by the Company.

*Stock Options*

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The Committee believes that stock options combine both retention and performance elements and, therefore, serve as an important element of long-term compensation. The amount executives realize under stock option grants is directly tied to the future performance of the Company's stock, aligning the interests of executives with those of the Company's shareholders. At the same time, the stock options become fully exercisable only if the executive remains an employee through the three-year vesting period. One-third of each stock option grant vests each year over the three-year vesting period.

### *Summary of 2009 Total Direct Compensation Decisions*

The table below summarizes the 2009 Total Direct Compensation the Committee approved for each Named Executive Officer. The compensation elements included in the table reflect the components of annual compensation that the Committee considers in its decision-making process.

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The table excludes compensation amounts based on changes in pension value and nonqualified deferred compensation earnings as reported in the Summary Compensation Table on page 43, because the Committee considers these programs in the context of its assessment of the overall benefit design and not as an element of its annual compensation decisions. Likewise, the Committee does not consider in its annual compensation decisions the items included as All Other Compensation in the Summary Compensation Table, and these items are therefore excluded from the table below. This table is not intended to replace the Summary Compensation Table.

**2009 Total Direct Compensation Versus Peer Group**

Name	Total 2009 Cash Comp	Total 2009 LTI Award	Total 2009 Direct Comp	Change from 2008	vs. Peer Group
James R. Young	\$ 3,650,000	\$ 7,500,000	\$ 11,150,000	(4%)	Below Median
Robert M. Knight, Jr.	1,275,000	2,100,000	3,375,000	0%	Between Median & 75P
Dennis J. Duffy	1,555,000	2,500,000	4,055,000	2%	Between Median & 75P
John J. Koraleski	1,295,000	2,000,000	3,295,000	(3%)	Above 75P
J. Michael Hemmer	1,175,000	1,600,000	2,775,000	(3%)	Between Median & 75P

*2010 Long Term Incentive Awards*

In February 2010, the Committee reviewed and considered the achievement of the Company's business objectives in 2009, including the significant accomplishments and records in safety and service and the solid financial performance discussed above under the section captioned Company Performance Overview for 2009, as the primary factor in determining each of the Named Executive Officer's annual long-term incentive awards. In addition, the Committee took into consideration each Named Executive Officer's responsibilities, performance and accomplishments during the year, tenure, and award levels relative to the Peer Group as discussed above in the subjective assessment of each Named Executive Officer under the Annual Cash Bonus section. The Committee awarded each Named Executive Officer the long-term incentive awards as shown in the table below. However, Mr. Duffy has advised the Company of his plans to retire sometime during the restriction periods applicable to option awards and retention and performance stock unit awards, and, as a result, the Committee did not award Mr. Duffy any long-term incentive awards for 2010.

The Committee awarded each Named Executive Officer a long-term incentive award, based on grant date fair value, consisting of 40% performance stock units, 20% retention stock units and 40% stock options. The Committee's decision to change its targeted allocations and place greater emphasis on performance is discussed in the Long-Term Incentive Compensation section above.

**2010 Long Term Incentive Awards**

Name	Change in LTI from 2009	Total 2010 LTI Award	Stock Options (40% of LTI Award)	Retention Stock Units (20% of LTI Award)	Performance Stock Units		
					Threshold	Target (40% of LTI Award)	Maximum
James R. Young							