



**National Railroad Passenger Corporation and Subsidiaries (Amtrak)**

**Consolidated Financial Statements**

**For the Years Ended September 30, 2007 and 2006**



**KPMG LLP**  
1660 International Drive  
McLean, VA 22102

## **Independent Auditors' Report**

The Board of Directors and Stockholders  
National Railroad Passenger Corporation:

We have audited the accompanying consolidated balance sheets of National Railroad Passenger Corporation (Amtrak or the Company) and subsidiaries as of September 30, 2007 and 2006, and the related consolidated statements of operations, comprehensive loss, cash flows and changes in capitalization for the years then ended. These consolidated financial statements are the responsibility of Amtrak's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Company has a history of substantial operating losses and is highly dependent upon substantial Federal government subsidies to sustain its operations. There are currently no Federal government subsidies authorized or appropriated for any period subsequent to the fiscal year ending September 30, 2008 ("fiscal year 2008"). Without such subsidies, Amtrak will not be able to continue to operate in its current form and significant operating changes, restructuring or bankruptcy may occur. Such changes or restructuring would likely result in asset impairments.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Railroad Passenger Corporation and subsidiaries as of September 30, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.



As discussed in Note 3 to the financial statements, on October 1, 2006, the Company adopted the recognition and related disclosure provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, which changed the method of accounting for and the disclosures regarding pension and postretirement benefits.

KPMG LLP

January 29, 2008

## National Railroad Passenger Corporation and Subsidiaries (Amtrak)

### Consolidated Balance Sheets

(In Thousands of Dollars, Except Share Data)

	September 30	
	2007	2006
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents .....	\$ 223,949	\$ 37,988
Restricted cash.....	10,393	3,081
Short-term investments.....	9,950	174,000
Accounts receivable, net of allowances of \$7,397 and \$9,479 at September 30, 2007 and 2006, respectively .....	141,645	90,892
Materials and supplies - net.....	174,897	152,939
Other current assets .....	44,026	37,997
<b>Total current assets .....</b>	<b>604,860</b>	<b>496,897</b>
<b>Property and Equipment:</b>		
Locomotives .....	1,405,200	1,517,231
Passenger cars and other rolling stock .....	2,650,963	2,796,359
Right-of-way and other properties .....	8,363,818	8,080,656
Leasehold improvements .....	310,503	301,277
<b>Property and equipment, gross .....</b>	<b>12,730,484</b>	<b>12,695,523</b>
Less - Accumulated depreciation and amortization .....	(4,424,569)	(4,495,937)
<b>Total property and equipment, net .....</b>	<b>8,305,915</b>	<b>8,199,586</b>
<b>Other Assets, Deposits, and Deferred Charges:</b>		
Escrowed proceeds on sale-leasebacks .....	874,744	862,940
Deferred charges, deposits, and other .....	379,942	359,508
<b>Total other assets, deposits, and deferred charges .....</b>	<b>1,254,686</b>	<b>1,222,448</b>
<b>Total assets .....</b>	<b>\$ 10,165,461</b>	<b>\$ 9,918,931</b>
<b>LIABILITIES and CAPITALIZATION</b>		
<b>Current Liabilities:</b>		
Accounts payable .....	\$ 207,776	\$ 202,074
Accrued expenses and other current liabilities .....	537,054	481,678
Deferred ticket revenue .....	82,167	73,402
Current maturities of long-term debt and capital lease obligations .....	132,852	143,577
<b>Total current liabilities .....</b>	<b>959,849</b>	<b>900,731</b>
<b>Long-Term Debt and Capital Lease Obligations:</b>		
Capital lease obligations .....	2,851,761	2,994,144
Mortgages .....	227,510	240,805
Equipment and other debt, net.....	92,657	114,576
<b>Total long-term debt and capital lease obligations .....</b>	<b>3,171,928</b>	<b>3,349,525</b>
<b>Other Liabilities and Deferred Credits:</b>		
Deferred federal and state capital payments .....	701,357	591,782
Casualty reserves .....	212,469	223,319
Deferred gain on sale-leasebacks .....	305,462	400,116
Postretirement employee benefits obligation .....	620,152	325,989
Environmental reserve .....	63,500	67,014
Other .....	177,996	17,858
<b>Total other liabilities and deferred credits .....</b>	<b>2,080,936</b>	<b>1,626,078</b>
<b>Total liabilities .....</b>	<b>6,212,713</b>	<b>5,876,334</b>
<b>Commitments and Contingencies</b>		
<b>Capitalization:</b>		
Preferred stock - \$100 par, 109,396,994 shares authorized, issued and outstanding at September 30, 2007 and 2006 .....	10,939,699	10,939,699
Common stock - \$10 par, 10,000,000 shares authorized, 9,385,694 issued and outstanding at September 30, 2007 and 2006 .....	93,857	93,857
Debt and other paid-in capital .....	16,100,513	14,829,886
Accumulated deficit.....	(22,962,131)	(21,819,117)
Accumulated comprehensive income (loss).....	(219,190)	(1,728)
<b>Total capitalization .....</b>	<b>3,952,748</b>	<b>4,042,597</b>
<b>Total liabilities and capitalization .....</b>	<b>\$ 10,165,461</b>	<b>\$ 9,918,931</b>

The accompanying Notes are an integral part of these Consolidated Financial Statements

## National Railroad Passenger Corporation and Subsidiaries (Amtrak)

### Consolidated Statements of Operations

(In Thousands of Dollars)

	Twelve Months Ended September 30	
	2007	2006
<b>Revenues:</b>		
Passenger related .....	\$ 1,730,926	\$ 1,565,540
Commuter .....	117,424	115,394
Other .....	302,254	328,598
State capital payments .....	2,011	33,045
<b>Total revenues</b> .....	<b>2,152,615</b>	<b>2,042,577</b>
<b>Expenses:</b>		
Salaries, wages, and benefits .....	1,661,838	1,484,206
Train operations .....	209,881	203,201
Fuel, power, and utilities .....	284,184	275,677
Materials .....	179,044	162,301
Facility, communication, and office related .....	141,154	136,299
Advertising and sales .....	83,160	75,389
Casualty and other claims .....	25,708	114,877
Depreciation - net of amortization .....	454,085	446,252
Other .....	247,091	218,457
Indirect cost capitalized to property and equipment .....	(106,537)	(111,183)
<b>Total expenses</b> .....	<b>3,179,608</b>	<b>3,005,476</b>
<b>Net loss from continuing operations before other (income) and expense</b> .....	<b>1,026,993</b>	<b>962,899</b>
<b>Other (Income) and Expense:</b>		
Interest income .....	(99,349)	(94,967)
Interest expense .....	193,265	200,058
<b>Other expense - net</b> .....	<b>93,916</b>	<b>105,091</b>
<b>Net loss</b> .....	<b>\$ 1,120,909</b>	<b>\$ 1,067,990</b>

## National Railroad Passenger Corporation and Subsidiaries (Amtrak)

### Consolidated Statements of Comprehensive Loss

(In Thousands of Dollars)

	Twelve Months Ended September 30	
	2007	2006
<b>Net loss</b> .....	<b>\$ 1,120,909</b>	<b>\$ 1,067,990</b>
<b>Other Comprehensive (Income) Loss:</b>		
Unrealized (gain) loss on derivatives .....	(1,069)	2,369
Unrealized (gain) on minimum pension liability adjustment .....	-	(12,095)
Adjustment to initially apply SFAS 158.....	218,531	-
<b>Comprehensive loss</b> .....	<b>\$ 1,338,371</b>	<b>\$ 1,058,264</b>

*The accompanying Notes are an integral part of these Consolidated Financial Statements*

National Railroad Passenger Corporation and Subsidiaries (Amtrak)  
Consolidated Statements of Cash Flows

(In Thousands of Dollars)

	Twelve Months Ended September 30	
	2007	2006
Cash Flows From Operating Activities:		
Net loss .....	\$ (1,120,909)	\$ (1,067,990)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation net of amortization .....	454,085	446,252
Gain on disposal of property.....	(212)	(3,916)
Other .....	15,770	13,858
Changes in assets and liabilities:		
Restricted cash .....	(7,312)	(2,586)
Accounts receivable .....	(51,753)	6,982
Materials and supplies .....	(36,728)	(19,040)
Other current assets .....	(1,146)	25,298
Other assets, deposits, and deferred charges .....	(38,391)	(28,209)
Accounts payable, deferred ticket revenue, and other current liabilities.....	54,365	38,643
Deferred state capital payments .....	(2,010)	(33,045)
Other liabilities and deferred credits .....	199,301	104,909
Net cash used in operating activities .....	<u>(534,940)</u>	<u>(518,844)</u>
Cash Flows From Investing Activities:		
Purchases and refurbishments of property and equipment .....	(657,547)	(603,246)
Proceeds from disposals of property and equipment .....	6,314	8,935
Purchase of short-term investments.....	(1,511,013)	(1,314,572)
Proceeds from dispositions of short-term investments.....	<u>1,675,063</u>	<u>1,203,736</u>
Net cash used in investing activities .....	<u>(487,183)</u>	<u>(705,147)</u>
Cash Flows From Financing Activities:		
Proceeds from federal paid-in capital .....	1,257,300	1,257,300
Proceeds from federal and state capital payments .....	124,912	128,888
Repayments of debt and capital lease obligations .....	(182,990)	(155,553)
Increase (decrease) in cash overdraft.....	<u>8,862</u>	<u>(43,422)</u>
Net cash provided by financing activities .....	<u>1,208,084</u>	<u>1,187,213</u>
Net increase (decrease) in cash and cash equivalents .....	185,961	(36,778)
Cash and cash equivalents-beginning of period .....	37,988	74,766
Cash and cash equivalents-end of period .....	<u>\$ 223,949</u>	<u>\$ 37,988</u>
Supplemental Disclosure of Cash Payments:		
Interest paid (net of amounts capitalized and non-cash defeased capital lease interest) .....	\$ 138,942	\$ 146,039
Supplemental Disclosure of Noncash Investing and Financing Activities:		
Property acquired with escrowed deposit .....	\$ -	\$ 791
Other non-cash increases (decreases) in property, includes accruals of amounts due for purchases .....	\$ 6,616	\$ 5,693
Debt and capital lease reduction through use of escrow deposits .....	\$ 5,332	\$ 19,483
Capital lease reduction offset to assets.....	\$ -	\$ (3,271)

The accompanying Notes are an integral part of these Consolidated Financial Statements

# National Railroad Passenger Corporation and Subsidiaries (Amtrak)

## Consolidated Statements of Changes in Capitalization

(In Thousands of Dollars)

	Preferred stock	Common stock	Debt and other paid-in capital	Accumulated deficit	Accumulated comprehensive income (loss)	Totals
<b>Balance at September 30, 2005</b> .....	\$ 10,939,699	\$ 93,857	\$ 13,559,085	\$ (20,751,127)	\$ (11,454)	\$ 3,830,060
Federal paid-in capital .....	-	-	1,257,300	-	-	1,257,300
Federal capital and other payments .....	-	-	13,501	-	-	13,501
Net loss .....	-	-	-	(1,067,990)	-	(1,067,990)
Unrealized gain/ (loss) on derivatives and minimum pension liability adjustment.....	-	-	-	-	9,726	9,726
<b>Balance at September 30, 2006</b> .....	<u>\$ 10,939,699</u>	<u>\$ 93,857</u>	<u>\$ 14,829,886</u>	<u>\$ (21,819,117)</u>	<u>\$ (1,728)</u>	<u>\$ 4,042,597</u>
Federal paid-in capital .....	-	-	1,257,300	-	-	1,257,300
Federal capital and other payments .....	-	-	13,327	-	-	13,327
Net loss .....	-	-	-	(1,120,909)	-	(1,120,909)
Unrealized gain/ (loss) on derivatives.....	-	-	-	-	1,069	1,069
Adjustment to initially apply SFAS 158.....	-	-	-	(22,105)	(218,531)	(240,636)
<b>Balance at September 30, 2007</b> .....	<u>\$ 10,939,699</u>	<u>\$ 93,857</u>	<u>\$ 16,100,513</u>	<u>\$ (22,962,131)</u>	<u>\$ (219,190)</u>	<u>\$ 3,952,748</u>

The accompanying Notes are an integral part of these Consolidated Financial Statements

# **National Railroad Passenger Corporation and Subsidiaries (Amtrak)**

## **Notes to Consolidated Financial Statements**

**For the Years Ended September 30, 2007 and 2006**

### **NOTE 1: NATURE OF OPERATIONS**

The National Railroad Passenger Corporation (“Amtrak” or the “Company”) is a passenger railroad. The United States government (the “Federal Government”) through the United States Department of Transportation (the “DOT”) owns all issued and outstanding preferred stock. Its principal business is to provide rail passenger transportation service to the general public in the major intercity travel markets of the United States. The Company also operates commuter rail operations on behalf of several states and transit agencies, provides equipment and right-of-way maintenance services, and has leasing operations.

### **NOTE 2: BUSINESS CONDITION AND LIQUIDITY**

#### **Operations and Liquidity**

Amtrak was incorporated in 1971 pursuant to the Rail Passenger Service Act of 1970 and is authorized to operate a nationwide system of passenger rail transportation. The Company has a history of recurring operating losses and is dependent on subsidies from the Federal Government to operate the national passenger rail system and maintain the underlying infrastructure. These subsidies are usually received through annual appropriations. Amtrak’s ability to continue operating in its current form is dependent upon the continued receipt of subsidies from the Federal Government.

The enactment on December 26, 2007 of the Department of State, Foreign Operations and Related Programs Appropriations Act, 2008, (the “2008 Act”) as Public Law H.R. 2764 authorizes the Secretary of the United States Department of Transportation (the “Secretary”) to make quarterly grants to Amtrak from a total appropriation of \$1.325 billion. The 2008 Act gives the Secretary oversight of the fiscal spending of the Company and enables the Secretary to make grants to the Company, to remain available until expended, providing a maximum of \$475.0 million for operating subsidy grants and \$850.0 million for capital subsidy grants. Of the \$850.0 million capital subsidy grants, not more than \$285.0 million shall be for debt service obligations and \$35.0 million will be available only if the Company demonstrates to the Secretary’s satisfaction that Amtrak has achieved operational savings and met ridership and revenue targets as defined in its business plan.

Amtrak and the Secretary were directed by the Consolidated Appropriations Act, 2005 to agree on a schedule for the repayment in five annual installments beginning in fiscal year 2005 of the \$100 million loan grant by the Federal Railroad Administration (FRA) made in July 2002 (see Note 6) with such payments to be made within thirty days of enactment of each annual act, otherwise all principal and interest shall come due as provided for under the existing terms of the loan grant. Amtrak made two payments in 2007 and the final installment is due in 2009.

The Company has received \$258.6 million of the fiscal year 2008 appropriation under continuing resolutions through January 29, 2008. The Company believes that it can achieve its planned results and that it will receive the full amount appropriated under the 2008 Act. To the extent that less than the full appropriation is received from the Secretary or the Company’s funding needs are greater than \$1.325 billion plus \$233.9 million combined of cash on hand and short-term investments, due to operating results or the unfavorable resolution of contingencies or other matters, the Company may not have sufficient funds to operate through the end of fiscal year 2008.

There are currently no Federal Government subsidies authorized or appropriated for periods subsequent to September 30, 2008. To the extent that regular appropriations have not been approved by October 1, 2008, the Company expects to receive additional interim Federal Government funding under continuing resolutions until the fiscal year 2009 funding is approved. In addition, as is more fully described in Note 9, because of expected settlements with its union employees, the Company believes it

## **National Railroad Passenger Corporation and Subsidiaries (Amtrak)**

### **Notes to Consolidated Financial Statements**

will incur substantially higher salary costs in 2008 and future years and will be required to make significant lump sum payments to its union employees in 2008 and 2009. While the Company believes it has adequate resources to meet the required payment in 2008, additional appropriations may be required to meet the 2009 obligations. There can be no assurances that the Company will receive adequate funding to continue operations in its current form in fiscal year 2009 and beyond. To the extent that sufficient appropriations are not received, the Company may be required to make certain operational changes, which could result in impairments.

#### **NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Principles of Consolidation**

The Consolidated Financial Statements reflect the consolidated operations of Amtrak: its three wholly owned subsidiaries, Chicago Union Station Company (CUS), Passenger Railroad Insurance, Limited (PRIL), and Penn Station Leasing, LLC (PSL); its 99.9% interest in Washington Terminal Company (WTC); and its 99% interest in 30th Street Limited, L.P. (TSL). In addition, Amtrak has consolidated certain operations owned by the Pennsylvania Economic Development Financing Authority (PEDFA) (see Note 6). All significant intercompany balances and transactions have been eliminated.

##### **Reclassifications**

Certain reclassifications have been made to the prior year's Consolidated Financial Statements and accompanying Notes to conform to the fiscal year 2007 presentation. These reclassifications have no effect on prior year reported net loss.

In the current year, the Company has reclassified the 2006 portion of personal injury claims related to employees of \$56.6 million from "Salaries, wages and benefits" to "Casualty and other claims" on the Consolidated Statement of Operations.

##### **Cash and Cash Equivalents**

All short-term investments with original maturities of less than 90 days are considered cash equivalents. Cash equivalents are stated at cost, which approximates fair value because of the short maturities of these instruments.

##### **Restricted Cash**

Restricted cash consists primarily of two types of funds received that are restricted for specific purposes. The first is cash received by Amtrak's Police Department as a result of participation in the Asset Forfeiture Program, a nationwide law enforcement program administered by the U.S. Department of Justice. These funds are restricted for use in funding operations of the Amtrak Police Department.

During 2007, Amtrak received \$5.0 million from a contractor performing work for the Illinois Department of Transportation (IDOT) under a Letter Agreement whereby Amtrak is acting as a disbursement agent for IDOT. Upon written approval from IDOT Amtrak will issue payments to subcontractors (not to exceed \$5.0 million plus interest earned) performing work for IDOT. In consideration for Amtrak's performance under the Agreement, IDOT will pay Amtrak a \$50.0 thousand administrative fee. The administrative fee is payable in four equal installments in July 2007, December 2007, July 2008 and December 2008. As of September 30, 2007, there have been no requests for payments by IDOT.

##### **Short-Term Investments**

Short-term investments include auction rate securities.

# **National Railroad Passenger Corporation and Subsidiaries (Amtrak)**

## **Notes to Consolidated Financial Statements**

### **Accounts Receivable**

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable.

### **Materials and Supplies**

Materials and supplies, which are stated at the lower of weighted-average cost or market, consist primarily of items for maintenance and improvement of property and equipment. An allowance for shrinkage and obsolescence of \$49,614,000 and \$38,762,000 for 2007 and 2006, respectively, is provided for materials and supplies based on specific identification and turnover rates.

### **Derivative and Hedging Activities**

Amtrak periodically enters into certain hedging agreements to manage a portion of the exposure to fluctuating energy prices that qualify as cash flow hedges under Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Certain Hedging Activities" (SFAS 133), as amended. These derivative financial instruments, which inherently contain market risk, are generally effective in reducing fluctuations in cash flows. Amtrak does not enter into energy contracts for trading or speculative purposes.

Amtrak records the fair market value of energy contracts in "Other current assets" in the Consolidated Balance Sheets. On an ongoing basis, Amtrak adjusts the balance sheet to reflect the current fair market value of energy contracts. The effective portion of the related gains or losses on these contracts is deferred as a component of "Other comprehensive income". These deferred gains and losses are recognized in income in the period in which the related energy purchases being hedged are consumed and recognized in expense. The ineffective portion of the change in the value of the energy contracts is immediately recognized in income. Amtrak calculates the ineffective portion of the hedge performance using the dollar-offset method. The ineffective portions of the energy contracts are included as a component of "Fuel, power, and utilities" in the Consolidated Statements of Operations. If at any time the hedge no longer qualifies for hedge accounting treatment, expires, is sold, terminates, is exercised, or it becomes probable that the forecasted transaction will not occur, the net gain or loss accumulated in "Other comprehensive income" is reclassified into earnings.

For fiscal years 2007 and 2006, Amtrak recognized net increases / (decreases) of \$2,381,000 and (\$92,000), respectively, to fuel cost associated with derivative fuel contracts. At September 30, 2006, Amtrak had derivative fuel contracts with a fair value of \$704,000. The effective portion of these contracts, which qualify as cash flow hedges, amounted to an unrealized loss of \$1,729,000 as of September 30, 2006. At September 30, 2007, Amtrak no longer had these derivative fuel contracts. As a result, the effective portion at September 30, 2006 was reclassified into earnings during 2007. During the fiscal year 2007, Amtrak entered into electricity contracts with durations of 24 months. At September 30, 2007, these electricity contracts had a fair value of (\$659,000). The effective portions of these contracts, which qualify as cash flow hedges, amounted to an unrealized loss of \$659,000 as of September 30, 2007. The electricity contracts resulted in an increase of \$767,000 to electricity costs for fiscal year 2007.

### **Property and Depreciation**

Property and equipment are stated at cost, and are depreciated on a straight-line basis over their estimated useful lives. The Company uses the group method (group method) of depreciation in which a single depreciation rate is applied to the gross investment in a particular class of property or equipment, despite differences in the service life or salvage value of individual property units within the same class. Property held under capital leases and leasehold improvements are depreciated over the shorter of their estimated useful lives under the group method or their respective lease terms. Upon normal sale or retirement of depreciable property accounted for using the group method, the cost less the net salvage

## **National Railroad Passenger Corporation and Subsidiaries (Amtrak)**

### **Notes to Consolidated Financial Statements**

value is charged to 'Accumulated depreciation' and no gain or loss is recognized. Significant premature retirements of depreciable property and the disposal of land are recorded as gains and losses at time of occurrence.

The useful lives of locomotive, passenger car and other rolling stock assets for depreciation purposes range up to 40 years. Right-of-way and other properties (excluding land) are depreciated using useful lives ranging up to 105 years. Other equipment including computers, office equipment and maintenance equipment is depreciated using useful lives ranging up to 20 years. Expenditures that significantly increase asset values or extend useful lives are capitalized. Repair and maintenance expenditures, including preventative maintenance, are charged to operating expense when the work is performed. The cost of internally developed software is capitalized in accordance with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" and amortized over its estimated useful life, which generally does not exceed 5 years. Amtrak capitalizes interest costs in connection with the construction of major facilities, locomotives, and passenger cars. Capitalized interest is recorded as part of the asset to which it relates and is depreciated over the asset's useful life. No interest was capitalized in fiscal years 2007 and 2006.

During the year ended September 30, 2006, the Company engaged a civil engineering firm with expertise in railway property usage to conduct a study to evaluate depreciation rates for properties and equipment. The study centered on evaluating historical replacement patterns to assess future lives and indicated that Amtrak had previously been depreciating its property over shorter periods than it currently intends to utilize the assets, as estimated by the study. The Company has adjusted the estimated service lives and corresponding depreciation rates in accordance with the group method. These new depreciation rates will be used going forward until a new study is performed.

During 2007, the Company discovered that a significant number of rail ties produced by one vendor will require replacement significantly earlier than other ties. The Company has hired a third party to perform a full analysis of all related ties. At this point however, the Company believes that a significant number of these ties will need to be replaced over the next several years. Based on the Company's best estimate at this time, depreciation expense has been accelerated on the estimated effected ties. This additional depreciation expense increased net loss in the current year by approximately \$16.4 million.

In addition to the adjustment to depreciation rates as a result of periodic depreciation studies, certain other events could occur that would materially affect the Company's estimates and assumptions related to depreciation. Unforeseen changes in operations or technology could substantially alter assumptions regarding the Company's ability to realize the return of investment on operating assets and, therefore, affect the amount of depreciation expense to charge against both current and future revenues. Because depreciation expense is a function of analytical studies made of property, plant and equipment, subsequent studies could result in different estimates of useful lives and net salvage values. If future depreciation studies yield results indicating that assets have shorter lives as a result of obsolescence, physical condition, changes in technology, or changes in net salvage values, the estimate of depreciation expense could increase. Likewise, if future studies indicate that assets have longer lives, the estimate of depreciation expense could decrease.

#### **Casualty Losses and Claims**

Provision is made for Amtrak's portion of the estimated actuarial liability for unsettled casualty and other claims. Personal injury liability and ultimate loss projections are undiscounted and estimated using standard actuarial methodologies. These actuarial methods include unasserted claims. As of September 30, 2007 and 2006, the current claims liability included in "Accrued expenses and other current liabilities" was \$67,700,000 and \$88,000,000, respectively. Included in "Deferred charges, deposits, and other" in the Consolidated Balance Sheets at September 30, 2007 and 2006, are estimated

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**Notes to Consolidated Financial Statements**

insurance recoveries of \$39,454,000 and \$44,535,000, respectively, which relate to loss events that Amtrak has incurred. In the current year, changes in estimates related to years prior to 2007 resulted in a decrease of current year expense of \$42,400,000.

**Advertising**

The Company expenses advertising costs as incurred and reports these amounts in “Advertising and sales” in the Consolidated Statements of Operations. Advertising expenses were \$34,253,000 and \$30,706,000 for the fiscal years ended September 30, 2007 and 2006, respectively.

**Impairment of Long-Lived Assets**

Properties and other long-lived assets are reviewed for impairment at a system-wide level whenever events or business conditions indicate that the carrying amount of such assets may not be fully recoverable. If circumstances warrant, an impairment review is made for specific assets or groups of assets. Initial assessments of recoverability are based on estimates of undiscounted future net cash flows and include estimated future operating and capital funding expected to be received from the Federal Government over the expected lives of the assets. Where impairment is indicated, the assets are evaluated for sale or other disposition, and their carrying amount is reduced to fair value based on discounted net cash flows, or other estimates of fair value.

The Company assumes future Federal Government funding at levels consistent with those discussed in Note 2 and historical funding in performing its impairment analysis. At this level of funding, the system-wide carrying amounts of the Company’s long-lived assets are recoverable. The Company believes that continued funding at historical levels is the best estimate of the future. If future Federal Government funding levels drop below these levels, substantial impairments may occur.

**Revenue Recognition**

“Passenger related” revenue in the Consolidated Statements of Operations, for fiscal years 2007 and 2006, includes ticket revenue, state contribution revenue associated with requested service provided by Amtrak beyond that included in the basic route system, and food and beverage revenue as shown below (in millions):

	<u>2007</u>	<u>2006</u>
Ticket	\$ 1,492.3	\$ 1,346.3
State contribution	154.0	139.4
Food and beverage	84.7	79.8
Total passenger related revenue	<u>\$ 1,731.0</u>	<u>\$ 1,565.5</u>

These revenues are recognized as operating revenues when the related services are provided. Amounts received for tickets that have been sold but not used are reflected as "Deferred ticket revenue" in the Consolidated Balance Sheets.

“Commuter” revenue includes the revenues earned under contractual arrangements to operate various commuter rail services for a cost-based fee.

“Other” revenue, for fiscal years 2007 and 2006, includes other transportation revenue from use of Amtrak-owned tracks and other services, revenue from reimbursable engineering and capital improvement activities, commercial development revenue from station rent, right-of-way fees and retail rent, freight access fee revenue from the use of Amtrak-owned tracks by freight railroad companies and other one time gains.

**National Railroad Passenger Corporation and Subsidiaries (Amtrak)**  
**Notes to Consolidated Financial Statements**

During 2007 Amtrak entered into a multiple element arrangement with multiple deliverables related to an ongoing project with the New York Metropolitan Transit Authority (MTA) at its Sunnyside, New York site, expected to be completed in 2012. In accordance with EITF Issue No. 00-21, “Revenue Arrangements with Multiple Deliveries”, total consideration received associated with Easements of \$51.3 million is being deferred and recognized into revenue over a 30 year period. Revenue associated with the Force Account is being recognized into revenue as earned when Amtrak services are performed.

Other revenue is as shown below (in millions):

	2007	2006
Other transportation	\$ 128.4	\$ 112.9
Reimbursable	72.5	87.7
Commercial development	64.6	62.8
Freight access fee and other	35.7	45.4
One-time gains	1.1	19.8
Total	<u>\$ 302.3</u>	<u>\$ 328.6</u>

“State capital payments” includes the amortization of state funds used to acquire depreciable assets. These state capital payments are deferred when received and amortized over the estimated composite life of the related assets purchased with the funds. The unamortized amounts are included in “Deferred federal and state capital payments” in the Consolidated Balance Sheets. In the current year, the Company reassessed the lives being utilized to amortize the revenue and reduced the current year revenue by approximately \$23 million for amounts recognized in prior periods (2000 – 2006).

**Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Pursuant to the provisions of Title 49 of the United States Code, Section 24-301, Amtrak is exempt from all state and local taxes, including income and franchise taxes that are directly levied against the corporation. Accordingly, there is no provision for state and local income or franchise taxes recorded in the consolidated financial statements for the years ended September 30, 2007 and 2006 (see Note 8).

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Some of the most significant estimates include: estimates of casualty reserves, liability related to union contract settlements (see Note 9), environmental reserves, pensions and other postretirement employee benefits expense and obligations [including expected return on plan assets, discount rates, rate of future compensation increases, and healthcare cost trend rates (see Note 11)], reserves for uncollectible accounts receivable, estimates of fair market value of assets held for sale, estimated useful lives of property and equipment, recoverability of long-lived assets, and reserves for inventory obsolescence.

**National Railroad Passenger Corporation and Subsidiaries (Amtrak)**  
**Notes to Consolidated Financial Statements**

**Adoption of SFAS 158**

In September 2006, the FASB issued SFAS 158, “Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132 (R)”. SFAS 158 requires companies to recognize the over-funded and under-funded status of defined benefit pension and other postretirement plans as assets or liabilities on their balance sheets. In addition, changes in the funded status must be recognized through other comprehensive income in shareholders’ equity in the year in which the changes occur. We adopted SFAS 158 on September 30, 2007. In accordance with the transition rules in SFAS 158, this standard is being adopted on a prospective basis. The adoption of SFAS 158 resulted in an adjustment to our balance sheet. The adoption of SFAS 158 has also resulted in a change in our measurement date from June 30, 2007 to September 30, 2007, which resulted in a charge of \$22.1 million to accumulated deficit.

The following table reflects the effect of the adoption of SFAS 158 on our Consolidated Balance Sheets as of September 30, 2007 (in thousands):

	Before Application of SFAS 158	SFAS 158 Adjustments	After Application of SFAS 158
Postretirement employee benefits obligation	\$ 408,258	\$ 240,636	\$ 648,894
Total other liabilities and deferred credits	\$ 1,840,300	\$ 240,636	\$ 2,080,936
Total liabilities	\$ 5,972,077	\$ 240,636	\$ 6,212,713
Accumulated deficit	\$ (22,940,026)	\$ (22,105)	\$ (22,962,131)
Accumulated comprehensive income (loss)	\$ (659)	\$ (218,531)	\$ (219,190)
Total capitalization	\$ 4,193,384	\$ (240,636)	\$ 3,952,748

**NOTE 4: ACCOUNTING AND REPORTING FOR FEDERAL PAYMENTS**

Certain funds are provided to Amtrak through federal payments for capital and operating expenditures. These federal payments, which are recorded as paid-in capital when received, totaled \$1,257.3 million for fiscal years 2007 and 2006. In accordance with Public Law 110-5, Amtrak was provided with a total appropriation of \$1,293.5 million for 2007. \$31.3 million of this appropriation is an efficiency incentive subsidy grant which Amtrak is entitled to under certain circumstances. Of the 2007 appropriation, \$490 million was provided as an operating subsidy, \$495 million as a capital subsidy and \$277.2 million for debt service obligations. As of September 30, 2007 Amtrak has not applied nor received any of the efficiency incentive subsidy grant funds. As of January 29, 2008, Amtrak applied and received an efficiency grant of approximately \$62 million (\$31 million from FY06 and \$31 million from FY07). In addition, approximately \$5 million remains from the 2007 operating subsidy as of September 30, 2007.

Certain other federal funds that are provided and restricted for use on designated projects are also recorded as paid-in capital when received, and these totaled \$13.3 million and \$13.5 million for fiscal years 2007 and 2006, respectively.

“Debt and other paid-in capital”, included in the Consolidated Balance Sheets, includes certain funding received from the Federal Government to finance acquisition of and improvements to property and equipment. In exchange for funding, Amtrak issued two promissory notes to the United States. The first note with a balance of \$4.0 billion was issued in 1976 and matures on December 31, 2975, and is secured by the real and personal property of Amtrak, WTC, CUS, PRIL, and TSL. The second note with

## **National Railroad Passenger Corporation and Subsidiaries (Amtrak)**

### **Notes to Consolidated Financial Statements**

a balance of \$1.1 billion was issued in 1983 and matures on November 1, 2082, with successive 99-year renewal terms, and is secured by all the rolling stock owned by Amtrak. Neither of the notes bears interest, unless prepaid which Amtrak does not intend to do. The Federal Government's security interest in Amtrak's rolling stock entitles it to repayment plus interest in the event Amtrak ceases operations, is acquired by another entity, or seeks relief under bankruptcy or insolvency laws. The amount due to the Federal Government on the first note may be accelerated by enactment of federal law or upon the occurrence of an event of default under the leases and mortgage entered into by Amtrak and PSL on June 20, 2001 (see Note 6), or upon the occurrence of various actions concerning an Amtrak bankruptcy, reorganization, or assignment for the benefit of creditors.

#### **NOTE 5: PREFERRED AND COMMON STOCK**

For funds received from the Federal Government prior to December 2, 1997, the Rail Passenger Service Act (49 U.S.C. 24304) required Amtrak to issue to the Secretary of Transportation preferred stock equal in par value to all federal operating payments and most federal capital payments received subsequent to October 1, 1981, as well as capital and certain operating payments received prior to that date. At September 30, 2007 and 2006, 109,396,994 shares of \$100 par value preferred stock were authorized, all of which were issued and outstanding. All issued and outstanding preferred shares are held by the Secretary of Transportation for the benefit of the Federal Government. The Amtrak Reform and Accountability Act of 1997 (the Act) resulted in significant modifications to Amtrak's capital structure. Prior to the Act, dividends were to be fixed at a rate not less than 6% per annum, and were cumulative. No dividends were ever declared. The Act abolished the voting rights and the liquidation preference of the preferred stockholder and the 6% minimum annual cumulative preferred stock dividend; and established that no additional preferred stock be issued by Amtrak in exchange for federal grants received. At the time of enactment of the Act, the minimum undeclared cumulative preferred dividend in arrears for all series issued and currently outstanding approximated \$5.8 billion and ranged between \$0.02 and \$97.08 per share. Each share of preferred stock is convertible into 10 shares of common stock at the option of the preferred stockholder.

At September 30, 2007 and 2006, 10,000,000 shares of \$10 par value common stock were authorized, of which 9,385,694 shares were issued and outstanding. The common stockholders, who acquired their stock from four railroads whose intercity rail passenger operations Amtrak assumed in 1971, have voting rights for amendments to Amtrak's Articles of Incorporation proposed by the Board of Directors. The Act also required Amtrak to redeem at fair market value the shares of common stock outstanding as of December 2, 1997, by the end of fiscal year 2002.

Amtrak has discussed the redemption of the shares with the owners, but there has been no resolution of this matter between Amtrak and the owners. Amtrak believes that the fair market value of the common stock is zero. Nevertheless, in an effort to comply with the Act, Amtrak has made an offer to redeem the stock for cash at a price of \$0.03 per share to the stockholders. By letter dated November 2, 2000, counsel for the four common stockholders responded to Amtrak and rejected the offer as inadequate. Amtrak is considering various courses of action.

**National Railroad Passenger Corporation and Subsidiaries (Amtrak)**  
**Notes to Consolidated Financial Statements**

**NOTE 6: MORTGAGES AND DEBT**

Total debt in the Consolidated Balance Sheets consisted of the following at September 30, 2007 and 2006 (in thousands):

Long-Term Debt:	2007		2006	
	Current	Long-Term	Current	Long-Term
FRA loan	\$ -	\$ 21,136	\$ 20,522	\$ 42,165
Mortgage obligations	13,295	227,510	12,145	240,805
30th St Limited PAID Bonds	-	13,900	-	13,900
30th St PEDFA Garage Rev Bonds	780	47,190	730	47,970
UDAG loan	130	10,927	130	11,057
	<u>\$ 14,205</u>	<u>\$ 320,663</u>	<u>\$ 33,527</u>	<u>\$ 355,897</u>
Less: Unamortized bond discount related to 30th St PEDFA Garage Rev Bonds	-	496	-	516
Total	<u>\$ 14,205</u>	<u>\$ 320,167</u>	<u>\$ 33,527</u>	<u>\$ 355,381</u>

**Credit Facilities**

At September 30, 2007 and 2006, there were letters of credit outstanding of \$8,588,000 and \$6,588,000, respectively.

**Federal Railroad Administration (FRA) Loan**

On July 3, 2002, Amtrak executed a \$100 million interest-bearing conditional loan under the Federal Railroad Administration's "Railroad Rehabilitation and Improvement Financing Program" for qualified capital expenditures. The loan bears interest at 1.81% per annum and is secured by various Amtrak-owned right-of-way properties and facilities. This loan requires Amtrak's compliance with certain conditions which include: improving financial controls and accounting transparency, submission of monthly performance reports, and a list of expense reduction options to Congress and the DOT. Under the 2005 Act, Amtrak is required to repay the loan in five annual installments beginning with fiscal year 2005 (See Note 2). Amtrak has made four installment payments so far. The final installment will be paid in 2009.

**Mortgage Obligations**

In June 2001, PSL mortgaged a substantial portion of improvements located at Penn Station in New York, New York for \$300 million at a fixed rate of interest of 9.25% per annum, which increased to 9.50% effective October 1, 2002, receiving net cash proceeds of \$296,249,000. Of this amount, \$34,280,000 was deposited into escrow for the benefit of the lender and is reflected in "Deferred charges, deposits, and other" in the Consolidated Balance Sheets. Semi-annual principal plus interest payments are due on the mortgage through maturity in June 2017. At September 30, 2007 and 2006, the outstanding balance due on the mortgage was \$240,805,000 and \$252,950,000, respectively.

**Bonds and Grant**

On January 7, 2003, the Pennsylvania Economic Development Financing Authority (PEDFA) issued \$50 million Revenue Bonds (the "PEDFA Garage Bonds") for the purpose of financing the construction and other related costs of a parking garage located at the 30th Street Station in Philadelphia, PA. The bonds have multiple maturities ending on June 1, 2033. The bonds were issued at a discount of \$588,000 and bear interest, by individual maturities, at fixed rates ranging from 4.500% to 5.875%. The parking garage reached substantial completion by June 2004 and was constructed in air rights owned and

## National Railroad Passenger Corporation and Subsidiaries (Amtrak)

### Notes to Consolidated Financial Statements

leased by Amtrak to PEDFA. On December 15, 2002, Amtrak entered into a “Pledge and Security Agreement” (the “Pledge”) with PEDFA under which Amtrak guarantees the payment of the principal and interest on the PEDFA Garage Bonds and under which Amtrak’s liability is limited to a pledge of: 1) the rent received or receivable by Amtrak under the air rights lease during the fiscal year in which a demand for payment is made, and 2) the additional parking facilities revenues, as defined in the Pledge. Under these agreements (and certain other related agreements), revenue generated from the parking garage will first be used to fund the operations of the parking garage, second to pay principal and interest payments on the PEDFA Garage Bonds, third to reserve certain amounts for future repairs and maintenance of the parking garage, and fourth any excess will be paid to Amtrak subject to amounts that may be owed to the builder of the parking garage as contingent purchase price. Amtrak will obtain title to the garage when the bonds are paid off. Amtrak has recognized PEDFA’s \$50 million bond obligation in “Equipment and other debt” in the Consolidated Balance Sheets. Amtrak has recorded capital expenditures in the amount of \$34,983,000 related to the construction of the parking garage in “Right-of-way and other properties” in the Consolidated Balance Sheets as of September 30, 2007 and 2006. The remaining net bond proceeds are recorded in “Deferred charges, deposits, and other” in the Consolidated Balance Sheets and were \$13,568,000 and \$10,184,000 as of September 30, 2007 and 2006, respectively.

Included in TSL's long-term debt at September 30, 2007 and 2006, is \$13.9 million of Philadelphia Authority for Industrial Development (PAID) tax-exempt private-activity bonds (the “PAID Bonds”) issued by PAID for the benefit of TSL's rehabilitation of 30th Street Station (the “Station”) in the city of Philadelphia (the “City”), Pennsylvania. The PAID Bonds were issued on December 30, 1987, mature on January 1, 2011, and bear interest at a fixed or variable rate payable until maturity at intervals determined under provisions in the bond indenture. No payments of bond principal prior to maturity are required. Amtrak is periodically required to make annual deposits into a sinking fund to be used to pay off the bonds when they mature. As of September 30, 2007 and 2006, escrowed deposits were \$2,691,000 and \$253,000, respectively, and included in “Deferred charges, deposits, and other” in the Consolidated Balance Sheets. The PAID Bonds are subject to extraordinary redemption of the indenture in the event of damage or destruction of the Station facilities. On January 4, 2006, utilizing the aggregate deposits made into the sinking fund and interest accrued thereon, Amtrak redeemed \$16.1 million of the outstanding bonds.

TSL has a non-interest bearing obligation of \$11,057,000 and \$11,187,000 to the City under an Urban Development Action Grant (UDAG) loan agreement as of September 30, 2007 and 2006, respectively. Principal is being repaid in \$130,000 annual installments each November through 2011, with the balance due in November 2012. The City's rights under the UDAG loan agreement are secured by a leasehold mortgage.

#### Interest Rates

Per annum weighted-average percentage interest rates by debt type for all interest-bearing borrowings at September 30, 2007 and 2006 are shown below (in percentages of 100%):

	2007	2006
FRA loan	1.81	1.81
Mortgage obligations	9.50	9.50
Bonds	5.32	5.27

The overall weighted-average interest rate on all interest-bearing borrowings is 8.2% and 7.5% per annum at September 30, 2007 and 2006, respectively.

**National Railroad Passenger Corporation and Subsidiaries (Amtrak)**  
**Notes to Consolidated Financial Statements**

**Scheduled Debt Maturities**

At September 30, 2007, scheduled maturities of debt over the next five years and thereafter are as follows (in thousands):

2008	\$ 14,205
2009	36,641
2010	16,930
2011	32,390
2012	20,180
Thereafter	<u>214,522</u>
Total	<u><u>\$ 334,868</u></u>

Amtrak is subject to various covenants and restrictions under its borrowing arrangements. A default by Amtrak or acceleration of Amtrak's indebtedness may result in cross-default to other Amtrak indebtedness, and may have a material adverse effect on the Company. Most of Amtrak's financing transactions require that Amtrak deliver its audited annual financial statements within 90 to 120 days of the end of its fiscal year. Amtrak has not delivered within this timeframe its audited financial statements for fiscal year 2007. Amtrak has at least a 30-day grace period that commences on written notice to Amtrak of its breach. Amtrak may cure the technical default and avoid a defined Event of Default, by delivering the statements and certificates prior to lapse of this grace period. To date, Amtrak has not received any written notice of its breach. Excluding the foregoing, Amtrak is in compliance with all of its covenants.

**NOTE 7: LEASING ARRANGEMENTS**

**Facilities**

During fiscal year 2001, PEDFA completed two separate issues of exempt facilities revenue bonds, the net proceeds of which were used to finance a portion of the costs associated with Amtrak's construction of a frequency converter facility (the "Facility"). The first series (Series A) totaling \$110,795,000 was issued in February 2001 at a \$795,000 discount, netting \$110 million. The second series (Series B) totaling \$45 million was issued in April 2001 at par. Amtrak procured the bond proceeds of each issue through a lease and leaseback arrangement with PEDFA. Under this arrangement, Amtrak awarded title to and ownership of the Facility to PEDFA until November 2041 under a ground lease, in exchange for the total net proceeds. Simultaneously, Amtrak is leasing back from PEDFA the Facility through June 2033, with an option to extend this term through November 2041. PEDFA also has the right to extend Amtrak's leaseback term through November 2041. At the conclusion of the ground lease, title to and ownership of the Facility will revert to Amtrak. Amtrak's leaseback rentals are funding PEDFA's debt service requirements for both the Series A and Series B bonds. Amtrak's rental payments are due semi-annually for the Series A bonds, and monthly for the Series B bonds. With the bond proceeds, Amtrak used \$3,343,000 toward financing arrangement costs, and discharged \$85,453,000 of interim debt associated with the Facility's construction. The remaining \$66,204,000 of proceeds remained on deposit with the bond trustee and was earmarked for use toward Amtrak's leaseback payments, further Facility construction costs, and additional financing arrangement costs. Amtrak recorded a \$155 million capital lease obligation, \$3,343,000 of deferred financing costs, and \$66,204,000 of deferred deposits. Amtrak's sublease rentals consist of an interest and principal portion, with the latter scheduled to pay down this capital lease obligation over the sublease's initial and option terms. At September 30, 2007 and 2006, \$152,062,000 and \$152,896,000, respectively, of the bonds remained outstanding.

## National Railroad Passenger Corporation and Subsidiaries (Amtrak)

### Notes to Consolidated Financial Statements

#### Equipment

Amtrak leases equipment, primarily passenger cars and locomotives, under capital leasing arrangements. At September 30, 2007 and 2006, the gross amount of assets recorded under capital leases was \$3,395,997,000 (36% for locomotives and 64% for passenger cars), and \$3,626,695,000 (37% for locomotives and 63% for passenger cars), respectively, with accumulated amortization of \$1,288,181,000 and \$1,345,804,000, respectively.

During 2007, the Company purchased certain passenger cars that had been under capital leases. As a result, the gross value of these assets of \$141,000,000 is now included in owned equipment.

During 2000, Amtrak entered into twelve separate defeased sale and leaseback transactions involving passenger cars. In exchange for \$915,155,000 consisting of net cash proceeds and set-aside assets in the form of defeasance instruments, Amtrak sold the cars having a net book value of \$334,690,000, resulting in a deferred gain of \$580,465,000. The defeasance instruments are held by the beneficiaries of the lease arrangements or their agents. Amtrak accretes value at fixed interest rates of approximately 6.8% to 8.8% per annum. Simultaneously, Amtrak leased back the cars under capital leases over terms ranging from 23 to 28 years. The set-aside assets together with future accreted interest are designated toward satisfying Amtrak's rent payment obligations under the capital leaseback arrangements. The defeasance instruments economically defease, but do not legally defease Amtrak's obligations under the leasebacks. As a result, Amtrak would be required to make payments in respect of its [economically defeased] obligations under the capital leaseback transactions if the defeasance instruments were not sufficient to pay the full amount of Amtrak's obligations when due. This eventuality would occur if there was an event of default by Amtrak or an adverse change in financial status of the party guaranteeing the defeasance instruments or certain other early termination events with respect to the capital leaseback transactions. Amtrak also has an obligation to replace or supplement the defeasance instruments under certain circumstances. Consequently, there is no guaranty that the set aside assets will be sufficient to satisfy the capital lease obligations. The set-aside assets plus accreted interest are not netted against the capital lease obligations, but instead are presented as "Escrowed proceeds on sale-leasebacks" in the Consolidated Balance Sheets. The \$580,465,000 gain on the sales was deferred and is being amortized into income as a reduction to depreciation expense over the terms of the capital leasebacks. During fiscal years 2007 and 2006, \$19,043,000 and \$20,842,000 of deferred gains on these transactions were amortized, respectively.

At September 30, 2007, future minimum lease payments under equipment and facility capital leases including amounts to be funded from defeasance instruments were as follows (in thousands):

2008	\$ 279,583
2009	294,309
2010	351,345
2011	341,902
2012	319,183
Thereafter	2,815,646
Total payments	<u>4,401,968</u>
Less amount representing interest	1,431,560
Present value of minimum lease payments at September 30, 2007	<u><u>\$ 2,970,408</u></u>

The current portion of capital lease obligations at September 30, 2007 and 2006 was \$118,647,000 and \$110,050,000, respectively, and is included in "Current maturities of long-term debt and capital lease obligations" in the Consolidated Balance Sheets.

## National Railroad Passenger Corporation and Subsidiaries (Amtrak) Notes to Consolidated Financial Statements

The Company, as lessee, has entered into equipment leasing agreements for which the underlying leased equipment is the collateral and is required to be maintained in good operating condition. The Company has recorded an accrual for estimated repair costs for damaged leased equipment of \$21,811,000 and \$26,757,000 at September 30, 2007 and 2006, respectively, and is recorded in "Accrued expenses and other current liabilities" in the Consolidated Balance Sheets. The amounts expensed relating to these items is reflected in "Materials" expense in the Consolidated Statements of Operations in the period in which the damage occurred.

Amtrak is subject to various covenants and restrictions under its leasing arrangements. A default by Amtrak or acceleration of Amtrak's indebtedness may result in cross-default to other Amtrak indebtedness, and may have a material adverse effect on the Company. Most of Amtrak's leasing transactions require that Amtrak deliver its audited annual financial statements within 90 to 120 days of the end of its fiscal year. Amtrak has not delivered within this timeframe its audited financial statements for fiscal year 2007. Amtrak has at least a 30-day grace period that commences on written notice to Amtrak of its breach. Amtrak may cure the technical default and avoid a defined Event of Default, by delivering the statements and certificates prior to lapse of this grace period. To date, Amtrak has not received any written notice of its breach. Excluding the foregoing, Amtrak is in compliance with all of its covenants.

### Operating Rights and Leases

At September 30, 2007, Amtrak was obligated for the following minimum rental payments, principally for station and office space, under operating leases that have initial or remaining non-cancelable lease terms in excess of one year (in thousands):

2008	\$ 13,342
2009	12,153
2010	12,274
2011	11,756
2012	10,042
Thereafter	50,302
Total	<u>\$ 109,869</u>

Rent expense (which includes cancelable and non-cancelable leases) for the years ended September 30, 2007 and 2006 was \$37,877,000 and \$36,285,000, respectively, and it is expected that future rent expense will be comparable.

Most of the rights-of-way over which Amtrak operates are owned by other railroads, some of which own Amtrak's common stock. Amtrak uses such trackage under contracts with these railroads. The terms of the agreements range from 1 month to 5 years and costs incurred are based on usage. The total amount incurred for use of the railroads' rights-of-way in 2007 and 2006 totaled \$92.4 million and \$89.7 million, respectively, and is included in Train operations expense on the Consolidated Statements of Operations.

### NOTE 8: INCOME TAXES

There was no provision or benefit for income taxes for 2007 and 2006, which differed from the expected amount computed by applying the U.S. federal income tax rate of 35% to pretax loss, primarily as a result of the increase in the valuation allowance.

**National Railroad Passenger Corporation and Subsidiaries (Amtrak)**  
**Notes to Consolidated Financial Statements**

A reconciliation of the U.S. federal statutory income tax rate to our actual income tax rate:

	<u>2007</u>	<u>2006</u>
U.S. Federal statutory income tax rate	35.0%	35.0%
Federal operating grants	-15.1%	-14.8%
Valuation allowance	-16.0%	-14.2%
Depreciation	-3.9%	-6.0%
Effective income tax rate	<u>0.0%</u>	<u>0.0%</u>

Basis differences of \$2.1 billion relating to property and equipment that do not result in tax deductible amounts have no deferred taxes recorded as the difference will be recognized over the depreciable life of the assets. These amounts relate to capital grants received from the Federal government that were used to purchase capital assets. In addition, Federal operating grants are treated as equity for book purposes, but are taxable.

Management has recorded valuation allowances against net deferred tax assets as it is more likely than not that the results of future operations will not generate sufficient taxable income to realize deferred tax assets. In the current year, the valuation allowance increased by \$179.3 million.

Deferred income tax assets and liabilities were comprised of the following (in thousands):

	<u>2007</u>	<u>2006</u>
Deferred Tax Assets:		
Deferred gain on sale leaseback	\$ 106,912	\$ 140,040
Capital leases (net of depreciation)	301,907	288,156
Bad debt reserve	2,589	3,318
Inventory reserve	17,365	13,567
Accrued vacation	21,271	21,613
Claims reserves	82,444	92,029
Pension and other postretirement employee benefits	227,113	207,879
Other accruals	16,167	9,517
Capitalized software	2,985	5,029
NOL carryforward	2,593,348	2,477,529
Union settlement accrual	66,500	-
Total Deferred Tax Assets	<u>\$ 3,438,601</u>	<u>\$ 3,258,677</u>
Deferred Tax Liabilities:		
Straight line rents	\$ 2,483	\$ 1,877
Total Deferred Tax Liabilities	<u>\$ 2,483</u>	<u>\$ 1,877</u>
Net Deferred Tax Asset	\$ 3,436,118	\$ 3,256,800
Valuation allowances	(3,436,118)	(3,256,800)
Net Deferred Tax Asset	<u>\$ -</u>	<u>\$ -</u>

## **National Railroad Passenger Corporation and Subsidiaries (Amtrak)**

### **Notes to Consolidated Financial Statements**

Net operating loss carryforwards were \$7.4 billion and \$7.1 billion at September 30, 2007 and 2006, respectively. These carryforwards expire from 2009 through 2027.

#### **NOTE 9: COMMITMENTS AND CONTINGENCIES**

##### **Insurance Claims**

Amtrak maintains various insurance policies to cover its liability to employees and other parties for injury or damage resulting from accidents and to cover Amtrak's loss resulting from damage to Amtrak property. The insurance policies contain large deductibles; losses within the deductibles are self-insured by Amtrak.

The Amtrak Reform and Accountability Act of 1997 limits the amount railroad passengers may recover from a single accident to an aggregate of \$200.0 million. Since non-passenger liability is not so limited, Amtrak purchases excess liability insurance limits beyond this statutory cap. Amtrak operates a majority of its long distance passenger rail service on tracks owned by freight railroads. Amtrak indemnifies these railroads for certain liabilities that arise as a result of its operations on freight tracks. Its indemnity applies to bodily injury and property damage claims made by its employees, passengers and third parties struck by its trains, and for damage to its equipment. The freight railroads indemnify Amtrak for bodily injury and property damage claims made by freight railroad employees and third parties off railroad property; and for damage to freight railroad equipment, lading and property.

##### **Labor Agreements**

Approximately 90% of Amtrak's labor force is covered by labor agreements. All Amtrak labor agreements became amendable as of January 1, 2000. In 2003 and 2004, Amtrak reached new agreements covering approximately 35% of Amtrak's unionized employees for the period of January 1, 2000 through December 31, 2004. Those agreements settled since January 1, 2000 became open to amendment once again on January 1, 2005. On October 31, 2007, the National Mediation Board officially released Amtrak and nine of the unions that had been in mediation with the Board. This release began a process governed by the Railway Labor Act that is aimed at resolving the issues and reaching a collective bargaining agreement, but which could ultimately result in an imposed agreement or self-help which means the unions may strike or management can lockout or impose contract terms. After an initial 30-day period, the U.S. President appointed a Presidential Emergency Board (PEB) which held hearings and issued a recommendation on December 30, 2007. This started a final 30-day "cooling off period" during which Amtrak and its unions will attempt to reach agreement.

The PEB submitted recommendations that Amtrak's settlements with its unions should: (1) follow as a pattern the economic terms of the freight railroad industry agreements negotiated since 2000; (2) apply those terms retroactively; (3) not include any work rule changes. Although Amtrak is not bound by the PEB recommendations, the Company intends to follow the PEB recommendations and has recorded a \$190.0 million estimated liability to expense as of September 30, 2007. Pursuant to the PEB recommendations, \$76.0 million of this amount would be payable during the year ending September 30, 2008 and is recorded as a current liability. The PEB recommended that the remaining \$114.0 million be paid during the year ending September 30, 2009 and is recorded as a long-term liability. On January 18, 2008, Amtrak reached tentative agreements with the unions consistent with the recommendations of the Presidential Emergency Board. These tentative agreements stayed any potential strike while the agreements are submitted to the membership for ratification.

##### **Legal Proceedings**

The Acela Trainset Contractor (the Consortium comprised of Bombardier Corporation and Alstom Transportation, Inc.) and the Northeast corridor Management Services Company, NeCMSC, a sole-purpose company owned jointly by Bombardier and Alstom that maintained the Acela Trainsets) asserted claims against Amtrak in connection with the completion of work required under the 2004 Settlement among the parties and the turn-over of Acela Trainset maintenance to Amtrak. The

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Consortium and NeCMSC asserted entitlement to payments it claimed it was owed as well as the relinquishment of letters of credit under the 2004 Settlement and other items. Amtrak vigorously opposed these claims, asserting that the Consortium was not entitled to additional payments under the 2004 Settlement and that there was no factual or equitable basis for NeCMSC's remaining claims. In addition, Amtrak asserted claims regarding the Main Transformers located on the power cars of the Acela Trainsets. The parties participated in non-binding mediation in late November 2006 and met to discuss settlement several times over the past several months. These disputes were resolved in a Final Settlement Agreement reached on September 30, 2007. On September 27, 2007 Amtrak paid the \$20.1 million settlement, of which \$18.6 million was accrued to expense in prior periods and \$1.5 million was charged to expense for the year ending September 30, 2007.

On October 23, 2003, ERC Frankona Ruckversicherungs-AG (“Frankona”), a reinsurer of portions of excess liability and property insurance coverage which PRIL provides to Amtrak, filed suit against PRIL in the New York Supreme Court alleging PRIL made material misrepresentations and omissions regarding Amtrak’s loss history seeking an order declaring the contracts null, void and rescinded. Subsequently, Frankona agreed to dismiss its New York action without prejudice. On November 21, 2003, PRIL and Amtrak filed suit against Frankona in the United States District Court for the District of Columbia for a declaratory judgment, breach of contract, bad faith, and other relief against Frankona resulting from its claim that the reinsurance contracts are rescinded, and Frankona filed a counterclaim seeking substantially the same recovery as in its New York action. On September 24, 2007, a Settlement Agreement was entered into between Frankona and Amtrak/PRIL whereby Frankona is to pay PRIL \$23.5 million within 30 days of execution of the Agreement. For the year ended September 30, 2007 PRIL and Amtrak adjusted its receivable account balance from Frankona to \$23.5 million, which resulted in an expense of \$1.7 million. The \$23.5 million settlement was received by PRIL on October 16, 2007.

On August 19, 2004, Amtrak was served with a federal court complaint filed by the State of New York. The complaint alleged that Amtrak breached a March 2000 contract relating to the remanufacture of seven Turboliner Trainsets and improvements in infrastructure and facilities along the Empire Corridor in New York. New York sought an injunction requiring Amtrak to specifically perform remanufacturing and infrastructure work, or in the alternative, damages in the amount of \$477.3 million, plus costs, disbursements and interest. Amtrak filed an answer and asserted affirmative defenses, denying New York's claims. Although settlement negotiations had occurred intermittently over the years, no settlement had been achieved. Consequently, under the Court's scheduling order, fact discovery was completed (except for resolution of a few discovery disputes) by February 2007. On September 28, 2007, the parties filed cross-motions for judgment as a matter of law. Shortly thereafter, the parties resumed settlement negotiations and were able to reach agreement, executed December 12, 2007. Under the settlement, Amtrak will pay New York \$20 million in installments over the next two fiscal years. Amtrak has recorded a \$20.0 million obligation as of September 30, 2007. In addition, Amtrak committed to provide the capital funding for a \$6.0 million infrastructure improvement project on Amtrak's property that will improve service on the Empire Corridor, and New York committed to provide another \$4.0 million to fund additional Empire Corridor infrastructure projects.

On August 19, 2003, former employees filed a class action lawsuit involving Amtrak’s 2001 Voluntary Early Retirement Plan (“VERP”) in the United States District Court for the District of Columbia seeking to void a September 2001 amendment to the Amtrak Pension Plan that eliminated a monthly Railroad Retirement Supplement and replaced it with a one-time lump sum payment of \$15,000 per eligible employee. Additionally, the complaint seeks to “reopen” the window period to allow eligible employees to apply for the original benefits. Amtrak, the Retirement Plan Committee, and the Retirement Income Plan are also named as defendants. The discovery phase of this case has concluded and all of the named defendants have filed a motion for summary judgment to dismiss the lawsuit in its entirety and have opposed class certification. The Court had dismissed Plaintiffs’ claim for benefits because they had

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failed to appeal the denial of benefits through the Plan's appeal process. Plaintiffs subsequently appealed the denial of benefits to the Plan and, when their appeal was denied, Plaintiffs filed a new lawsuit making the same claims. These claims have now been combined and are pending decision by the Judge on cross motions for Summary judgment. The Company does not believe a loss is probable; therefore, no amount has been accrued.

Amtrak is involved in various other litigation and arbitration proceedings in the normal course of business. The outcome of these matters cannot be predicted with certainty. When management concludes that it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, it is accrued through a charge to earnings. While the ultimate amount of liability incurred in any of these lawsuits and claims is dependent on future developments, in management's opinion, the recorded liability is adequate to cover the future payment of such liability and claims. However, the final outcome of any of these lawsuits and claims cannot be predicted with certainty, and unfavorable or unexpected outcomes could result in additional accruals that could be significant to results of operations in a particular year. Any adjustments to the recorded liability will be reflected in earnings in the periods in which such adjustments are known.

Amtrak has entered into various agreements with states, cities, and other local transportation authorities and private companies pursuant to which Amtrak is required to fund various railroad facility and infrastructure improvements, and to fund the remanufacture and supply of railroad passenger equipment. The significant funding commitments include: improvements to Shell Interlocking in New Rochelle, New York (obligation to Metro-North Commuter Railroad Company of approximately \$26.5 million as of December 1, 2007); track improvements west of New Haven in the state of Connecticut (obligation to Connecticut Department of Transportation of approximately \$16.0 million as of September 30, 2007); and improvements to the Wilmington, Delaware train station in the amount of \$18.0 million (subject of a memorandum of agreement dated May 31, 2007, to be followed by a formal agreement).

#### **NOTE 10: ENVIRONMENTAL MATTERS**

Some of Amtrak's past and present operations involve activities that are subject to extensive and changing federal and state environmental regulations that can give rise to environmental issues. As a result of its operations and acquired properties, Amtrak is from time to time involved in administrative and judicial proceedings and administrative inquiries related to environmental matters.

In 1976, Amtrak acquired its Northeast Corridor properties. It is Amtrak's policy to accrue estimated liabilities and capitalize such amounts of remediation costs relating to properties acquired with existing environmental conditions (not to exceed the net realizable value of the related property), and to expense remediation costs incurred on properties for environmental clean-up matters occurring after acquisition. The liability is periodically adjusted based on Amtrak's present estimate of the costs it will incur related to these sites and/or actual expenditures made. At September 30, 2007 and 2006, the reserve was \$72,767,000 and \$76,282,000, respectively. At September 30, 2007 and 2006, the current portion of the reserve was \$9,267,000 and is reported in "Accrued expenses and other current liabilities" in the Consolidated Balance Sheets. Of the reserve, \$59,689,000 and \$64,441,000 relates to costs to be incurred, which will be capitalized when the remediation is performed as of September 30, 2007 and 2006, respectively. Costs of future expenditures for environmental remediation obligations are not discounted to their present value. At September 30, 2007 and 2006, a deferred charge for such amounts is included in "Deferred charges, deposits, and other" in the Consolidated Balance Sheets. Amtrak has not recorded any receivables for recoveries from other parties or from insurance because such recoveries are not sufficiently certain.

The ultimate liability for remediation is difficult to determine with certainty due to, among other factors, the number of potentially responsible parties, site-specific cost sharing arrangements, the degree and types of contamination, potentially unidentified contamination, developing remediation technology,

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and evolving statutory and regulatory standards. Amtrak's management and counsel believe that additional future remedial actions for known environmental matters will not have a material adverse effect on the results of operations or financial condition.

**NOTE 11: POSTRETIREMENT EMPLOYEE BENEFITS**

Amtrak has a qualified noncontributory defined benefit retirement plan whose assets are held in trust covering nonunion employees and certain union employees who at one time held nonunion positions.

Amtrak provides medical benefits to its qualifying retirees and life insurance to some retirees in limited circumstances under its postretirement benefits program. Railroad agreement employees' life insurance benefits are covered by a separate policy purchased by Amtrak. Under Amtrak's postretirement benefits program, substantially all salaried employees may become eligible for medical benefits if they meet the service requirement and reach age 55 while they are working for Amtrak. Company-provided medical benefits are reduced when covered individuals become eligible for Medicare benefits or reach age 65, whichever comes first. Medical benefits are subject to co-payment provisions and other limitations.

**Adoption of SFAS 158**

Amtrak adopted SFAS 158 on September 30, 2007 on the required prospective basis (see note 3). Our September 30, 2007 disclosure is in accordance with the new requirements.

**Obligations and Funded Status**

The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the two-year period ending September 30, 2007, and a statement of the funded status as of September 30, 2007 (measurement date September 30) and 2006 (measurement date June 30):

Reconciliation of	Pension Benefits (000's)		Other Benefits (000's)	
	2007	2006	2007	2006
Projected Benefit Obligation:				
Obligation at October 1,	\$ 227,283	\$ 241,261	\$ 620,240	\$ 634,056
Service cost	9,627	8,426	30,239	25,753
Interest cost	17,446	12,476	47,717	32,861
Actuarial loss (gain)	4,763	(27,379)	(34,481)	(56,844)
Benefit payments	(10,346)	(7,501)	(21,468)	(15,586)
Obligation at September 30,	<u>\$ 248,773</u>	<u>\$ 227,283</u>	<u>\$ 642,247</u>	<u>\$ 620,240</u>

Reconciliation of	Pension Benefits (000's)		Other Benefits (000's)	
	2007	2006	2007	2006
Fair Value of Plan Assets:				
Plan assets at October 1,	\$ 194,772	\$ 182,076	\$ -	\$ -
Actual gain on plan assets	37,778	10,843	-	-
Employer contributions	19,922	9,354	21,468	15,587
Participant contributions	-	-	754	537
Medicare D subsidy	-	-	932	411
Benefit payments	(10,346)	(7,501)	(23,154)	(16,535)
Plan assets at September 30,	<u>\$ 242,126</u>	<u>\$ 194,772</u>	<u>\$ -</u>	<u>\$ -</u>

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Funded Status:	Pension Benefits (000's)		Other Benefits (000's)	
	2007	2006	2007	2006
Funded status at September 30,	\$ (6,647)	\$ (32,511)	\$ (642,247)	\$ (620,240)
Unrecognized prior service cost	-	469	-	12,599
Unrecognized loss	-	15,506	-	262,952
Contributions	-	7,921	-	-
Additional minimum liability	-	-	-	-
Net liability recognized in Consolidated Balance Sheets	<u>\$ (6,647)</u>	<u>\$ (8,615)</u>	<u>\$ (642,247)</u>	<u>\$ (344,689)</u>
Accumulated Benefit Obligation (ABO) at September 30,	<u>\$ 220,894</u>	<u>\$ 200,010</u>	<u>\$ 642,247</u>	<u>\$ 620,240</u>

Prior to adoption of FAS 158, when the ABO exceeds the fair market value of plan assets, an additional minimum pension liability may be required. No additional minimum pension liability was required for 2006.

Pension and other postretirement benefit amounts recognized in the Consolidated Balance Sheets at September 30, 2007 and 2006 are as follows (in thousands):

	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Current liabilities	\$ (6,647)	\$ (8,388)	\$ (22,095)	\$ (18,927)
Noncurrent liabilities	\$ -	\$ (227)	\$ (620,152)	\$ (325,762)
Net amount recognized	<u>\$ (6,647)</u>	<u>\$ (8,615)</u>	<u>\$ (642,247)</u>	<u>\$ (344,689)</u>

Pension and other postretirement benefit amounts recognized in accumulated other comprehensive loss at September 30, 2007 and 2006 are as follows (in thousands):

	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Net loss	\$ 2,074	\$ -	\$ 205,044	\$ -
Prior service cost	\$ 221	\$ -	\$ 11,192	\$ -
Net amount recognized	<u>\$ 2,295</u>	<u>\$ -</u>	<u>\$ 216,236</u>	<u>\$ -</u>

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**Components of Net Periodic Benefit Cost**

The following table provides the components of net periodic benefit cost for the plans for fiscal years 2007 and 2006 (in thousands):

	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Service cost	\$ 9,627	\$ 8,426	\$ 30,239	\$ 25,753
Interest cost	17,446	12,476	47,717	32,861
Expected return on plan assets	(19,582)	(14,463)	-	-
Amortization of prior service cost	247	198	1,407	1,126
Amortization of net loss	-	1,772	23,427	25,500
Net periodic benefit cost	<u>\$ 7,738</u>	<u>\$ 8,409</u>	<u>\$ 102,790</u>	<u>\$ 85,240</u>

The estimated prior service cost for the defined benefit pension plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year is \$197,000. The estimated net loss and prior service benefit for the other defined benefit postretirement plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year are \$13 million and \$1 million, respectively.

**Plan Assets**

The pension plan's assets consist primarily of U.S. equity investments, U.S. fixed income investments, and international equity investments. The other postretirement benefits program has no plan assets. Amtrak funds the other postretirement benefits program on a pay-as-you-go basis. Amtrak's pension plan asset allocations at September 30, 2007 and 2006 by asset category are as follows:

	2007	2006
U.S. equity securities	45.6%	53.1%
International equity securities	18.6%	10.6%
U.S. fixed income securities	23.6%	29.5%
Real Estate	10.0%	-
Cash and cash equivalents	2.2%	6.8%

Amtrak's trust asset investment strategy is to invest the assets in a manner whereby long-term earnings on the assets provide adequate funding for retiree pension payments. The investment objectives of the pension fund are to: (1) promote the growth in the plan's funded status, to the extent appropriate, minimizing reliance on employer contributions as a source of benefit security, (2) invest the assets of the plan to achieve the greatest reward consistent with a reasonable and prudent level of risk, and (3) achieve, as a minimum over time, the passively managed asset return earned by market index funds, weighted in the proportions outlined by the asset class exposures identified in the plan's strategic allocation.

The pension plan's investment policy will consider a number of factors, including the strategic asset allocation and asset classes, investment style, and the marketability, diversification, volatility, and liquidity of investments and responsibility for proxy statements. The plan's strategic asset mix is recognized by the Investment Committee as the primary mechanism to influence the reward and risk structure of the plan in accomplishing plan objectives. Plan assets should be invested in specific asset classes at the target allocation and maintained in accordance with the permissible range for each asset class as stated in the following strategic asset allocation table:

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	Plan Assets	
	2007	2006
U.S. equity securities	40% - 60%	50% - 60%
International equity securities	10% - 20%	8% - 12%
U.S. fixed income securities	20% - 30%	30% - 40%
Other	5% - 15%	0%

**Rate of Return**

Several factors are considered in developing the estimate for the long-term expected rate of return on plan assets. These include historical rates of return over the past three, five and ten year periods as well as projected long-term rates of return obtained from pension investment consultants. The expected long-term rates of return for plan assets are 7.5% - 8.5% for equities and 5% - 6% for bonds.

**Estimated Future Benefit Payments**

Based upon the assumptions used to measure the pension and other postretirement benefit obligations at September 30, 2007, and including pension and other postretirement benefits attributable to estimated future employee service, Amtrak expects that pension benefits and other postretirement benefits to be paid over the next ten years are as follows (in thousands):

	Pension Benefits	Other Benefits
2008	\$ 9,155	\$ 22,096
2009	\$ 18,634	\$ 24,474
2010	\$ 10,881	\$ 29,464
2011	\$ 12,008	\$ 34,784
2012	\$ 13,296	\$ 40,139
2013-2017	\$ 93,260	\$ 272,477

**Contributions**

Amtrak expects to make a \$12,000,000 contribution in 2008. Also in 2008, it expects to contribute \$22,096,000 toward other postretirement benefits.

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**Assumptions**

Weighted-average assumptions used to determine benefit obligations at September 30, 2007 and 2006 are as follows:

	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Discount rate	6.25%	6.25%	6.25%	6.25%
Rate of compensation increase	3.50%	3.50%	N/A	N/A

Weighted-average assumptions used to determine net periodic benefit cost for years ended September 30, 2007 and 2006 are as follows:

	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Discount rate	6.25%	5.25%	6.25%	5.25%
Expected long-term return				
on plan assets	8.00%	8.00%	N/A	N/A
Rate of compensation increase	3.50%	3.50%	N/A	N/A

Assumed healthcare cost trend rates at September 30, 2007 and 2006 are as follows:

	Other Benefits	
	2007	2006
Healthcare cost trend rate assumed for next year	11.00%	12.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2014	2014

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plan. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects (in thousands) on the Other Benefits plans:

	Increase	Decrease
Effect on total of service and interest cost component	\$ 8,041	\$ (7,793)
Effect on postretirement benefit obligation	\$ 76,643	\$ (83,632)

**Prescription Drug Benefits**

On December 8, 2003, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the "Medicare Act") was signed into law. The Medicare Act introduced a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. As allowed by FASB Staff Position No. FAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003", Amtrak elected to record an estimate of the effects of the Medicare Act in accounting for its postretirement benefit plans under SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", and provide disclosures required by SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other

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Postretirement Benefits”. Amtrak’s ABO for its other benefits is reduced by \$61.4 million and \$48.1 million for fiscal year 2007 and 2006, respectively for this prescription drug benefit.

**401(k) Savings Plan**

Amtrak provides a 401(k) savings plan for nonunion employees. Under the plan, Amtrak matches a portion of employee contributions up to five percent of the participant’s salary, subject to applicable limitations. Amtrak’s expenses under this plan were \$7,953,000 and \$7,467,000 for the years ended September 30, 2007 and 2006, respectively.

**NOTE 12: FAIR VALUE OF FINANCIAL INSTRUMENTS**

For cash and cash equivalents, short-term investments, accounts receivable, accounts payable, and accrued expenses and other current liabilities, the carrying amounts approximate fair value because of the short maturities of these instruments. The carrying amounts of a portion of bonds and equipment obligations also approximate fair value. All charge interest at rates that are periodically adjusted to market.

The estimated fair values of the mortgage obligations, FRA loan, and remaining bonds were based upon discounted cash flow analyses using interest rates available to Amtrak at September 30, 2007 and 2006 for debt with the same remaining maturities. The UDAG loan, although interest free, was also valued based upon a discounted cash flow analysis using September 30, 2007 and 2006 market interest rates. The estimated fair values of these financial instruments are as follows (in thousands):

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FRA loan	\$ 21,136	\$ 20,589	\$ 62,687	\$ 59,905
Mortgage obligations	240,805	287,329	252,950	294,130
Bonds, net of discount	61,374	65,128	62,084	67,270
UDAG loan	11,057	9,196	11,187	9,082
	<u>\$ 334,372</u>	<u>\$ 382,242</u>	<u>\$ 388,908</u>	<u>\$ 430,387</u>