ANNUAL REPORT 2008

Connecting America:
SAFER GREENER HEALTHIER

FY 2008 Board of Directors

L. to R.: R. Hunter Biden, Nancy A. Naples, Thomas C. Carper, Donna McLean, Joseph H. Boardman.

Executive Committee

L. to R. Bottom Row: President and Chief Executive Officer Joseph H. Boardman; Chief Financial Officer D.J. Stadtler; Vice President Labor Relations Joseph Bress; Vice President, General Counsel and Corporate Secretary Eleanor Acheson; Chief Operating Officer William Crosbie; Vice President Security Strategy and Special Operations William Rooney. Middle Row: Vice President Human Resources and Diversity Initiatives Lorraine Green; Vice President Government Affairs and Corporate Communications Joe McHugh; Vice President Strategic Partnerships and Business Development Ann Witt. Top Row: Vice President Marketing and Product Management Emmett Fremaux; Chief Information Officer Ed Trainor; Inspector General Fred Weiderhold.

"The mission of Amtrak is to provide efficient and effective intercity passenger rail mobility consisting of high quality service that is trip-time competitive with other intercity travel options, and provide additional or complementary intercity transportation service to ensure mobility in times of national disaster or other instances where other travel options are not adequately available."

- From the Passenger Rail Investment and Improvement Act of 2008

LETTER FROM THE PRESIDENT

Joseph H. Boardman
President and Chief Executive Officer

As I write this, the nation struggles with an unstable economy and shaky consumer confidence not seen in decades. The future of the economy and all it touches is uncertain, as our national leaders strive to stem the decline and stimulate economic recovery. However, even in this challenging climate, Amtrak's goal to connect America in a safer, greener and healthier way is not just intact — it is moving forward.

The economic conditions at the start of FY 2008 were drastically different from the slowdown the nation began to feel as we closed the fiscal year on Sept. 30. Yet, despite the downturn that threatened on the horizon, our performance in FY 2008 was the best in Amtrak history.

Transporting nearly 28.7 million passengers — 11 percent more than the prior year — we achieved our sixth consecutive year of record ridership. In the face of a shrinking travel market affected by high gas prices, a waning economy, and customer service issues within the air industry, Amtrak earned $1.73 billion in ticket revenue; 14 percent more than FY 2007.

On the Northeast Corridor, our premium *Acela Express* service regularly experienced sell-out conditions thanks to its 85 percent on-time performance, service improvements and strong advertising effort. *Northeast Regional* service exceeded the prior year by double digits in both ridership and ticket revenue — combined, the two services comprise 55 percent of the system-wide ticket revenue.

State-supported and other corridor services also saw ridership and ticket revenue increases, boosted by expansion of services in Pennsylvania, Illinois and Maine in FY 2007. Similarly, ridership on long-distance services grew 9 percent while bringing in 10 percent more ticket revenue than the prior year.

It wasn't just high gas prices that drove more people to train travel. Service improvements, better on-time performance on some services and strategic revenue management tactics also contributed to the growth in FY 2008.

Another significant outcome of FY 2008 was reaching labor settlements based on the recommendation of a Presidential Emergency Board with all of the unions that represent our employees.

Notwithstanding the current economic conditions, Amtrak's future is more certain today than it has been in decades. For the first time in many years, we are guided by legislation that maps out a short- and long-term vision for passenger rail. Passed by Congress in October 2008, the Passenger Rail Investment and Improvement Act includes recommendations for funding levels for the next four years that will enable Amtrak to invest in infrastructure and equipment, as well as tools and strategies for improved financial performance, on-time performance, better cost recovery, higher workforce and customer satisfaction and improved asset utilization. Initiatives to invest in business processes and information systems launched or continued in FY 2008 aim to reconstruct a better integrated and more efficient business.

The law also puts more control of corridor development in the hands of states. Our relationships with our state and freight partnerships are critical to expanding and building rail corridors across the country. Recognizing passenger rail as a key ingredient in transportation planning and sustainable development, several states sought rail feasibility studies in FY 2008.

Moreover, the American Recovery and Reinvestment Act signed by the president in February 2009 represents an unprecedented level of investment in passenger rail in this country. The capital designated for Amtrak will create jobs and result in enduring investments in the railroad. In addition to advancing our infrastructure capital programs, we will use the funds to return to service 100 cars that were sidelined and move forward with equipment procurement. Our active fleet was near capacity in FY 2008, and considering its age, equipment procurement is a necessary component to any future plans.

In addition to the capital funds for Amtrak, the law also makes available $8 billion for state grant programs for high-speed and other rail service.

Amtrak has always been a major transportation provider for persons with disabilities. While 73 percent of our stations serving 94 percent of our passengers are currently barrier-free or accessible, we are focusing our efforts on improving accessibility and Americans with Disabilities Act compliance on 481 of the 527 stations Amtrak serves. We are proud that this community relies so heavily on us, and we have a duty to make upgrades to better meet their needs.

We will also further invest in the safety of our system by installing additional Positive Train Control systems along the Amtrak-owned Northeast Corridor and aboard equipment that traverses freight railroad territory.

The plan set for Amtrak by policymakers, the unprecedented availability of capital funds, and a key role in the White House's vision for environmentally sound transportation and energy self-determination propel Amtrak from its familiar condition of running to catch up.

The engines behind Amtrak are people-powered. Our most prized asset — our employees — comprise a force of dedicated men and women who yearn to rise beyond a culture of survival. My commitment to them is centered on building a culture that is dynamic and innovative with the tools to manage a more efficient and flourishing railroad.

While our path is well-lighted, we still face some challenges. The economic slump will affect the travel market and our ticket revenue, and we will be watching that very closely. State support for service could encounter stiff challenges in the midst of budget shortfalls. Replacing our fleet will require time, as we work within the industry and with state partners to standardize specifications for a new generation of equipment. And while we have control of the on-time performance on the Amtrak-owned Northeast Corridor, our performance off the corridor relies in large part on host railroad compliance and management.

While I believe real progress is incremental, we nonetheless embrace the dynamics that are before us with vigor. We will work through our challenges and capitalize on the opportunities we have to build a safer, greener, healthier Amtrak that connects America coast-to-coast and border-to-border.

Sincerely,

Joseph H. Boardman
President and Chief Executive Officer

37 Years In Service

Created by Congress in 1970, the National Railroad Passenger Corporation (Amtrak) began operations in May 1971 and has been serving the traveling public for 37 years. Traversing 21,000 route miles across 46 states, the District of Columbia and three Canadian provinces, Amtrak carried nearly 29 million passengers to more than 500 destinations in FY 2008, or approximately 78,000 people on up to 300 trains each day. In addition to Amtrak riders, an average of 850,000 people traveled over Amtrak infrastructure or on commuter trains operated under contract every weekday.

In FY 2008, Amtrak earned approximately $2.45 billion in total revenue and incurred about $3.41 billion in expenses. The annual federal appropriation on which Amtrak relies totaled $1.325 billion in FY 2008, comprising $475 million in operating funds, and $850 million in capital, including $285 million for debt service. In FY 2008, Amtrak repaid a Railroad Rehabilitation and Improvement Financing loan in advance of its maturity, thereby assigning the majority of its debt to prior equipment acquisitions.

In FY 2008, 14 states contracted with the company to provide passenger rail service, representing nearly half of Amtrak's departures.

Seven state transportation agencies or commuter agencies contract with Amtrak for use of facilities and assets or for delivery of commuter service including Caltrain, Maryland Area Regional Commuter, Connecticut's Shore Line East and Virginia Railway Express. Amtrak also conducts maintenance for the Sounder Commuter Rail System in Seattle, dispatching and maintenance-of-way service for Massachusetts Bay Transportation Authority, and dispatching for the South Florida Regional Transportation Authority Tri-Rail service.

Amtrak owns 363 miles of the 456-mile Northeast Corridor from Washington to Boston, where *Acela Express* trains operate at speeds of up to 150 mph; a 62-mile track segment from New Haven, Conn., to Springfield, Mass.; 104 miles between Philadelphia and Harrisburg over which trains travel up to 110 mph; and 97 miles of track in Michigan over which trains travel at 95 mph.

About 70 percent of the train-miles traveled by Amtrak trains are on tracks owned by freight and commuter railroads. In FY 2008, Amtrak paid host railroads $101.5 million for reimbursed costs and incentives to travel 26 million train-miles; Amtrak also depends on host railroads for the dispatching and timely movement of its trains. The seven largest host railroads are BNSF Railway, Union Pacific Railroad, CSX Transportation, Norfolk Southern Railway, CN Railway, Canadian Pacific Railway and Metro-North Railroad.

Significant growth in the popularity of passenger rail in FY 2008 led to the highest ridership in Amtrak history. Marking the sixth consecutive year of record ridership , Amtrak carried 28.7 million passengers, 11 percent better than the prior year. The growth yielded $1.73 billion in ticket revenue, a 14 percent improvement over FY 2007.

FY 2008 Top Ten Corridors (Ridership)

Acela Express, Northeast Regional and Northeast Corridor Special Trains
10,897,852
Newport News - Washington - New York City - Boston

Pacific Surfliner 2,898,859
Los Angeles - San Diego

Capitol Corridor 1,693,580
Sacramento - San Diego

Keystone 1,183,821
Philadelphia - Harrisburg

Empire Service 994,293
New York City - Albany

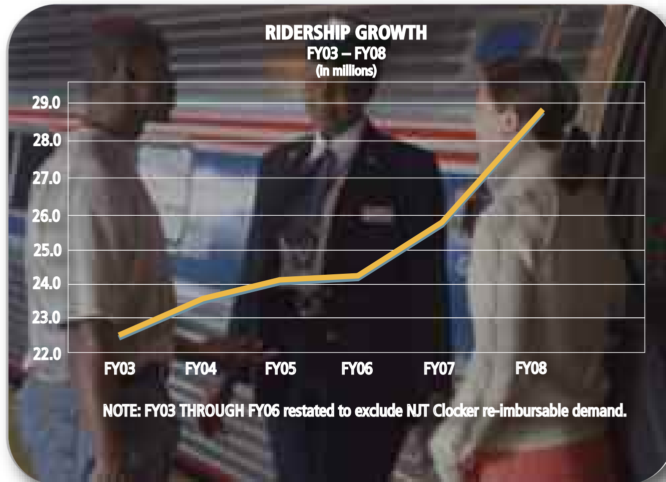
San Joaquin 949,611
Oakland - Bakersfield

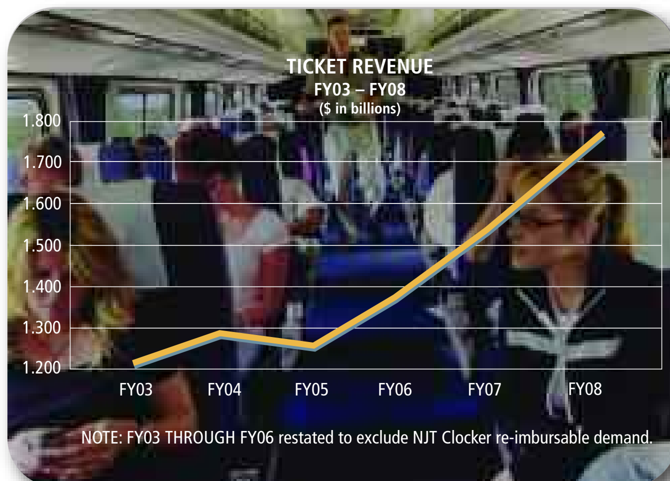
Amtrak *Cascades* 760,323
Eugene/Portland - Seattle

Hiawatha Service 749,659
Chicago - Milwaukee

Lincoln Service 476,427
Chicago - St. Louis

Downeaster 474,492
Portland (Maine) - Boston





SAFER

At Amtrak, safety is not only a priority but also a way of life on the railroad. For its commitment to safety, in May 2008 the E.H. Harriman Memorial Awards Institute presented Amtrak with a 2007 E.H. Harriman Award as the most improved safety record among Class I railroads for reducing injuries that are reported to the Federal Railroad Administration.

Risk management and reduction, cross-functional teams and changes in safety behaviors comprise the fulcrum of Amtrak's safety philosophy. This focus contributed to a 35 percent decrease in the ratio of FRA-reportable injuries per 200,000 hours worked from FY 2004 to FY 2008.

Within the railroad industry, Amtrak is viewed as an innovator and pioneer in the design and utilization of Positive Train Control systems, which assure rail safety by enforcing maximum authorized speeds, speed restrictions, and certain stop signals. Amtrak employs this technology on its own infrastructure along segments of the Northeast Corridor and its Michigan Line.

Because Amtrak does not own the majority of the tracks over which it travels, significant investment and collaboration with host railroads will be required to apply PTC across the entire system and Amtrak's fleet, as required by the Passenger Rail Investment and Improvement Act enacted in October 2008.

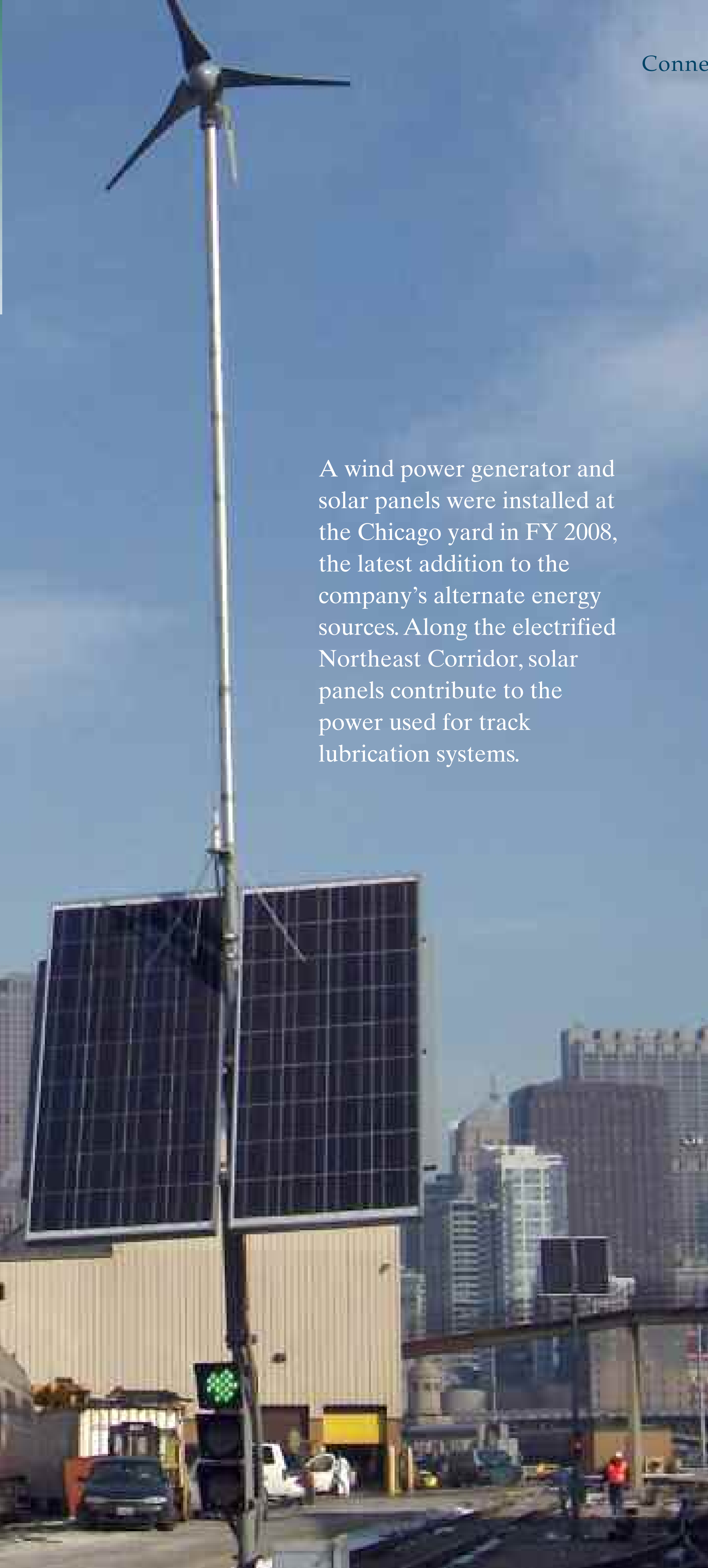
In FY 2008, Mobile Security Teams that periodically patrol stations and trains and conduct random screening of passengers and carry-on baggage were deployed along the Northeast Corridor, Chicago and the West Coast. The teams augment existing patrols and behind-the-scenes security measures already in place to improve rail security and mitigate the risk of terrorist attacks.

The Amtrak Police Department expanded its presence in stations, on platforms and aboard trains by augmenting its Explosive Detection K-9 Teams by 60 percent in FY 2008.

GREENER

Recognized as one of the more environmentally friendly modes of transportation, Amtrak strives for a greener passenger rail with practices and tactics for improved fuel and energy efficiency, positioning the company as a vital component of the nation's strategy toward energy independence.

Powered by its electric and fuel-efficient diesel locomotives, Amtrak is about 17 percent more efficient than airlines and 21 percent more efficient than automobiles on a per-passenger-mile basis. In addition, the regenerative braking system on electric *Acela Express* and AEM-7 AC locomotives sends about 8 percent of the energy produced when the brakes are applied back into Amtrak's overhead electrification system for use by other trains. Diesel fuel reduction and anti-idling practices have led to a reduction in fuel consumption — since 2004, the company has cut its diesel fuel use by more than 8 percent, despite an increase in service during that period.



A wind power generator and solar panels were installed at the Chicago yard in FY 2008, the latest addition to the company's alternate energy sources. Along the electrified Northeast Corridor, solar panels contribute to the power used for track lubrication systems.

Amtrak is on target to meet its goal of reducing carbon emissions 6 percent by 2010, a commitment made by the company as a charter member of the Chicago Climate Exchange, and the most aggressive voluntary commitment in the U.S.

FY 2008 Environmental Awards

In FY 2008, Amtrak's 30th Street station was selected by the Building Owners and Managers Association of Philadelphia as the Office Building of the Year in the "government building" category, in large part due to environmentally sound cleaning practices.

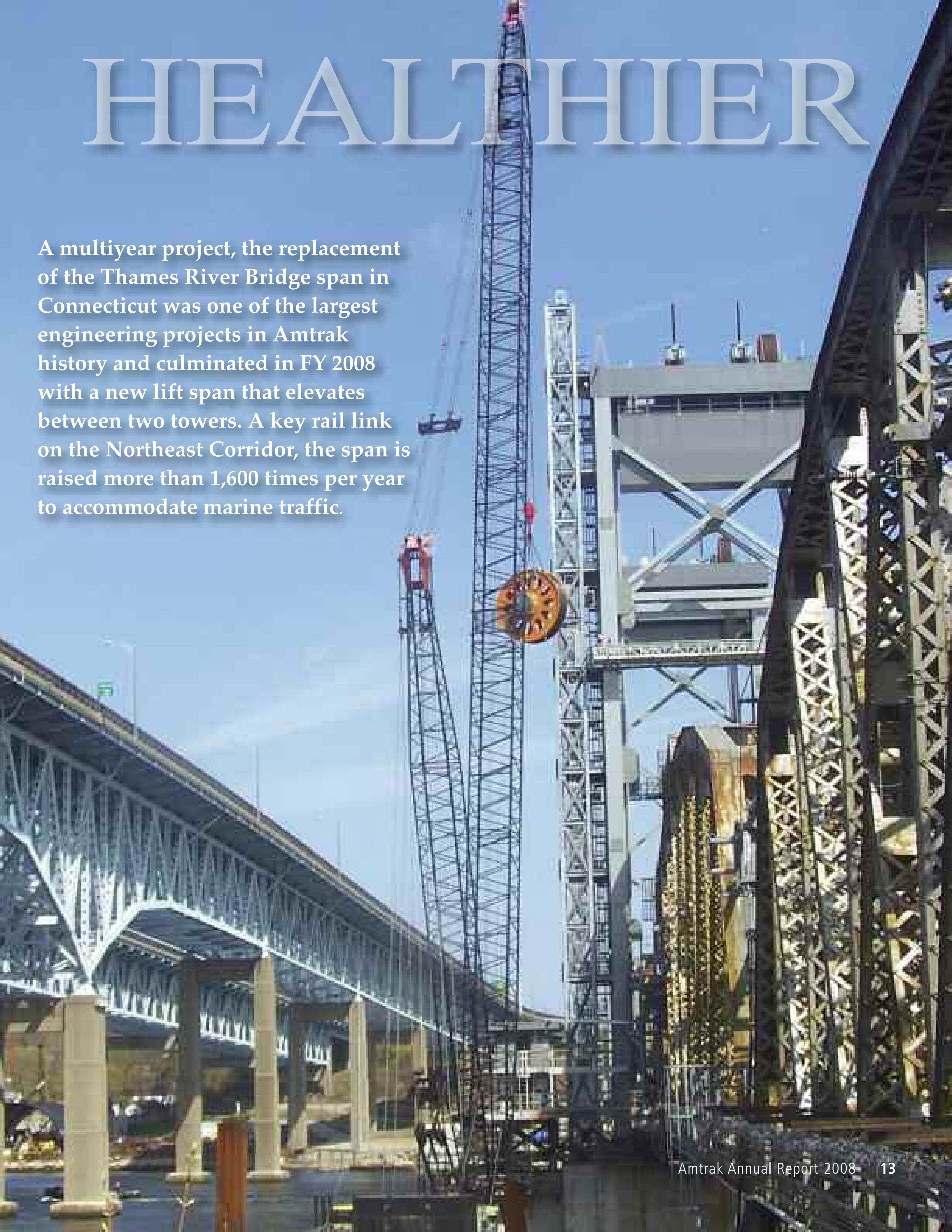
Also in FY 2008, California's StopWaste.org recognized Amtrak as part of its 2007 StopWaste Business Efficiency Award program for reducing the company's contribution to landfills in Alameda County, Calif., through recycling programs aboard *San Joaquin* and *Capitol Corridor* trains and at the Oakland Maintenance Facility.

Through Amtrak's partnership with Carbonfund.org, Amtrak passengers offset more than 5 million miles of rail travel representing almost 1,000 metric tons of greenhouse gasses in FY 2008.

To facilitate fuel conservation efforts, five new 30,000 gallon fuel tanks were installed at Ivy City Maintenance Facility in Washington, D.C., in FY 2008. The tanks feature spill prevention valves, leak detection and a computerized tracking system that logs the amount of fuel dispensed.

HEALTHIER

A multiyear project, the replacement of the Thames River Bridge span in Connecticut was one of the largest engineering projects in Amtrak history and culminated in FY 2008 with a new lift span that elevates between two towers. A key rail link on the Northeast Corridor, the span is raised more than 1,600 times per year to accommodate marine traffic.



Amtrak's health relates to its vital signs — ridership and revenue, the condition of its infrastructure and fleet, financial stability, cost savings and new revenue opportunities, improved business processes and systems, and sustained workforce and customer satisfaction.

FY 2008 marked the sixth consecutive year of record ridership, yielding $1.73 billion in ticket revenue. Improved service delivery, volatile gas prices, strategic revenue management and recognition of Amtrak as a greener way to travel were among the factors that contributed to the significant growth.

State-of-good-repair work and capital projects in FY 2008 contributed to a 27 percent decrease in unplanned minutes of delay attributed to infrastructure for all trains on the Northeast Corridor from FY 2003 to FY 2008.

FY 2008 Infrastructure Production Highlights

More than 110,000 concrete ties

Nearly 69,000 wood ties

24 track miles of Continuous Welded Rail

62 turnouts

700 bridge ties

12 miles signal cable

66 miles of renewed catenary hardware

15 Electric traction transformers

10 Electric traction circuit breakers

The average age of a passenger rail car is 25 years. As demand for state-supported corridor service grows, procurement of new generation equipment will require major investment.

FY 2008 Equipment Overhaul Highlights

169 Amfleet coaches

52 Electric and diesel locomotives

82 Superliner cars

32 Horizon and Surfliner cars

13 Viewliner cars

13 Heritage cars

36 Non-passenger equipment

Implementation of a process-focused approach to fleet maintenance in FY 2008 enabled more targeted identification of failures modes, yielding improved equipment reliability and availability, including a 6 percent improvement in on-time performance attributable to equipment state of good repair.

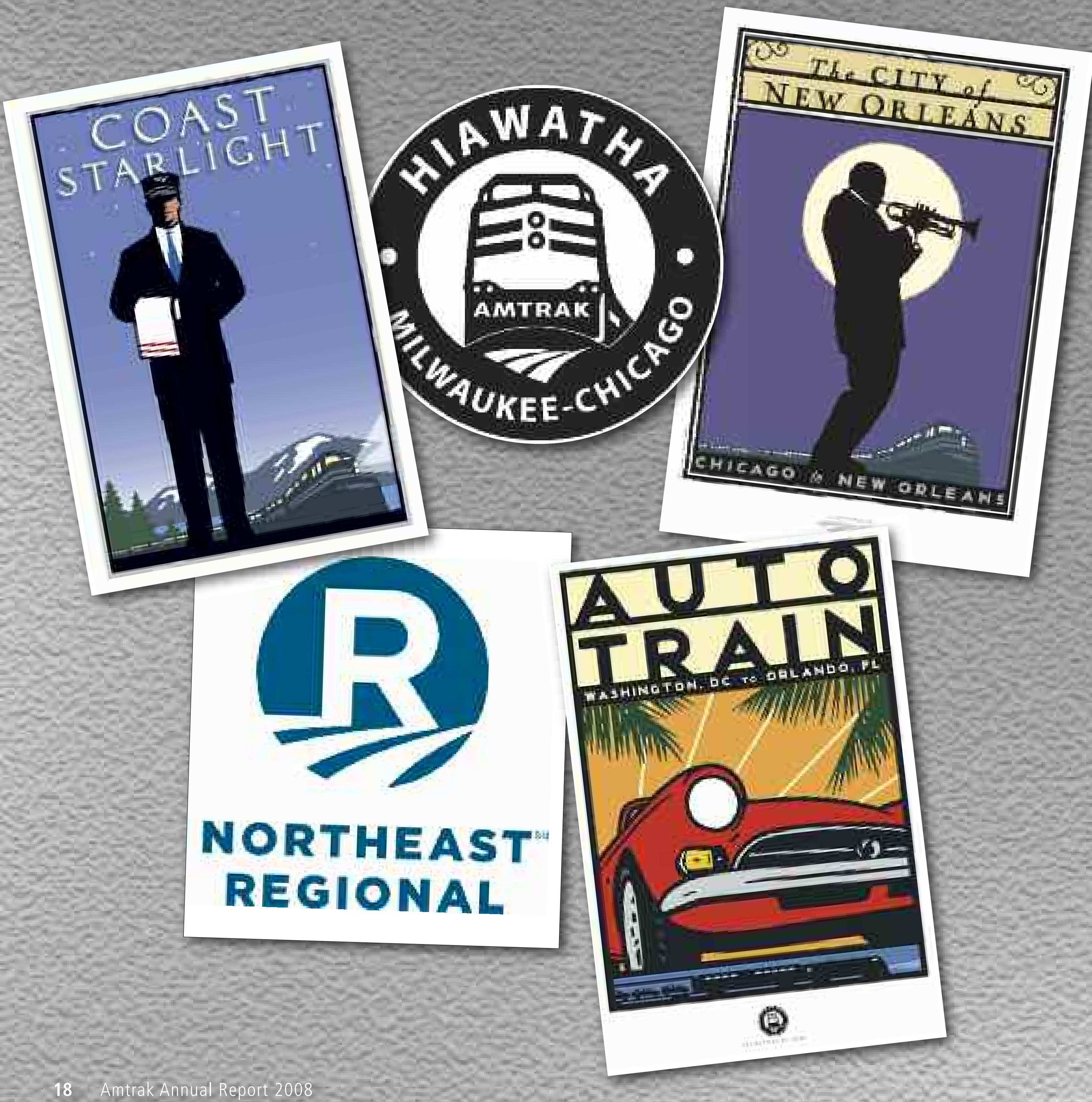
Among the results of this approach was the replacement of more than 600 faulty traction motors on P-42 locomotives that had caused chronic engine malfunction and service delays.

New technologies support equipment reliability, among them a cutting edge Maintenance Events Analysis Program installed on* Acela Express *and HHP-8 electric locomotives in FY 2008. The system monitors and communicates real-time data on the location and the operating condition of the locomotives along the Northeast Corridor.

Significant multiyear investments made in FY 2008 aim to improve the overall health of the information systems enterprise to provide timely information for clear financial reporting, effective management decision making, optimal operations performance and a relaxed customer experience. A Strategic Asset Management plan initiated in FY 2008 integrates key operational, financial, materials management and human resources business processes and systems.

Future investments include upgrades to the reservation system; an enhanced Amtrak.com; a new electronic food and beverage inventory management system; advanced GPS in locomotives to improve safety, and provide precise information about engine performance and train status information; and eTicketing.

Targeted Route Performance Improvement plans that identify opportunities for financial and service improvements contributed to the better health of six services in FY 2008. Increases in ridership, ticket revenue, customer satisfaction scores or on-time performance were realized following implementation on *Auto Train*, *Northeast Regional*, *City of New Orleans*, *Hiawatha Service*, *San Joaquin* and *Coast Starlight* services.



Investments in the workforce included training classes ranging from safety and regulatory compliance to new-hire and refresher programs; nearly 50,000 courses were completed in FY 2008. Initiated in FY 2008, the Leadership Institute aims to hone the leadership skills of managers across the company.

Helping foster a healthier workforce, more than 2,000 employees and their dependents participated in a disease management program to help manage chronic illnesses such as diabetes, asthma and heart disease.

CONNECTED

Partnerships with states, transit agencies and host railroads are the backbone of Amtrak's coast-to-coast, border-to-border service.

An average of 850,000 people every weekday depend on commuter services that Amtrak operates or supports. Seven entities relied on Amtrak to provide or support commuter service in FY 2008. That year, Amtrak began a new five-year access and operating contract with the Maryland Transit Administration for Maryland Area Regional Commuter service. Amtrak also signed a five-year extension to its agreement with the Connecticut Department of Transportation to provide transportation, mechanical and materials management services for Shore Line East commuter operations.

As part of the national transportation network, Amtrak connects regions, communities, people and modes of transportation across the country. Amtrak Thruway services, a system of buses, vans, taxi shuttles and boats that link to rail service, served 1.4 million passengers in FY 2008.

Intermodal stations connect people to multiple modes of transportation, but also serve as economic development engines for communities.

Owned by the state of Wisconsin, a completely renovated Milwaukee Intermodal Station was reopened in FY 2008, serving *Hiawatha Service* and *Empire Builder* trains, along with Greyhound; Lamers Bus Lines, Inc.; Wisconsin Coach and Indian Trails bus lines.

In the nation's capital, Washington Union Station, which once faced near demolition, is now a vibrant, multimodal transportation and retail center. The station celebrated its centennial in 2008, an event which drew thousands of D.C.-area residents and featured an exhibit of historic cars and locomotives reminiscent of the equipment types that had visited the station throughout its history.

Amtrak's online presence connects customers, communities and travel enthusiasts. Amtrak.com, the company's robust sales and booking engine, provides customized content and convenient travel-planning options such as hotel accommodations, car rentals and sightseeing tours. Travelogues and photos are posted on the Whistle Stop site, an online community for like-minded travelers.

The Great American Stations Web site connects communities by promoting renovated stations as local economic engines and advocates best practices for station redevelopment. Civic Conversations, one-day forums for community officials, were held at several locations along Amtrak routes in FY 2008. As an on-the-road companion to the Web site, the conversations bring together mayors, economic development officials, representatives from congressional and state Departments of Transportation among others, to advance station improvements, further improve Americans with Disabilities compliance, and build stronger ties between Amtrak and the communities it serves.

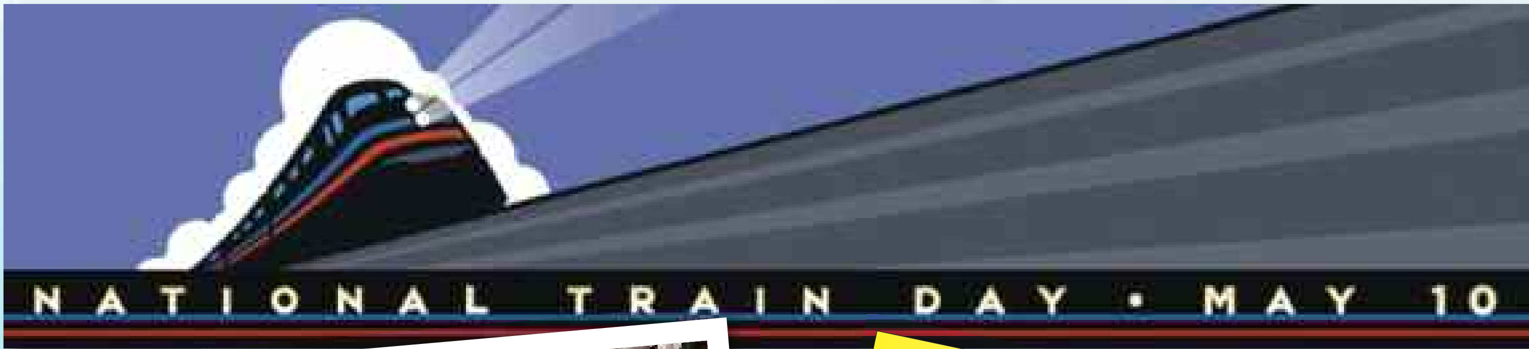



Photo: Craig Ruttle

The first National Train Day on May 10, 2008, brought together tens of thousands of people at events across the country, targeting a wide cross-section of the Amtrak market and expanding the visibility of passenger rail to people young and old.

The local and national television coverage generated the time equivalent of 445 30-second TV spots.

Photo: Paul Beaty


Photo: Paul Beaty


Photo: Craig Ruttle

Our People...

...Our Product

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the results of operations and of the liquidity and capital resources of the National Railroad Passenger Corporation (Amtrak or the Company) is based upon and should be read in conjunction with Amtrak's Consolidated Financial Statements for the fiscal years ended September 30, 2008 and 2007, and related notes thereto. This discussion has not been reviewed by our auditors, KPMG, LLP (KPMG), and the opinions expressed by KPMG on Amtrak's Consolidated Financial Statements for the fiscal years ended September 30, 2008 and 2007 are wholly separate and are not intended to be incorporated by reference or considered to be an expression of opinion on any of the information contained herein.

RESULTS OF OPERATIONS

Amtrak reported a 2008 net loss of $1,132.8 million compared to a 2007 net loss of $1,120.9 million, an increase of $11.9 million or 1.1%. During fiscal year 2008, Amtrak experienced an overall increase in revenues as well as expenses, as compared to fiscal year 2007.

Revenues – Total revenues increased 13.9% to $2,452.8 million in 2008 compared to $2,152.6 million in 2007, largely due to an increase in passenger related revenue as a result of increased ridership. Total revenues, excluding State capital payments, increased 12.8% to $2,425.5 million in 2008 compared to $2,150.6 million in 2007.

Expenses – Total expenses increased 7.2% to $3,409.6 million in 2008 compared to $3,179.6 million in 2007. The increase is largely due to an increase in train fuel costs.

Other Income and Expense – Net other expense increased 87.3% to $175.9 million in 2008 compared to $93.9 million in 2007, largely due to an increase in interest expense resulting from a $66.0 million adjustment for the inclusion of in substance residual value guarantees related to Defeased Sale-Leaseback transactions.

REVENUE

Passenger related revenue, which includes Ticket, Food and beverage, and State operating contribution revenue, increased 13.0% to $1,955.4 million in 2008 compared to $1,730.9 million in 2007, primarily due to increases in passenger ticket revenue and ridership for the Acela service driven by improved on-time performance and continued marketplace challenges in alternative forms of transportation.

Commuter revenue increased 10.3% to $129.5 million in 2008 compared to $117.4 million in 2007, due to increased revenues from commuter contracts with Maryland, Connecticut and California.

Other revenue increased 12.6% to $340.5 million in 2008 compared to $302.3 million in 2007. Other revenue consists of: 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.

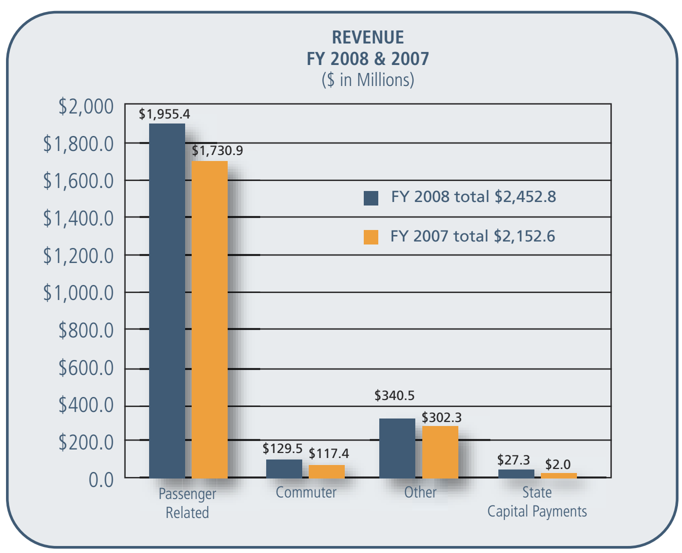
Transportation revenue from commuters for use of Amtrak-owned tracks and other services decreased 4.8% to $122.3 million in 2008 compared to $128.5 million in 2007.

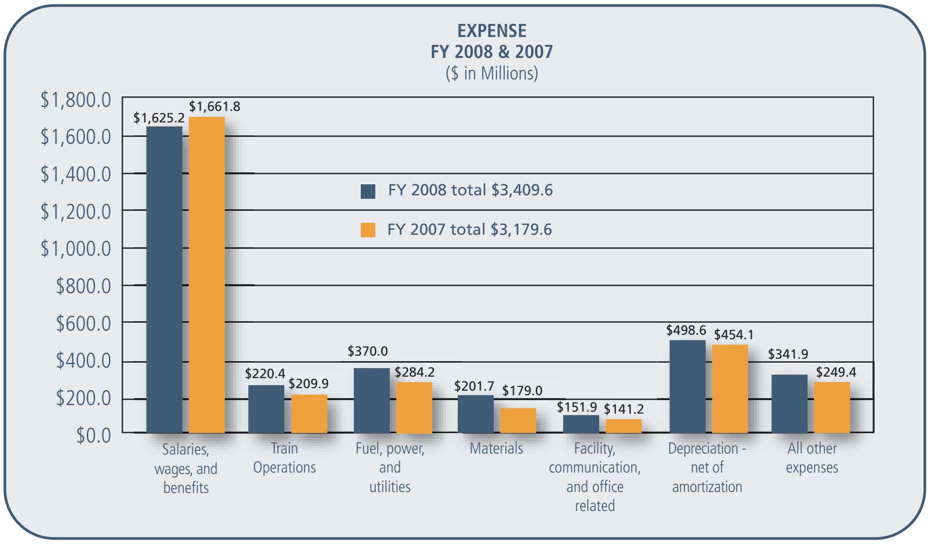
Reimbursable revenue increased 30.3% to $94.4 million in 2008 compared to $72.4 million in 2007, due to increased reimbursable maintenance of way activities.

Commercial development revenues increased 15.0% to $74.3 million in 2008 compared to $64.6 million in 2007.

Freight access fees and other revenue increased 34.5% to $49.5 million in 2008 compared to $36.8 million in 2007, primarily due to increases in credit card commissions and other one-time gains.

State capital payments include 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. In fiscal year 2007, the Company reassessed the lives being utilized to amortize the revenue and reduced that year's revenue for amounts recognized in prior periods. As a result, state capital payments were $25.3 million lower in 2007 compared to 2008.





EXPENSE

Salaries, wages, and benefits decreased 2.2% to $1,625.2 million in 2008 compared to $1,661.8 million in 2007. This is primarily due to lower wage and benefit expenses due to the multi-year retroactive union wage settlements accrued in 2007, partially offset by increased salaries. 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. Amtrak reached agreements with all of the unions consistent with the recommendations of the Presidential Emergency Board. All labor unions ratified the agreements by June 30, 2008.

Train operations expense increased 5.0% to $220.4 million in 2008 compared to $209.9 million in 2007. This is primarily due to higher host railroad fees due to expanded corridor services plus volume related commissary costs.

Fuel, power, and utilities expense increased 30.2% to $370.0 million in 2008 compared to $284.2 million in 2007, primarily due to increased costs for diesel fuel and, to a lesser extent, purchased power.

Materials expense increased 12.7% to $201.7 million in 2008 compared to $179.0 million in 2007 primarily due to increased locomotive maintenance costs and preventive maintenance repairs.

Facility, communication, and office related expense increased 7.6% to $151.9 million in 2008 compared to $141.2 million in 2007 primarily due to increased security, equipment rental, janitorial and station rent expenses.

Depreciation net of amortization of gain on sale-leasebacks increased 9.8% to $498.6 million in 2008 compared to $454.1 million in 2007 primarily due to adjustments made to decrease asset life for certain rolling stock modifications and concrete ties.

All other expenses increased 37.1% to $341.9 million in 2008 compared to $249.4 million in 2007, primarily due to increased casualty and other claims based on an actuarial analysis of outstanding claims, increased advertising and sales due to an increase in advertising programs and a volume related increase in credit card commissions, and increased other expenses due to increased legal and professional fees, passenger inconvenience vouchers and road maintenance expenses. This is offset by an increase in indirect costs capitalized to property and equipment due to increased capital spending.

OTHER INCOME AND EXPENSE

Other income and expense includes investment income and interest expense associated with equipment and infrastructure financings.

Interest income decreased to $90.6 million in 2008 compared to $99.3 million in 2007, due to lower interest rates.

Interest expense increased to $266.5 million in 2008 compared to $193.3 million in 2007, largely due to an increase in interest expense resulting from a $66.0 million adjustment for the inclusion of in substance residual value guarantees related to Defeased Sale-Leaseback transactions.

LIQUIDITY AND CAPITAL RESOURCES

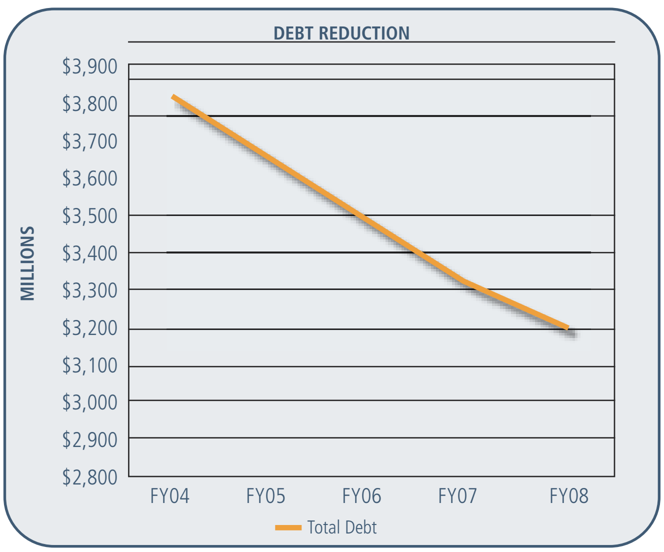
Amtrak relies on cash flows from operating activities and appropriations from the United States government (Federal Government) to operate the national passenger rail system and maintain the underlying infrastructure. The Company believes that it will be able to meet current and long-term liquidity and capital requirements, through cash flows from operating activities, appropriations, existing cash and cash equivalents, and short-term investments.

Amtrak had unrestricted cash and cash equivalents of $329.8 million compared to $233.9 million at September 30, 2008 and 2007, respectively.

The working capital ratio decreased to 0.57 compared to 0.63 at September 30, 2008 and 2007, respectively. Current maturities of debt and capital lease obligations increased over the prior year by $14.0 million or 10.5% primarily due to increased scheduled repayments of capital lease obligations. Current assets increased over the prior year by $32.3 million or 5.3% due to increases in cash and cash equivalents resulting primarily from reductions in accounts receivable and materials and supplies inventories.

Total debt and capital lease obligations decreased by $105.5 million or 3.2% to $3,199.3 million at September 30, 2008 from $3,304.8 million at September 30, 2007. This decrease was primarily caused by principal payments on leased locomotives and rolling stock, principal payments on the Penn Station mortgage and the Federal Railroad Administration loan.

The graph below depicts the reduction in outstanding debt balances over the last five years.



OUTLOOK

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. In recent fiscal years appropriated funds for Amtrak have been provided to the DOT, which through its agency the Federal Railroad Administration, provides those funds to Amtrak pursuant to operating funds and capital funds grant agreements, respectively. 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 October 16, 2008 of the Passenger Rail Investment and Improvement Act of 2008 as Public Law H. R. 2095 authorized to be appropriated to the Secretary of the United States Department of Transportation (the "Secretary") five annual grants to Amtrak amounting to $9.8 billion for fiscal years 2009 through 2013. $1.5 billion was authorized for fiscal year 2009 but appropriations have not yet been enacted into law so the Company is operating under a $569.9 million continuing resolution through March 6, 2009. The continuing resolution provides amounts consistent with the 2008 Act. The Company has received $551.8 million of the fiscal year 2009 appropriation under continuing resolutions through January 30, 2009. The Company ultimately expects it will receive an appropriation for fiscal year 2009 in amounts consistent with the 2008 Act. To the extent that regular appropriations are not approved by that date, the Company expects to receive additional interim Federal Government funding under continuing resolutions consistent with the 2008 Act amounts until the funding is approved.

To the extent that funding substantially less than amounts provided under the 2008 Act is approved and received from the Secretary or the Company's funding needs are greater than the appropriations (including $329.8 million combined amounts of cash on hand as of September 30, 2008), 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 2009. In addition, because of settlements with its union employees, the Company believes it will incur substantially higher salaries and payroll taxes in 2009 and future years and intends to, assuming the approval of its Board of Directors, make significant lump sum payments to its union employees in 2009 in the amount of $145.2 million. The Company may require additional appropriations to meet the 2009 lump sum payment obligations. Amtrak expects to receive adequate funding through September 30, 2009 either through a 2009 appropriation or additional interim Federal Government funding under continuing resolutions consistent with the 2008 Act. There are currently no Federal government subsidies appropriated for any period subsequent to the fiscal year ending September 30, 2009. 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.

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, 2008 and 2007, 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 the Company'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 dependent upon substantial Federal government subsidies to sustain its operations. There are currently no Federal government subsidies appropriated for any period subsequent to the fiscal year ending September 30, 2009 ("fiscal year 2009") as discussed in Note 2 to the financial statements. 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, 2008 and 2007, 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

February 9, 2009

CONSOLIDATED BALANCE SHEETS

(In Thousands of Dollars, Except Share Data)

	September 30 2008	2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 329,813	$ 223,949
Restricted cash	10,012	10,393
Short-term investments	-	9,950
Accounts receivable, net of allowances of $4,794 and $7,397 at September 30, 2008 and 2007, respectively	100,892	141,645
Materials and supplies - net	155,583	174,897
Other current assets	40,927	44,026
Total current assets	637,227	604,860
Property and Equipment:		
Locomotives	1,365,541	1,405,200
Passenger cars and other rolling stock	2,642,830	2,650,963
Right-of-way and other properties	8,693,663	8,363,818
Leasehold improvements	331,314	310,503
Property and equipment, gross	13,033,348	12,730,484
Less - Accumulated depreciation and amortization	(4,592,516)	(4,424,569)
Total property and equipment, net	8,440,832	8,305,915
Other Assets, Deposits, and Deferred Charges:		
Escrowed proceeds on sale-leasebacks	894,752	874,744
Deferred charges, deposits, and other	327,057	379,942
Total other assets, deposits, and deferred charges	1,221,809	1,254,686
Total assets	$ 10,299,868	$ 10,165,461
LIABILITIES and CAPITALIZATION		
Current Liabilities:		
Accounts payable	$ 217,681	$ 207,776
Accrued expenses and other current liabilities	647,523	537,054
Deferred ticket revenue	111,758	82,167
Current maturities of long-term debt and capital lease obligations	146,864	132,852
Total current liabilities	1,123,826	959,849
Long-Term Debt and Capital Lease Obligations:		
Capital lease obligations	2,782,771	2,851,761
Mortgages	212,955	227,510
Equipment and other debt, net	56,690	92,657
Total long-term debt and capital lease obligations	3,052,416	3,171,928
Other Liabilities and Deferred Credits:		
Deferred federal and state capital payments	752,279	701,357
Casualty reserves	195,186	212,469
Deferred gain on sale-leasebacks	262,222	305,462
Postretirement employee benefits obligation	566,760	620,152
Environmental reserve	62,342	63,500
Other	67,508	177,996
Total other liabilities and deferred credits	1,906,297	2,080,936
Total liabilities	6,082,539	6,212,713
Commitments and Contingencies		
Capitalization:		
Preferred stock - $100 par, 109,396,994 shares authorized, issued and outstanding at September 30, 2008 and 2007	10,939,699	10,939,699
Common stock - $10 par, 10,000,000 shares authorized, 9,385,694 issued and outstanding at September 30, 2008 and 2007	93,857	93,857
Debt and other paid-in capital	17,415,041	16,100,513
Accumulated deficit	(24,094,909)	(22,962,131)
Accumulated comprehensive income (loss)	(136,359)	(219,190)
Total capitalization	4,217,329	3,952,748
Total liabilities and capitalization	$ 10,299,868	$ 10,165,461

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

CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands of Dollars)

	Twelve Months Ended September 30 2008	Twelve Months Ended September 30 2007
Revenues:		
Passenger related	$ 1,955,422	$ 1,730,926
Commuter	129,545	117,424
Other	340,504	302,254
State capital payments	27,309	2,011
Total revenues	2,452,780	2,152,615
Expenses:		
Salaries, wages, and benefits	$ 1,625,186	$ 1,661,838
Train operations	220,368	209,881
Fuel, power, and utilities	370,032	284,184
Materials	201,676	179,044
Facility, communications, and office related	151,919	141,154
Advertising and sales	98,056	83,160
Casualty and other claims	62,936	25,708
Depreciation - net of amortization	498,563	454,085
Other	294,189	247,091
Indirect cost capitalized to property and equipment	(113,304)	(106,537)
Total expenses	3,409,621	3,179,608
Net loss from continuing operations before other (income) and expense	956,841	1,026,993
Other (Income) and Expense:		
Interest income	(90,593)	(99,349)
Interest expense	266,530	193,265
Other expense - net	175,937	93,916
Net loss	$ 1,132,778	$ 1,120,909

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In Thousands of Dollars)

	Twelve Months Ended September 30 2008	Twelve Months Ended September 30 2007
Net loss	$ 1,132,778	$ 1,120,909
Other Comprehensive (Income) Loss:		
Unrealized (gain) loss on derivatives	(710)	(1,069)
Unrealized (gain) on minimum pension liability adjustment	(82,121)	-
Adjustment to initially apply SFAS 158	-	218,531
Comprehensive loss	$ 1,049,947	$ 1,338,371

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

(In Thousands of Dollars)

	Twelve Months Ended September 30 2008	2007
Cash Flows From Operating Activities:		
Net loss	$ (1,132,778)	$ (1,120,909)
Adjustments to reconcile net loss to net cash used in operating activities:		
Adjustment to increase capital lease obligations (see note 7)	66,047	-
Depreciation net of amortization	495,952	454,085
Gain on disposal of property	(7,017)	(212)
Other	20,088	15,770
Changes in assets and liabilities:		
Restricted cash	381	(7,312)
Accounts receivable	41,878	(51,753)
Materials and supplies	3,271	(36,728)
Other current assets	5,323	(1,146)
Other assets, deposits, and deferred charges	34,662	(38,391)
Accounts payable, deferred ticket revenue, and other current liabilities	152,427	54,365
Deferred state capital payments	(27,310)	(2,010)
Other liabilities and deferred credits	(100,199)	199,301
Net cash used in operating activities	(447,275)	(534,940)
Cash Flows From Investing Activities:		
Purchases and refurbishments of property and equipment	(673,742)	(657,547)
Proceeds from disposals of property and equipment	8,605	6,314
Purchase of short-term investments	-	(1,511,013)
Proceeds from dispositions of short-term investments	-	1,675,063
Net cash used in investing activities	(665,137)	(487,183)
Cash Flows From Financing Activities:		
Proceeds from federal paid-in capital	1,282,975	1,257,300
Proceeds from federal and state capital payments	109,786	124,912
Repayments of debt and capital lease obligations	(162,217)	(182,990)
Increase (decrease) in cash overdraft	(12,268)	8,862
Net cash provided by financing activities	1,218,276	1,208,084
Net increase (decrease) in cash and cash equivalents	105,864	185,961
Cash and cash equivalents-beginning of period	223,949	37,988
Cash and cash equivalents-end of period	$ 329,813	$ 223,949
Supplemental Disclosure of Cash Payments:		
Interest paid (net of amounts capitalized and non-cash defeased capital lease interest)	$ 129,876	$ 138,942
Supplemental Disclosure of Noncash Investing and Financing Activities:		
Other non-cash increases in property, includes accruals of amounts due for purchases	$ 9,805	$ 6,616
Debt and capital lease reduction through use of escrow deposits	$ 3,377	$ 5,332

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

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
Balance at September 30, 2006	$ 10,939,699	$ 93,857	$ 14,829,886	$ (21,819,117)	$ (1,728)	$ 4,042,597
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 on derivatives	-	-	-	-	1,069	1,069
Adjustment to initially apply SFAS 158	-	-	-	(22,105)	(218,531)	(240,636)
Balance at September 30, 2007	$ 10,939,699	$ 93,857	$ 16,100,513	$ (22,962,131)	$ (219,190)	$ 3,952,748
Federal paid-in capital	-	-	1,282,975	-	-	1,282,975
Federal capital and other payments	-	-	31,553	-	-	31,553
Net loss	-	-	-	(1,132,778)	-	(1,132,778)
Unrealized gain on derivatives	-	-	-	-	710	710
Unrealized gain on pensions and OPEB	-	-	-	-	82,121	82,121
Balance at September 30, 2008	$ 10,939,699	$ 93,857	$ 17,415,041	$ (24,094,909)	$ (136,359)	$ 4,217,329

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

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. Amtrak's principal business is to provide rail passenger transportation service 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. In recent fiscal years appropriated funds for Amtrak have been provided to the DOT, which through its agency the Federal Railroad Administration, provides those funds to Amtrak pursuant to operating funds and capital funds grant agreements, respectively. 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 authorized 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 through September 30, 2008. 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. (See note 4 for amounts received in FY 2008).

The enactment on October 16, 2008 of the Passenger Rail Investment and Improvement Act of 2008 as Public Law H. R. 2095 authorized to be appropriated to the Secretary of the United States Department of Transportation (the "Secretary") five annual grants to Amtrak amounting to $9.8 billion for fiscal years 2009 through 2013. $1.5 billion was authorized for fiscal year 2009 but appropriations have not yet been enacted into law so the Company is operating under a $569.9 million continuing resolution through March 6, 2009. The continuing resolution provides amounts consistent with the 2008 Act. The Company has received $551.8 million of the fiscal year 2009 appropriation under continuing resolutions through January 30, 2009. The Company ultimately expects it will receive an appropriation for fiscal year 2009 in amounts consistent with the 2008 Act. To the extent that regular appropriations are not approved by that date, the Company expects to receive additional interim Federal Government funding under continuing resolutions consistent with the 2008 Act amounts until the funding is approved.

To the extent that funding substantially less than amounts provided under the 2008 Act is approved and received from the Secretary or the Company's funding needs are greater than the appropriations (including $329.8 million combined amounts of cash on hand as of September 30, 2008), 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 2009. In addition, as is more fully described in Note 9, because of settlements with its union employees, the Company believes it will incur substantially higher salaries and payroll taxes in 2009 and future years and intends to, assuming the approval of its Board of Directors, make significant lump sum payments to its union employees in 2009 in the amount of $145.2 million. The Company may require additional appropriations to meet the 2009 lump sum payment obligations. Amtrak expects to receive adequate funding through September 30, 2009 either through a 2009 appropriation or additional interim Federal Government funding under continuing resolutions consistent with the 2008 Act. There are currently no Federal government subsidies appropriated for any period subsequent to the fiscal year ending September 30, 2009. 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.

NOTE 3:
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The Consolidated Financial Statements reflect the consolidated operations of Amtrak and 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.

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 (DOJ). These funds, approximately $4.0 million, are restricted for use in funding certain operations of the Amtrak Police Department as stipulated by the DOJ.

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 $50,000 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, 2008, there have been no requests for payments by IDOT.

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 $64,317,000 and $49,614,000 for 2008 and 2007, respectively, is provided for materials and supplies based on specific identification and expected usage rates.

DERIVATIVE AND HEDGING ACTIVITIES

Amtrak periodically enters into certain derivative contracts to manage a portion of the exposure to fluctuating energy prices. Such contracts are accounted for 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 value of energy contracts in "Other current assets" in the Consolidated Balance Sheets. Prior to fiscal year 2008, the effective portion of the related gains or losses on these contracts was deferred as a component of "Other comprehensive income". These deferred gains and losses were recognized in income in the period in which the related energy purchases being hedged were consumed and recognized in expense. The ineffective portion of the change in the value of the energy contracts was immediately recognized in income. Amtrak calculated the ineffective portion of the hedge performance using the dollar-offset method. The ineffective portions of the energy contracts were included as a component of "Fuel, power, and utilities" in the Consolidated Statements of Operations. If at any time the hedge no longer qualified for hedge accounting treatment, expired, was sold, terminated, exercised, or it became probable that the forecasted transaction would not occur, the net gain or loss accumulated in "Other comprehensive income" was reclassified into earnings. Effective October 1, 2007, the Company no longer considers its energy contracts to be cash flow hedges. As a result, changes in fair value are recorded as a component of "Fuel, power, and utilities" in the consolidated Statement of Operations.

For fiscal years 2008 and 2007, Amtrak recognized net increases of $3,422,000 and $2,381,000, respectively, in "Fuel, power, and utilities" expense in the Consolidated Statements of Operations associated with derivative fuel contracts. At September 30, 2008, Amtrak had derivative fuel contracts with a fair value of $1,717,000. At September 30, 2007, Amtrak did not have any 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, 2008 and 2007, these electricity contracts had a fair value of $(11,046) and $(659,000), respectively. The effective portions of these contracts, which qualified as cash flow hedges at September 30, 2007, amounted to an unrealized loss of $659,000. The electricity contracts resulted in (decreases) / increases of $(999,000) and $767,000 for fiscal years 2008 and 2007, respectively, and were recognized in "Fuel, power, and utilities" expense in the Consolidated Statements of Operations.

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 value is charged to "Accumulated depreciation" in the Consolidated Balance Sheets 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 2008 and 2007.

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 hired a third party to perform a full analysis of all related ties. Although the initial inspection is complete, Amtrak's Engineering Department will inspect ties indefinitely to record the degradation of the ties and prioritize tie replacement. Amtrak replaced 100,000 rail ties in fiscal year 2008 and plans on replacing 125,000 ties per year in fiscal years 2009 through 2012 and 2015 through 2020 at an estimated total cost of $330 million. The Company has reduced the remaining life of the ties produced by this vendor. Based on the best estimate at this time, depreciation expense will be accelerated over the next 12 years and all ties will be fully depreciated by September 30, 2020. This additional depreciation expense increased the net loss in fiscal years 2008 and 2007 by approximately $24.8 million and $16.4 million, respectively.

The Company periodically engages a civil engineering firm with expertise in railroad property usage to conduct a study to evaluate depreciation rates for property and equipment. The most recent study took place in 2006 and resulted in new depreciation rates. 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 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.

A significant number of the Company's locomotives are covered under a service agreement with the equipment manufacturer that is effective until June 30, 2013. Under this agreement, the Company pays a fixed amount per month and the manufacturer provides certain warranty parts and services. The amounts paid in 2008 and 2007 were $7,703,000 and $8,616,000, respectively and are included in "materials expense" in the Consolidated Statement of Operations. To the extent that this agreement is not extended, the Company could incur costs associated with the maintenance of these locomotives at amounts higher than the fixed amounts under the agreement.

During fiscal year 2008, the Company sold 12 P40 locomotives for $16,573,000 and recognized a gain of $6,748,000.

INVESTMENTS

Amtrak holds auction rate securities (ARS) with an original cost of $10,000,000 and classifies these investments as available for sale as of September 30, 2008 and 2007. At September 30, 2007, the fair value of the ARS was $9,950,000 and Amtrak reduced the carrying value to this amount with a $50,000 charge to “Other expense” in the Consolidated Statements of Operations. At September 30, 2008, the fair value of the ARS was $4,780,000 and management believes the decline is other-than-temporary. As a result, in fiscal year 2008 a $5,170,000 charge to “Other expense” was recorded in the Consolidated Statements of Operations. At September 30, 2007, the ARS was included in “Short-term investments” in the Consolidated Balance Sheets and at September 30, 2008 was reclassified to “Deferred charges, deposits, and other” in the Consolidated Balance Sheets.

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, 2008 and 2007, the current claims liability included in “Accrued expenses and other current liabilities” in the Consolidated Balance Sheets was $65,700,000 and $67,700,000, respectively. Included in “Deferred charges, deposits, and other” in the Consolidated Balance Sheets at September 30, 2008 and 2007, are estimated insurance recoveries of $12,832,000 and $39,454,000, respectively, which relate to loss events that Amtrak has incurred. In the current year, changes in estimates related to years prior to fiscal year 2008 resulted in a decrease of current expense of $16,606,000. In 2007, changes in estimates related to years prior to fiscal year 2007 resulted in a decrease of current expenses 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 $43,249,000 and $34,253,000 for the fiscal years ended September 30, 2008 and 2007, 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 2008 and 2007, 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):

	2008	2007
Ticket	$1,697.8	$1,492.2
State contribution	164.5	154.0
Food and beverage	93.1	84.7
Total passenger related revenue	$1,955.4	$1,730.9

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 2008 and 2007, 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.

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):

	2008	2007
Other transportation	$122.3	$128.4
Reimbursable	94.4	72.5
Commercial development	74.3	64.6
Freight access fee and other	41.8	35.7
One-time gains	7.7	1.1
Total	$340.5	$302.3

"State capital payments" revenue 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 2007, the Company reassessed the lives being utilized to amortize the revenue and reduced revenue by approximately $23 million for amounts recognized in prior periods (2000 through 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 Company. 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, 2008 and 2007 (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, 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], reserves for uncollectible accounts receivable, estimates of fair value of assets held for sale, estimated useful lives of property and equipment, recoverability of long-lived assets, and reserves for inventory obsolescence.

COMPREHENSIVE EARNINGS

Amtrak reports comprehensive earnings (loss) in accordance with SFAS 130, "Reporting Comprehensive Income", in the Consolidated Statements of Changes in Comprehensive Loss. Comprehensive earning (loss) is defined as all changes in shareholders' equity during a period, other than those resulting from investments by and distributions to shareholders. At September 30, 2008 and 2007, Accumulated Other Comprehensive Loss consisted of primarily of adjustments for pension and other post-retirement liabilities.

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. The Company adopted SFAS 158 on September 30, 2007. In accordance with the transition rules in SFAS 158, this standard was adopted on a prospective basis. The adoption of SFAS 158 resulted in an adjustment to the balance sheet in fiscal year 2007. The adoption of SFAS 158 also resulted in a change in measurement date from June 30 to September 30, which resulted in a charge of $22.1 million to "Accumulated deficit" in the Consolidated Statements of Changes in Capitalization in 2007.

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 in "Debt and other paid-in capital" in the Consolidated Statements of Changes in Capitalization when received, totaled $1.283 billion and $1.257 billion for fiscal years 2008 and 2007, respectively. In accordance with Public Law H.R. 2764, Amtrak was provided with a total appropriation of $1.325 billion for 2008. $35.0 million of this appropriation is an efficiency incentive subsidy grant which Amtrak is entitled to under certain circumstances as described in Note 2. Of the 2008 appropriation, $475 million was received as an operating subsidy, $525 million as a capital subsidy and $283 million for debt service obligations. Amtrak received the $35 million efficiency incentive subsidy grant funds in the first quarter of fiscal year 2009.

In 2008, the FRA awarded Amtrak efficiency grant funding of approximately $62 million ($31 million from fiscal year 2006 and $31 million from fiscal year 2007). Funding is provided on a reimbursable basis. Amtrak has received $15.1 million as of September 30, 2008, which is included in "Debt and Other Paid-in Capital".

Certain other federal funds that are provided and restricted for use on designated projects are also recorded as "Debt and other paid-in capital" in the Consolidated Balance Sheets and Statements of Changes in Capitalization when received, and these totaled approximately $15 million since fiscal year 2006 for the Managerial Cost Accounting improvements. Amtrak had applied for this grant funding June 26, 2008 and was awarded the grant on August 28, 2008. Funding is provided on a reimbursable basis.

"Debt and other paid-in capital", included in the Consolidated Balance Sheets and Statements of Changes in Capitalization, 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 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, 2008 and 2007, 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, 2008 and 2007, 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.

In May 2008, American Premier Underwriters (APU, formerly known as Penn Central) filed a lawsuit in federal court in Cincinnati, Ohio, asserting that Amtrak has "eroded" the value of common stock and is seeking $52 million plus accrued interest. APU owns 55% of Amtrak's common stock. See Note 9.

NOTE 6: MORTGAGES AND DEBTS

Total debt in the Consolidated Balance Sheets consisted of the following at September 30, 2008 and 2007 (in thousands):

	2008		2007	
Long-Term Debt:	Current	Long-Term	Current	Long-Term
FRA loan	$ -	$ -	$ -	$ 21,136
Mortgage obligations	14,555	212,955	13,295	227,510
30th St Limited PAID Bonds	-	-	-	13,900
30th St PEDFA Garage Rev Bonds	820	46,370	780	47,190
UDAG loan	130	10,797	130	10,927
	$15,505	$270,122	$14,205	$320,663
Less: Unamortized bond discount related to 30th St PEDFA Garage Rev Bonds	-	477	-	496
Total	$15,505	$269,645	$14,205	$320,167

CREDIT FACILITIES

At September 30, 2008 and 2007, there were letters of credit outstanding of $6,632,000 and $8,588,000, respectively.

FEDERAL RAILROAD ADMINISTRATION (FRA)

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. The final installment was paid in fiscal year 2008.

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, 2008 and 2007, the outstanding balance due on the mortgage was $227,510,000 and $240,805,000, 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 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, 2008 and 2007. The remaining net bond proceeds are recorded in “Deferred charges, deposits, and other” in the Consolidated Balance Sheets and were $17,802,000 and $13,568,000 as of September 30, 2008 and 2007, respectively.

Included in TSL's long-term debt at September 30, 2007 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 was 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, 2008 and 2007, escrowed deposits were $167,000 and $2,691,000, 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. Amtrak redeemed the remaining $13.9 million during fiscal year 2008.

TSL has a non-interest bearing obligation of $10,927,000 and $11,057,000 to the City under an Urban Development Action Grant (UDAG) loan agreement as of September 30, 2008 and 2007, 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, 2008 and 2007 are shown below (in percentages of 100%):

	2008	2007
FRA loan	1.81	1.81
Mortgage obligations	9.50	9.50
PEDFA bonds	5.76	5.32

The overall weighted-average interest rate on all interest-bearing borrowings is 8.9% and 8.2% per annum at September 30, 2008 and 2007, respectively.

SCHEDULED DEBT MATURITIES

At September 30, 2008, scheduled maturities of debt over the next five years and thereafter are as follows (in thousands):

2009	$ 15,505
2010	16,930
2011	18,490
2012	30,587
2013	21,910
Thereafter	182,205
Total	$285,627

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 120 days of the end of its fiscal year. Amtrak has not delivered its audited financial statements within the timeframe for fiscal year 2008. 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, 2008 and 2007, $151,172,000 and $152,062,000, respectively, of the bonds remained outstanding and the amounts included in "Deferred charges, deposits, and other" in the consolidated balance sheet were $ 7,769,000 and $ 7,870,000 as of September 30, 2008 and 2007, respectively.

EQUIPMENT

Amtrak leases equipment, primarily passenger cars and locomotives, under capital leasing arrangements. At September 30, 2008 and 2007, the gross amount of assets recorded under capital leases was $3,200,768,000 (38% for locomotives and 62% for passenger cars), and $3,395,997,000 (36% for locomotives and 64% for passenger cars) respectively, with accumulated amortization of $1,269,375,000 and $1,288,181,000, respectively.

During fiscal year 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 fiscal year 2000, Amtrak entered into twelve (12) defeased sale-leaseback transactions involving 624 in-service passenger coaches (the "Defeased Sale-Leasebacks"). Amtrak sold coaches having a net book value of $334,690,000 for a cumulative gross purchase price of $928,686,000. Amtrak incurred transaction costs of $13,531,000 in connection with these transactions reducing the net cash proceeds from the sale to Amtrak to $915,155,000 resulting in a deferred gain of $580,465,000.

Immediately following the sale, Amtrak leased back the coaches under capital leases over base lease terms ranging from 23-29 years. Of the sales proceeds, the Company received and retained $124,171,000 in cash. The remainder of the sale proceeds ($790,984,000) was utilized by Amtrak to purchase Guaranteed Investment Contracts ("GIC's") or Equity Payment Undertaking Agreements ("EPUA"s) from 'AAA'-rated insurance companies (the "GIC/EPUA Providers") and Debt Payment Undertaking Agreements ("DPUA's") in order to secure and defease repayment of the equity portions and debt portions of future lease rents, respectively. Amtrak is the owner of these GIC's/EPUA's and DPUA's but assigned the guaranteed payment streams from these financial instruments to be paid directly over to the lessors or their assignees and to serve as security for Amtrak's obligations under the various leases. (The referenced GIC's/EPUA's and DPUA's are collectively referred to as the 'Defeasance Instruments').

The Defeasance Instruments 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 2008 and 2007, $15,679,000 and $19,043,000 of deferred gains on these transactions were amortized, respectively.

The Defeasance Instruments accrete value at fixed interest rates ranging from 6.77% to 7.22% per annum on the defeasance instruments intended to secure the future payment of the equity portion of lease rents (the "Equity Defeasance Instruments"); and from 8.4% to 8.75% per annum on the defeasance instruments securing the future payment of the debt portion of lease rents (the "Debt Defeasance Instruments"). In addition to Amtrak's assignment of the guaranteed payment streams from the Defeasance Instruments to satisfy Amtrak's lease payment obligations, the obligations of Amtrak to make any and all required lease payments are absolute and irrevocable. Any failure by a GIC/EPUA or DPUA Provider to make an assigned payment when due would not free Amtrak of the ultimate obligation to make any and all required payments under the leases.

Under the terms of these leases, Amtrak has an obligation to replace the Equity Defeasance instruments when a GIC/EPUA Provider ceases to be a qualified provider by falling below specified long-term credit ratings specified in the lease documents. Currently, the two GIC/EPUA Providers who independently provide the Equity Defeasance instruments for one or more of the twelve (12) leases have each been downgraded by Moody's Ratings Service ("Moodys") and Standard and Poor's ("S&P) from their initial "AAA" rating at the inception of these transactions in fiscal year 2000 to levels where Amtrak has been obligated under the lease documents to secure replacement GIC/EPUA Providers. The GIC Provider providing the Equity Defeasance Instruments for ten (10) out of the twelve (12) leases has been downgraded to a financial strength rating of "Baa1" (Moodys) and "A" (S&P). The other EPUA Provider which provides the Equity Defeasance Instruments for the remaining two (2) out of the twelve (12) leases has been downgraded to a financial strength rating of "A3" (Moodys) and "A- " (S&P).

As a result of these downgrades and the concomitant obligations imposed upon Amtrak to replace these GIC/EPUA Providers, Amtrak secured the commitment of a currently 'AAA'-rated Insurer and to-date has terminated eight (8) out of the twelve (12) original Equity Defeasance Instruments and purchased eight (8) new Defeasance Instruments from the new GIC Provider (such termination and purchase of replacement Equity Defeasance Instruments termed "Replacement Transactions" herein.).

Replacement Transactions were concluded on the following dates:

Dates of Replacement Transactions	No. of Defeased Sale-Leasebacks Affected
September 22, 2008	Three (3)
November 25, 2008	Two (2)
December 2, 2008	One (1)
December 12, 2008	One (1)
December 22, 2008	One (1)
Total Replacements-to-date	Eight (8)

During February 2009, one of the four remaining leases was terminated and three (3) leases remain where Replacement Transactions must be concluded or, alternately, the leases must be terminated. The final four original Equity Defeasance Instruments contain a 'market termination amount' early termination provision rather than the accreted value provision found in six (6) out of the initial eight (8) Equity Defeasance Instruments that were terminated. In the current market conditions, and following a negotiated settlement with the GIC Provider on the proper interpretation of the market termination amount clause to be applied to the final four defeased lease replacements or terminations, the amount to be paid out on these final four defeasance instrument terminations was $9.15 million less than the amount accreted. As a result, a $9.15 million charge to expense was recorded as of September 30, 2008.

In conjunction with the eight replacement transactions, Amtrak was required to pay $45.1 million in addition to the amounts transferred from the old GIC Provider. Of this amount, $19.8 million was paid prior to September 30, 2008 and is included in "Deferred charges, deposits and other" in the accompanying September 30, 2008 Consolidated Balance Sheet. The Company also paid $14.6 million in transaction costs of which

$11.2 million was recorded in "Other current assets" in the accompanying Consolidated Balance Sheet and $3.4 million was expensed in "Other" in the Consolidated Statement of Operations for the year ended September 30, 2008.

The Debt Defeasance Instruments relating to the twelve (12) Defeased Sale-Leasebacks are with special-purpose DPUA Providers that are not subject to replacement requirements and therefore will remain in place for the Defeased Sale-Leasebacks that will continue. In the case of leases being terminated, both the Equity Defeasance Instruments and Debt Defeasance Instruments will end as part of the lease termination process.

During fiscal year 2008, Amtrak recorded an adjustment for an in substance residual value guarantee for these 12 leases and the leases related to the High Speed Rail Maintenance Facilities. Amtrak recorded an increase to capital lease obligation of $61.7 million, an increase to accrued interest of $4.3 million and interest expense of $66.0 million as of October 1, 2007. The Company concluded that this error is immaterial to Amtrak's 2008 financial statements.

At September 30, 2008, future minimum lease payments under equipment and facility capital leases including amounts to be funded from defeasance instruments were as follows (in thousands):

2009	$ 280,552
2010	333,374
2011	330,473
2012	304,174
2013	300,010
Thereafter	2,630,996
Total payments	$4,179,579
Less amount representing interest	1,265,451
Present value of minimum lease payments at September 30, 2008	$2,914,128

The current portion of capital lease obligations at September 30, 2008 and 2007 was $131,357,000 and $118,647,000, respectively, and is included in "Current maturities of long-term debt and capital lease obligations" in the Consolidated Balance Sheets.

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 $22,873,000 and $21,811,000 at September 30, 2008 and 2007, respectively, and is recorded in "Accrued expenses and other current liabilities" and "Other liabilities and deferred credits" in the Consolidated Balance Sheets. The amounts expensed relating to these items is reflected in "Materials" 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 120 days of the end of its fiscal year. Amtrak has not delivered within this timeframe its audited financial statements for fiscal year 2008. 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, 2008, 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):

2009	$ 14,661
2010	14,809
2011	14,041
2012	12,040
2013	11,442
Thereafter	48,180
Total	$115,173

Rent expense (which includes cancelable and non-cancelable leases) for the years ended September 30, 2008 and 2007 was $39,951,000 and $37,877,000, 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 one month to five years and costs incurred are based on usage. The total amount incurred for use of the railroads' rights-of-way in 2008 and 2007 totaled $99.4 million and $92.4 million, respectively, and is included in "Train operations" in the Consolidated Statements of Operations.

NOTE 8:
INCOME TAXES

There was no provision or benefit for income taxes for 2008 and 2007, 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.

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

	2008	2007
U.S. Federal statutory income tax rate	35.0%	35.0%
Federal operating grants	-14.7%	-15.1%
Valuation allowance	-10.6%	-16.0%
Depreciation	-8.6%	-3.9%
Other	-1.1%	0.0%
Effective income tax rate	0.0%	0.0%

Basis differences of $1.9 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 $183.3 million.

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

	2008	2007
Deferred Tax Assets:		
Deferred gain on sale leaseback	$ 91,778	$ 106,912
Capital leases (net of depreciation)	343,957	301,907
Bad debt reserve	1,678	2,589
Inventory reserve	22,511	17,365
Accrued vacation	27,697	21,271
Claims reserves	86,048	82,444
Pension and other postretirement employee benefits	212,892	227,113
Other accruals	4,284	16,167
Capitalized software	1,650	2,985
NOL carryforward	2,774,297	2,593,348
Union settlement accrural	50,811	66,500
Deferred charges, deposits and other assets	4,877	-
Total Deferred Tax Assets	$ 3,622,480	$ 3,438,601
Deferred Tax Liabilities		
Straight line rents	$3,031	$2,483
Total Deferred Tax Liabilities	$3,031	$2,483
Net Deferred Tax Asset	3,619,449	3,436,118
Valuation allowances	(3,619,449)	(3,436,118)
Net Deferred Tax Asset	$ -	$ -

Net operating loss carryforwards were $7.9 billion and $7.4 billion at September 30, 2008 and 2007, respectively. These carryforwards expire from 2009 through 2028.

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 fiscal years 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 was aimed at resolving the issues and reaching a collective bargaining agreement, but which could have ultimately resulted in an imposed agreement or self-help which meant the unions could strike or management could 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 reached agreements.

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 was not bound by the PEB recommendations, the Company intended to follow the PEB recommendations and recorded a $190.0 million estimated liability to expense as of September 30, 2007. All labor unions ratified the agreements by June 30, 2008. An additional $72.3 million was accrued during fiscal year 2008 as a result of final ratification. Pursuant to the ratified agreements, $117.1 million of this amount was paid during the year ending September 30, 2008. The remaining $145.2 million is expected to be paid during fiscal year 2009 (assuming the Company has adequate funds) and is recorded in "Accrued expenses and other current liabilities" in the Consolidated Balance Sheets.

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 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. 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 was 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 in fiscal year 2008.

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 an agreement executed December 12, 2007. Under the settlement, Amtrak will pay New York $20 million in installments over the next two fiscal years. Amtrak 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. In fiscal year 2008, Amtrak paid $14 million in accordance with the terms of the settlement, and an additional $5 million came due and was paid in December 2008.

In May 2008, American Premier Underwriters (APU, formerly known as Penn Central) filed a lawsuit in federal court in Cincinnati, Ohio, asserting that Amtrak has "eroded" the value of common stock and is seeking $52 million plus accrued interest. APU owns 55% of Amtrak's common stock. The Rail Passenger Service Act of 1970 authorized Amtrak to relieve APU of its responsibility to operate intercity passenger rail service in return for a specified charge to be paid by APU to Amtrak based on certain losses of APU. APU chose to take advantage of that opportunity, entered into a 1971 agreement with Amtrak, paid $52 million as required under the prescribed arrangement and received common stock at par value. In July 2008, Amtrak initiated arbitration, as specified in the 1971 agreement under which the common stock was issued, before the standing panel of railroad arbitrators known as the National Arbitration Panel. APU opposed Amtrak's notice of arbitration in the federal court proceeding. The court has ruled denying APU's motion to stay the arbitration. Per the voluntary agreement of the parties, the arbitration has been stayed, pending resolution of APU's filings in response to the court's ruling in favor of Amtrak. Amtrak believes it has numerous meritorious defenses to APU's claims and as a result has not recorded a liability in the consolidated financial statements.

On December 9, 2008, the City of New York (the City) prevailed in a Summary Judgment against Amtrak for $5.7 million relating to a November 16, 1999 force account agreement whereby Amtrak agreed to permit the City to undertake the rehabilitation of several bridges, to provide support services, and to relocate the electrical facilities. The City agreed to reimburse Amtrak for the cost of relocating the electrical facilities but reserved the right to bring action to recoup the cost of relocating the electrical facilities. The City is proposing that pre-judgment simple interest (statutory rate) should run from the time of each payment made to Amtrak. Amtrak is opposing the City's application for interest. Further, Amtrak believes it has grounds for an appeal on the merits of the summary judgment against it. To cover the potential of a full loss, Amtrak has recorded a $9.3 million liability (judgment plus estimated interest) to "Other expense" in the Consolidated Statements of Operations for the year ending September 30, 2008.

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 $7.3 million and improvements to the Wilmington, Delaware train station in the amount of $17.7 million.

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, 2008 and 2007, the reserve was $66,982,000 and $72,767,000, respectively. At September 30, 2008 and 2007, the current portion of the reserve was $4,640,000 and $9,267,000, respectively and is reported in "Accrued expenses and other current liabilities" in the Consolidated Balance Sheets. Of the reserve, $55,981,000 and $59,689,000 relates to costs to be incurred, which will be capitalized when the remediation is performed as of September 30, 2008 and 2007, respectively. Costs of future expenditures for environmental remediation obligations are not discounted to their present value. At September 30, 2008 and 2007, 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 already accounted for in the Reserve Schedule amounts; the figures in the Reserve Schedule reflect only Amtrak's portion of the liability, therefore there is no "receivable" to note. In those instances where Amtrak has received a buyout of third party liabilities, these amounts are considered credits against past capital expenses, and therefore cannot be viewed as receivables.

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, 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.

OBLIGATIONS AND FUNDED STATUS

Amtrak adopted SFAS 158 on September 30, 2007 on the required prospective basis (see Note 3). 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, 2008, and a statement of the funded status as of September 30, 2008 and 2007 (in thousands):

Pension and other postretirement benefit amounts recognized in the Consolidated Balance Sheets at Sep-

	Pension Benefits (000's)		Other Benefits (000's))	
Reconciliation of Projected Benefit Obligation:	2008	2007	2008	2007
Obligation at October 1,	$248,773	$227,283	$642,247	$620,240
Service cost	8,625	9,627	22,361	30,239
Interest cost	15,262	17,446	39,450	47,717
Change due to change in discount rate	(38,759)	-	(95,198)	-
Actuarial loss (gain)	2,601	4,763	8,248	(34,481)
Benefit payments	(9,290)	(10,346)	(22,854)	(21,468)
Obligation at September 30,	$227,212	$248,773	$594,254	$642,247

	Pension Benefits (000's)		Other Benefits (000's)	
Reconciliation of Fair Value of Plan Assets:	2008	2007	2008	2007
Plan assets at October 1,	$242,126	$194,772	$ -	$ -
Actual (loss) gain on plan assets	(36,634)	37,778	-	-
Employer contributions	17,000	19,922	22,854	21,468
Participant contributions	-	-	680	754
Medicare D subsidy	-	-	774	932
Benefit payments	(9,290)	(10,346)	(24,308)	(23,154)
Plan assets at September 30,	$213,202	$242,126	$ -	$ -

	Pension Benefits (000's)		Other Benefits (000's)	
Funded Status:	2008	2007	2008	2007
Net liability recognized in Consolidated Balance Sheets	$(14,010)	$(6,647)	$(594,254)	$(642,247)
Accumulated Benefit Obligation (ABO) at September 30,	$202,003	$220,894	$ 594,254	$ 642,247

tember 30, 2008 and 2007 are as follows (in thousands):

	Pension Benefits		Other Benefits	
	2008	2007	2008	2007
Current liabilities	$(14,010)	$(6,647)	$ (27,494)	$ (22,095)
Noncurrent liabilities	-	-	(566,760)	(620,152)
Net amount recognized	$(14,010)	$(6,647)	$(594,254)	$(642,247)

Pension and other postretirement benefit amounts recognized in accumulated other comprehensive loss at September 30, 2008 and 2007 are as follows (in thousands):

	Pension Benefits		Other Benefits	
	2008	2007	2008	2007
Net loss	$21,593	$2,074	$111,722	$205,044
Prior service cost	24	221	3,071	11,192
Net amount recognized	$21,617	$2,295	$114,793	$216,236

COMPONENTS OF NET PERIODIC BENEFIT COST

The following table provides the components of net periodic benefit cost for the plans for fiscal years 2008 and 2007 (in thousands):

	Pension Benefits		Other Benefits	
	2008	2007	2008	2007
Service cost	$ 8,625	$ 9,627	$22,361	$30,239
Interest cost	15,262	17,446	39,450	47,717
Expected return on plan assets	(19,044)	(19,582)	-	-
Amortization of prior service cost	198	247	1,126	1,407
Amortization of net loss	-	-	13,367	23,427
Net periodic benefit cost	$ 5,041	$ 7,738	$76,304	$102,790

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 $24,000. 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 $6,000,000 and $32,000, respectively.

PLAN ASSETS

The pension plan's assets consist primarily of equity investments and U.S. fixed income investments and real estate. 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, 2008 and 2007 by asset category are as follows:

	Plan Assets at September 30,	
	2008	2007
Equity securities	60.6%	64.1%
Fixed income securities	25.3%	23.4%
Real Estate	11.8%	10.1%
Cash and cash equivalents	2.3%	2.4%

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:

	Plan Assets	
	2008	2007
U.S. equity securities	40% - 60%	40% - 60%
International equity securities	10% - 20%	10% - 20%
U.S. fixed income securities	20% - 30%	20% - 30%
Real estate and other	5% - 15%	5% - 15%

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 8% - 13% for equities, 5% - 6% for fixed income securities and 3% - 7% for real estate and other.

ESTIMATED FUTURE BENEFIT PAYMENTS

Based upon the assumptions used to measure the pension and other postretirement benefit obligations at September 30, 2008, 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
2009	$10,474	$27,494
2010	$11,306	$31,262
2011	$12,220	$35,568
2012	$13,367	$39,816
2013	$14,730	$43,980
2014 - 2018	$94,844	$273,813

CONTRIBUTIONS

Amtrak expects to make a $16,000,000 contribution to the defined benefit pension plan in 2009. Also in 2009, it expects to contribute $27,494,000 toward other postretirement benefits.

ASSUMPTIONS

Weighted-average assumptions used to determine benefit obligations at September 30, 2008 and 2007 are as follows:

	Pension Benefits		Other Benefits	
	2008	2007	2008	2007
Discount rate	7.60%	6.25%	7.60%	6.25%
Rate of compensation increase	4.00%	3.50%	N/A	N/A

Weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30, 2008 and 2007 are as follows:

	Pension Benefits		Other Benefits	
	2008	2007	2008	2007
Discount rate	6.25%	6.25%	6.25%	6.25%
Expected long-term return on assets	8.00%	8.00	N/A	N/A
Rate of compensation increase	4.00%	3.50%	N/A	N/A

Assumed healthcare cost trend rates at September 30, 2008 and 2007 are as follows:

	Other Benefits	
	2008	2007
Healthcare cost trend rate assumed for next year	10% - 11%	11%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5%	5%
Year that the rate reaches the ultimate trend rate	2015	2014

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the other defined benefit post retirement plans. 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	$ 9,271	$ (8,784)
Effect on postretirement benefit obligation	$78,686	$(46,272)

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. Amtrak elected to record an estimate of the effects of the Medicare Act in accounting for its postretirement benefit plans and provide disclosures required by SFAS No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", an amendment of FASB Statements No. 87, 88, 106 and 132(R). Amtrak's ABO for its other benefits is reduced by $38.4 million and $61.4 million for fiscal year 2008 and 2007, 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 $8,657,000 and $7,953,000 for the years ended September 30, 2008 and 2007, respectively.

NOTE 12:
FAIR VALUE OF FINANCIAL INSTRUMENTS

For cash and cash equivalents, restricted cash, 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, 2008 and 2007 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, 2008 and 2007 market interest rates. The estimated fair values of these financial instruments are as follows (in thousands:

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FRA loan	$ -	$ -	$ 21,136	$ 20,589
Mortage obligation	227,510	245,916	240,805	287,329
Bonds, net of discount	46,713	47,466	61,374	65,128
UDAG loan	10,927	9,304	11,057	9,196
	$285,150	$302,686	$334,372	$382,242

NATIONAL RAILROAD PASSENGER CORPORATION and SUBSIDIARIES (AMTRAK) - ANNUAL STATISTICAL REPORT

PERFORMANCE INDICATOR	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Revenues: *(in millions of dollars)*										
Passenger Related (excluding 403b)	1,058	1,166	1,261	1,339	1,261	1,312	1,295	1,426	1,577	1,791
403b Services	100	111	123	129	136	137	141	139	154	164
Passenger Related	1,158	1,277	1,384	1,468	1,397	1,449	1,436	1,565	1,731	1,955
Mail and Express [8]	98	122	117	125	-	-	-	-	-	-
Commuter	261	274	289	295	258	118	119	115	117	130
Other	303	326	298	324	321	276	302	329	302	341
Federal Payments and State Capital Payments [1]	191	112	21	16	18	22	29	33	2	27
Total Revenue	**2,011**	**2,111**	**2,109**	**2,228**	**1,994**	**1,865**	**1,886**	**2,042**	**2,153**	**2,453**
Expenses: *(in millions of dollars)*										
Salaries, Wages, and Benefits	1,457	1,558	1,667	1,617	1,517	1,452	1,512	1,484	1,662	1,625
Train Operations	194	216	263	252	190	187	193	203	210	220
Fuel, Power, and Utilities	132	164	188	175	184	184	228	276	284	370
Materials	131	148	128	123	156	149	133	162	179	202
Facility, Communication, and Office Related	155	173	176	155	135	129	130	136	141	152
Advertising and Sales	109	107	106	99	75	78	71	75	83	98
Casualty and Other Claims	74	78	117	161	118	89	26	115	26	63
Depreciation Net of Gain on Sale-Leasebacks	327	359	467	479	584	551	558	446	454	499
Other (Including Indirect Costs Capitalized to Property & Equipment)	81	73	176	163	141	131	89	107	141	181
Total Expense	**2,660**	**2,876**	**3,288**	**3,224**	**3,100**	**2,950**	**2,940**	**3,005**	**3,180**	**3,410**
Operating Loss	**(649)**	**(765)**	**(1,179)**	**(996)**	**(1,106)**	**(1,085)**	**(1,054)**	**(963)**	**(1,027)**	**(957)**
Other Income and (Expense): *(in millions of dollars)*										
Interest Income	30	53	85	76	74	74	82	95	99	91
Interest Expense	(83)	(107)	(154)	(212)	(210)	(203)	(207)	(200)	(193)	(267)
Other Expense - Net	**(53)**	**(54)**	**(69)**	**(136)**	**(136)**	**(129)**	**(125)**	**(105)**	**(94)**	**(176)**
Loss Before Discontinued Operations and Cumulative Effect of Accounting Changes	**(702)**	**(819)**	**(1,248)**	**(1,132)**	**(1,242)**	**(1,214)**	**(1,179)**	**(1,068)**	**(1,121)**	**(1,133)**
Loss from Discontinued Operations [2]	-	-	-	-	(32)	(95)	(13)	-	-	-
Cumulative Gain/(Loss) Effect of Accounting Changes [3]	-	51	-	-	-	-	-	-	-	-
GAAP Loss	**(702)**	**(768)**	**(1,248)**	**(1,132)**	**(1,274)**	**(1,309)**	**(1,192)**	**(1,068)**	**(1,121)**	**(1,133)**
Pro Forma Loss With Changes Applied Retroactively	***(694)***	***(819)***	***n/a***	***n/a***	***n/a***	***n/a***	***n/a***	***n/a***	***n/a***	***n/a***
Federal Payments and Related Income, and State Capital Payments	(214)	(176)	(24)	(17)	(18)	(22)	(29)	(33)	(2)	(27)
Amtrak Loss [4]	**(916)**	**(944)**	**(1,272)**	**(1,149)**	**(1,292)**	**(1,331)**	**(1,221)**	**(1,101)**	**(1,123)**	**(1,160)**
Federal Grants Appropriated: *(in millions of dollars)*										
Federal Operating Grant	-	-	-	205	519	756	711	490	475	475
General Capital Funding	609	571	521	521	524	462	492	772	848	848
NECIP / NHRIP Funding	-	-	-	-	-	-	-	-	-	-
High-Speed Rail	-	-	-	-	-	-	-	-	-	-
Taxpayer Relief Act	-	-	-	-	-	-	-	-	-	-
Other Federal Grants	-	-	-	105	-	-	-	31	-	-
Federal Grants Drawn: *(in millions of dollars)*										
Federal Operating Grant	-	-	-	205	519	756	711	485	485	475
General Capital Funding	243	593	551	833	476	510	492	772	772	808
NECIP / NHRIP Funding	25	-	-	-	-	-	-	-	-	-
High-Speed Rail	-	-	-	-	-	-	-	-	-	-
Taxpayer Relief Act	1,092	-	-	-	-	-	-	-	-	-
Other Federal Grants	-	-	-	25	7	15	27	13	13	32

PERFORMANCE INDICATOR	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Financial Ratios:										
Operating Ratio *(Total Expense /Total Revenue [4])*	**1.46**	**1.44**	**1.57**	**1.46**	**1.57**	**1.60**	**1.58**	**1.50**	**1.48**	**1.41**
Current Assets *(in millions of dollars)*	982	376	274	449	405	477	455	497	605	637
Current Liabilities *(in millions of dollars)*	689	779	996	974	1,059	955	901	901	960	1,124
Working Capital Ratio	**1.43**	**0.48**	**0.28**	**0.46**	**0.38**	**0.50**	**0.50**	**0.55**	**0.63**	**0.57**
Cash and Short-Term Investments: *(in millions of dollars)*										
Year-End Cash and Cash Equivalents, and Short-Term Investments	156	107	33	169	182	247	138	212	234	330
On-Time Performance:										
Amtrak Systemwide	79%	78%	75%	77%	73%	71%	70%	68%	69%	71%
Operating Statistics:										
Amtrak Systemwide Passenger Miles [5] *(in millions)*	5,330	5,498	5,559	5,468	5,503	5,558	5,391	5,358	5,654	6,160
Amtrak Systemwide Seat Miles *(in millions)*	12,064	11,629	12,204	12,380	12,091	11,656	11,421	11,246	11,568	11,801
Amtrak Systemwide Load Factor *(Passenger Miles/Seat Miles)*	44%	47%	46%	44%	46%	48%	47%	48%	49%	52%
Amtrak Systemwide Route Miles *(in thousands)*	23	23	23	23	23	23	23	21	21	22
Train Miles *(in millions)*	34	35	36	38	37	37	37	36	37	38
Passenger Miles Per Train Mile [5]	156.8	157.1	154.4	143.9	148.7	150.2	145.7	148.8	151.4	162.1
Ticket Yield (Ticket Revenue per Pax Mile) [5] *(cents)*	18.9	20.3	21.8	23.6	22.1	22.6	23.1	25.6	26.9	28.2
Yield (Pax Related Revenue per Pax Mile) [5,6] *(cents)*	19.8	21.2	22.7	24.5	22.9	23.6	24.0	26.6	27.9	29.1
Average Trip Length of Passengers *(miles)*	247.9	244.4	236.6	233.7	229.3	221.4	222.8	220.5	219.1	214.6
Total Revenue per Seat Mile [4] *(cents)*	15.1	17.5	17.8	18.5	17.0	16.4	17.0	18.7	19.5	21.3
Total Expense per Seat Mile *(cents)*	22.7	25.7	28.2	27.8	27.4	27.1	27.6	28.5	29.2	31.2
Core Revenue per Seat Mile [7,9] *(cents)*	11.5	13.6	13.3	14.0	12.8	13.5	14.0	15.5	16.4	18.1
Core Expense per Seat Mile [9] *(cents)*	19.3	21.7	23.9	23.1	23.1	23.8	24.2	25.1	26.1	27.2
Ridership (Passenger Trips): *(in millions)*										
Amtrak Systemwide	21.5	22.5	23.5	23.4	24.0	25.1	24.2	24.3	25.8	28.7
Contract Commuter Passenger Trips *(in millions)*	58.3	61.6	63.4	66.0	56.1	27.2	28.7	19.2	19.2	18.9
Total Ridership (Amtrak & Commuter) *(in millions)*	79.8	84.1	86.9	89.4	80.1	52.3	52.9	43.5	45.0	47.6
Stations Served by Amtrak	510	515	512	515	514	517	518	503	497	524

NOTES:

Where applicable, prior year's amounts have been restated to conform with the current year's presentation.

1 Includes federal payments received related to grants and Taxpayer Relief Act (TRA) funds, as well as state capital payments received.

2 Includes charges related to the discontinued Mail and Express operations.

3 The $50.7M gain in FY00 is the result of changes in accounting for state capital payments and start-up costs.

4 Federal payments received related to grants and TRA funds, state capital payments received, plus investment income earned ($34.6M, $23.1M, $12.1M, $2.9M and $0.7M in FY98-02, respectively) on TRA funds drawn are excluded from the operating ratio, and applicable revenue-based operating statistics.

5 Passenger miles do not include contract commuter passengers.

6 Passenger related revenue excludes state 403(b) service revenue.

7 Core revenues include passenger related, 403(b) service revenue, mail and express, and certain other revenues (specifically: commuter fees, freight railroad access fees and miscellaneous other).

8 Mail and Express operations were discontinued in FY'04.

9 Mail and Express operations were discontinued in FY'04. Core revenues and expenses exclude Mail & Express operations beginning in FY'03.

Amtrak
60 Massachusetts Avenue, N.E.
Washington, D.C. 20002
Amtrak.com