National Railroad Passenger Corporation

Amtrak®

1990
Annual
Report

Five-Year Comparison of Amtrak's Performance

	1990	1989	1988	1987	1986
Revenues (millions)	**$1,308.4**	$1,269.1	$1,106.7	$ 973.5	$ 861.4
Expenses (millions)	**$2,011.8**	$1,934.5	$1,757.1	$1,672.0	$1,563.6
Revenue-to-Expense Ratio	**.72**	.72	.69	.65	.62
Revenue-to-Short-Term Avoidable Cost Ratio*	**1.20**	1.20	1.15	1.03	.96
Revenue-to-Long-Term Avoidable Cost Ratio**	**.93**	.91	.90	.79	.78
Passenger Miles (millions)***	**6,057**	5,859	5,678	5,221	5,013
Passenger Miles per Train-Mile***	**183.3**	188.4	188.3	176.8	172.2
Systemwide On-Time Performance	**76%**	75%	71%	74%	74%

Ridership (millions)					
Amtrak System	**22.2**	21.4	21.5	20.4	20.3
Contract Commuter	**18.0**	17.4	15.4	10.2 ****	.7
Total	**40.2**	38.8	36.9	30.6	21.0

* Short-term avoidable costs — Costs of activities that would stop with the discontinuance of a route or train, or begin with the introduction of a new route or train. Such costs include train and engine crews, fuel and power, and maintenance of way.

** Long-term avoidable costs — All short-term avoidable costs, plus claims expenses, heavy maintenance and a portion of corporate and field overhead.

*** Contract commuter passengers not included.

**** Effective January 1, 1987, Amtrak began providing commuter service under contract to the Massachusetts Bay Transportation Authority.

As Amtrak approaches its 20th Anniversary,

it has succeeded in creating a stable, cost-effective

national rail passenger system. Growing concerns about

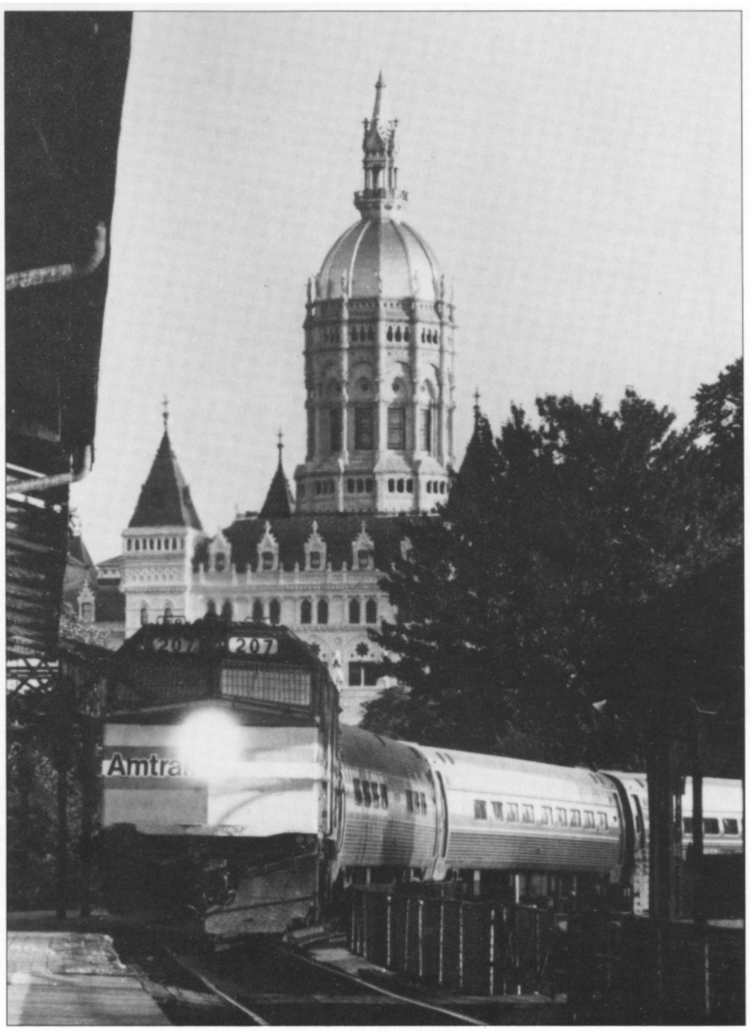
the cost of energy and the health of the

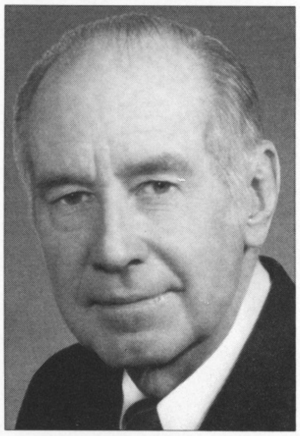
nation's environment may well make the next 20 years a

period of significant growth in conventional

and high-speed rail passenger service

between urban centers and across rural America.





W. Graham Claytor, Jr.
President and Chairman

President's Report

1990 was an important year for Amtrak, for it vividly highlighted the two key factors — one positive and one negative — that ultimately will define our success in the new decade. On the positive side, although Amtrak's financial performance did not meet the aggressive projections originally forecast for the year, the railroad nonetheless had a record year in terms of revenue, ridership and passenger miles. This is a significant and telling achievement, especially when compared to the poor performance this year of other sectors of the travel industry. The continuing growth of Amtrak's market during a time of economic downturn bodes well for a decade of expanding demand for Amtrak service and a better bottom line, particularly as the national economy recovers.

The past year, however, also emphasized the serious infrastructure deficiencies facing Amtrak as a result of a decade of under-capitalization. Amtrak is consuming its assets — passenger equipment, locomotives, facilities, and information systems — at a far faster rate than it is replacing them. The primary challenge of the new decade will be to reverse this trend: to replenish our exhausted fleet of cars in order to maintain and expand ridership, to replace our aging information systems, to continue to improve productivity, and to implement our ambitious plans to eliminate Amtrak's need for federal operating support. At the same time, Amtrak must recommit itself to providing the highest quality of service for our passengers: from accurate travel information, to clean and attractive trains that leave and arrive on time, with service provided by courteous, helpful employees.

Amtrak will pass a milestone on May 1, 1991 — our 20th Anniversary. The reemergence of rail passenger service as a marketable, energy-efficient and safe mode of transportation in this country is a tribute to those who had the vision to create Amtrak out of the ashes of a dying rail passenger industry. Today, Amtrak is covering more of its costs with revenue than any comparable passenger railroad in the world. Passengers are traveling longer distances and more miles than at any time since Amtrak was established. And, we are the operator of choice for commuter rail systems and high-speed systems which are being created to cope with the gridlock facing the nation's highways and airports.

Most importantly, in the face of rising energy costs and concerns about the deteriorating condition of the nation's transportation system, Amtrak has proven it is a reliable and energy-efficient alternative mode of transportation to which a growing sector of the population — both urban and rural — is looking for its transportation needs.

This coming decade will define the role Amtrak is to play in the nation's future. There is enormous interest in every region of the country for expanded rail passenger service as a means of coping with growing transportation congestion. Recent energy security concerns have only heightened this interest. Yet, new service requires capital funds for additional equipment and, in many cases, operating funds to support train service. If Amtrak is to meet the challenge of growing demand and expanding service at the same time it is taking steps to become operationally self-sufficient, it must find a secure, reliable source of capital funds to support investment in new equipment and facilities. We have the managerial skills, the trained employees, the desire, and the dedication to play a dominant role in the American transportation system. With sufficient capital to back us, Amtrak's third decade will be its most dynamic, important and successful yet.

W. Graham Claytor, Jr.

W. Graham Claytor, Jr.
President and Chairman

Management Committee: (clockwise from left)
***W. Graham Claytor, Jr.**, President and Chairman;*
***William S. Norman**, Executive Vice President;*
***Charles W. Hayward**, Vice President-Finance and Administration;*
***Harold R. Henderson**, Vice President-Law;*
*and **Dennis F. Sullivan**, Executive Vice President and Chief Operating Officer.*

Despite the economic downturn, Amtrak had a record year in nearly every way.

A Year of Continued Success

As a rule of thumb, the best measure of the success of a business is not its achievements during a period of economic prosperity, but rather its sustained performance over the long term, including periods of stagnant or falling economy. Amtrak has achieved outstanding financial success during the past decade of economic expansion, doubling its revenues, expanding passenger miles by some 32 percent, and improving its most important financial measure — the amount of costs covered by self-generated revenues — from a low of 48 percent to last year's record 72 percent.

However, a real test of Amtrak's market and financial strength came during the past year — Fiscal Year (FY) 1990 — a period of little growth in the national economy. Rising prices, the recent doubling in the cost of crude oil, and falling consumer confidence led to steep declines in various sectors of the travel and tourism industry. The airline industry, in particular, experienced declining profits, rising costs, lay-offs of significant numbers of employees, and far-reaching corporate restructurings throughout the industry.

Despite the economic downturn, Amtrak had a record year in nearly every way. Although the growth in revenue and passenger miles did not match the rapid rates achieved last year, and Amtrak's revenue-to-cost ratio remained unchanged at .72, the nation's intercity passenger railroad did post its highest revenues, passenger miles, and ridership ever. It was able to expand service and introduce innovative new revenue-generating concepts such as the *Metroliner* Club/ Conference Car and a direct through connection with Midway Airlines for travel to Atlantic City. At the same time, in constant FY 1971 dollars, Amtrak reduced its need for federal operating assistance to the lowest level in 16 years.

Amtrak's ability to move forward as the national economy fell behind is the product of several factors: the strength of the market for rail passenger service in this country; the appeal of Amtrak service after two decades of improvements; and overall marketing efforts to maximize the revenue potential of Amtrak's limited fleet. Indeed, higher gasoline prices and rapidly escalating airline fares should make Amtrak's energy-efficient rail service an even more attractive and more economical alternative in the coming months. Steps to acquire substantial additional passenger cars and locomotives during the next several years come none too soon. As the nation's economy recovers, growing demand and added capacity will mean a decade of strong performance and opportunity.

During FY 1990, transportation-

National Geography Bee Champ Rides the Rails from Altoona

"Mount Erebus is a volcano on which continent?"

For 11-year-old Susannah Batko-Yovina of Altoona, Pa., this was the last question she had to answer on her way to winning the second annual National Geography Bee in Washington.

Susannah and more than three million students in the United States participated in various levels of the contest. As the Pennsylvania state winner, Susannah joined 56 contestants representing all 50 states, five territories, the District of Columbia and the Department of Defense Schools for the final rounds in Washington last May. Amtrak is a major sponsor of the Geography Bee.

Susannah feels the key to winning is her love of reading.

"I read the New York *Daily News*, the (Pittsburgh) *Gazette*, the (Altoona) *Mirror* and weekly news magazines," she says.

Amtrak sponsored the Bee to introduce its service to the next generation of prospective rail travelers. But Susannah needed no introduction to trains. She and her family are fans of Amtrak, catching the *Broadway Limited* to Philadelphia and New York and *Auto Train* to Florida.

Susannah says riding trains is not only fun but has been a valuable experience in her geography education.

"When riding on Amtrak, you get a closer look at everything. It's great to see the scenery. On a plane, you can't see anything. Besides, riding Amtrak is better for the environment."

In addition to earning a $25,000 scholarship, Susannah won roundtrip Amtrak tickets to any destination for her and her family. She plans to head out West and see some of the sights in the national parks.

But Susannah knows Mount Erebus isn't in any national park. She remembers reading about the volcano in a recent *Time* magazine cover story on... Antarctica.

The San Joaquin *skirts San Pablo Bay between Oakland and Bakersfield with three daily round trips. A 36.6 percent increase in ridership last year made this one of Amtrak's fastest growing routes.*

related revenues grew a strong seven percent to $1.15 billion. Total corporate revenues, including real estate development and other revenue enhancement programs, reached $1.31 billion, the highest in Amtrak's history and a modest three percent over last year's record level. More intercity and commuter passengers traveled longer distances over Amtrak's national route system than at any time in its history.

Indeed, FY 1990's record systemwide intercity passenger miles of 6.1 billion far exceeded the total number of passenger miles accumulated by the 27 railroads operating passenger service in this country in 1969, the year before Amtrak was created. In all, Amtrak carried some 22.2 million intercity passengers and 18.0 million contract commuter passengers during the year — a record total of 40.2 million rail passengers. The growth in ridership and revenues in the intercity rail passenger market is significant, for it comes at a time when many trains are sold out weeks, even months in advance.

Part of the improvement reflects the addition to the fleet of 104

Horizon fleet cars acquired during 1989 and 1990. The new cars have eased standing-room-only conditions on Northeast Corridor trains and reduced overcrowding somewhat on Midwest short-distance trains. Nonetheless, many passengers still are being turned away for lack of space and there is significant opportunity for additional passenger revenues once new Superliner and Viewliner cars arrive in the coming years.

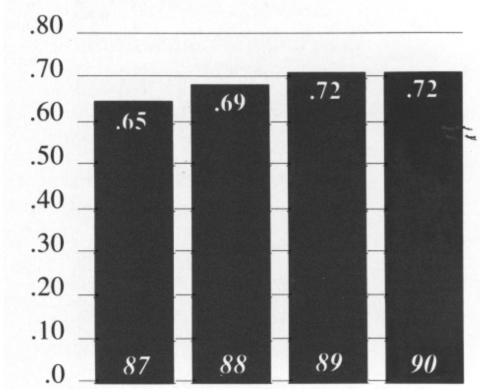
Amtrak's long-distance trains registered significant ridership gains during the year. On Amtrak's Eastern long-distance trains — including the Florida trains, the *Crescent*, the *Capitol* and *Broadway Limited*s, the *Cardinal* and the *Montrealer* — the number of passengers increased 10 percent over last year's record level and total passenger miles rose 5.1 percent. Western long-distance trains — including the *California Zephyr*, the *Southwest Chief*, the *Coast Starlight*, and the *Empire Builder* — also recorded a substantial ridership gain of five percent and an increase in passenger miles of 3.8 percent. Northeast Corridor trains, which accounted for 25 percent of systemwide passenger miles, saw limited ridership growth of about one percent.

Although *Metroliner Service* ridership actually declined, reflecting curtailed business travel (on both rail and the competing air shuttles) during this period of slower economic growth, *Metroliner Service* revenues were up by seven percent, and Amtrak's share of the combined rail/air market between New York and Washington climbed slightly to 36 percent. Amtrak remained the largest carrier in the New York-Washington market for the third straight year, and it continued to be the predominant carrier among all the Northeast Corridor cities between Washington and New York with over 70 percent of the market.

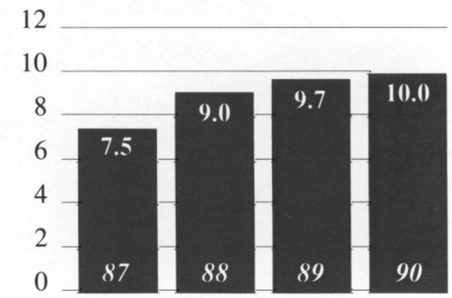
Amtrak's service between New York and Albany — some eight round-trips each day — experienced slight ridership growth this year. Completion of the Westside Connection in April 1991, which will make direct connections possible between service to upstate New York and other Northeast Corridor trains for the first time, is projected to increase ridership an additional 15-25 percent. Amtrak's *San Diegan* service between Los Angeles and San Diego also recorded an important gain in ridership, which is approaching two million yearly passengers. Plans for an additional ninth and tenth frequency to the service — already Amtrak's second busiest — will further position Amtrak to be the mode of choice for travel in the *San Diegan* corridor.

As in the past, Amtrak succeeded in controlling the growth of expenses, and, indeed, expenses for the year came within budget. Nonetheless, the increasing cost of maintaining an aging fleet of locomotives and passenger cars — up nine percent over last year — continues to under-

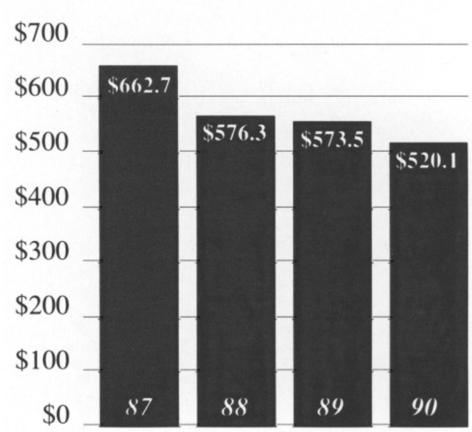
Revenue-to-Expense Ratio



Passenger Miles per Dollar of Federal Support
(In constant FY 1990 dollars)



Operating Subsidy
(In constant FY 1990 dollars, in millions)



Amtrak chef Eric Sims believes frequent long-distance train travelers will notice the positive changes in food preparation and presentation in dining cars since he and fellow chefs completed training at the renowned Culinary Institute of America.

It's Finer in the Diner

Dinner on Amtrak's diners is finer now that all of its chefs have completed a refresher training course with some of the nation's best instructors.

More than 140 chefs, quality control staff and key management employees have graduated from an intensive, week-long, 45-hour class at the Culinary Institute of America, located in Hyde Park, N.Y. Designed especially for Amtrak, the class teaches employees how to provide the kind of superior quality food that will turn customers into repeat customers.

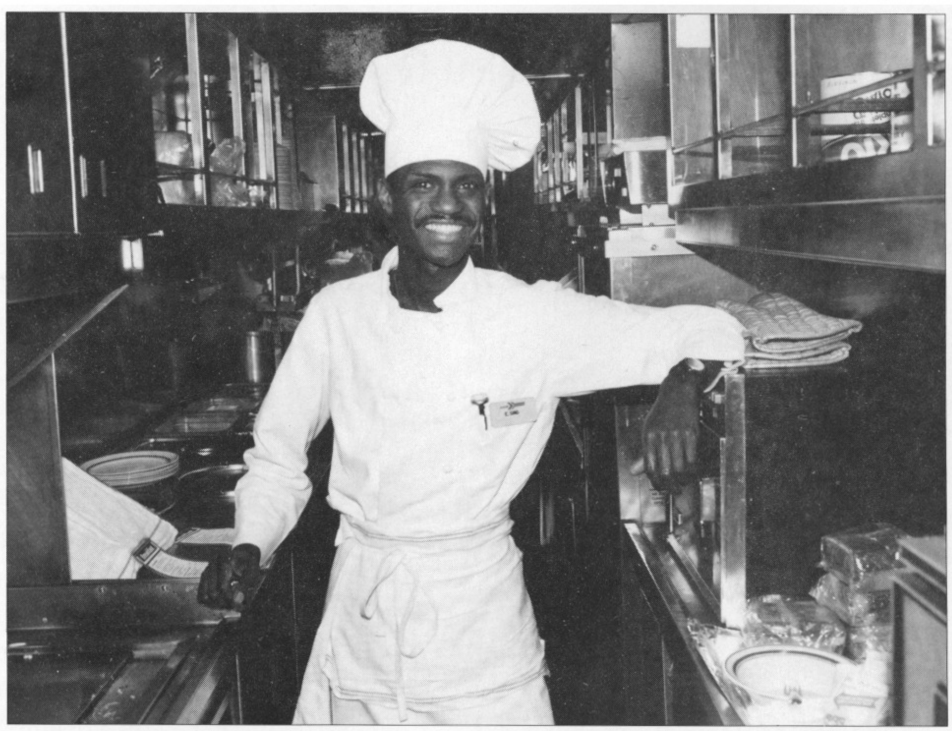
Taught by master chefs, the students study and practice food presentation, portion control, nutrition, sanitation and kitchen organization. Students are placed in teams to prepare meals and then critique each other's work and get invaluable suggestions from the master chef.

Eric Sims, a chef with Amtrak for almost three years, says this course instilled a little creativity in food preparation by adapting Culinary Institute techniques to Amtrak's food line.

"People who have ridden Amtrak before will notice the difference in the food and its preparation," said Sims.

An extra benefit of the training, according to Sims, is that it brought chefs from around the country together for the first time and gave them a feeling of unity.

Food specialists, who assist Amtrak chefs in the galley, and dining car stewards will attend Culinary Institute classes in the coming year. A refresher course for students who have already graduated is also planned.



mine Amtrak's efforts at improving its bottom line. Improved maintenance systems and employee productivity, coupled with planned equipment purchases and new state-of-the-art equipment designs, should help limit the growth of these costs in coming years.

Rising fuel prices also are putting pressure on cost containment. Fortunately, fuel costs represent only three percent of Amtrak's total cost of operations, compared to approximately 15-20 percent in the airline industry. This differential between Amtrak and the airlines will mean added flexibility for Amtrak to keep its fares competitive.

The overwhelming national support for Amtrak was reflected in the enactment this past year of the first free-standing legislation authorizing continued federal support for Amtrak since 1979. On July 6, President Bush signed the Amtrak Reauthorization and Improvement Act of 1990. The new law makes several important changes to the Rail Passenger Service Act, enabling Amtrak to operate more efficiently. It also endorsed Amtrak's continuing efforts to eliminate its need for federal operating support by the turn of the century.

Perhaps even more importantly, the President's signature on the bill will help ensure that decisions involving Amtrak will be made solely on the basis of economics and sound public policy.

New Service to Meet Demand

The search for new energy-efficient, environmentally benign means of reducing highway and airport congestion has led many federal and state planners to seek new or more frequent Amtrak passenger service. Amtrak is determined to add new service whenever there is available equipment and the costs of new operations do not require additional federal subsidy. Where new trains will incur significant operating losses, Amtrak continues to look to the state or states through which the train will operate to share costs.

Five new trains were added during FY 1990. All are financially supported in part by state governments and together they represent an important expansion of the Amtrak system. In October 1989, two round trips were added to the *Hiawatha Service* between Chicago and Milwaukee, raising the total number of trains in the service to five. The states of Illinois and Wisconsin are helping fund the new service. Financial support from the state of Alabama made possible the inauguration of the Birmingham-to-Mobile *Gulf Breeze*, with through service via the *Crescent* to New York. A popular new state-supported *Carolinian* service was added this past spring between Rocky Mount and Charlotte, N.C., with through service to New York.

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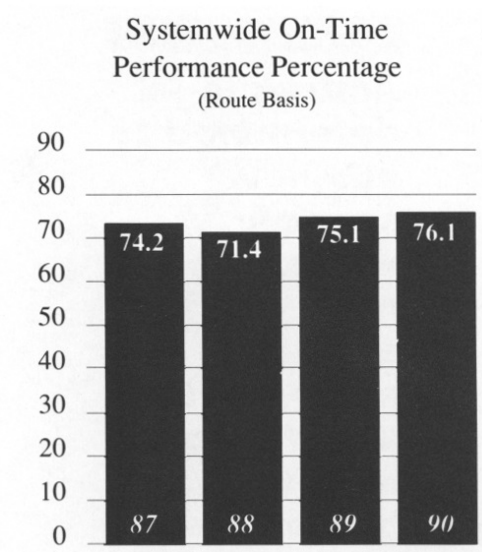


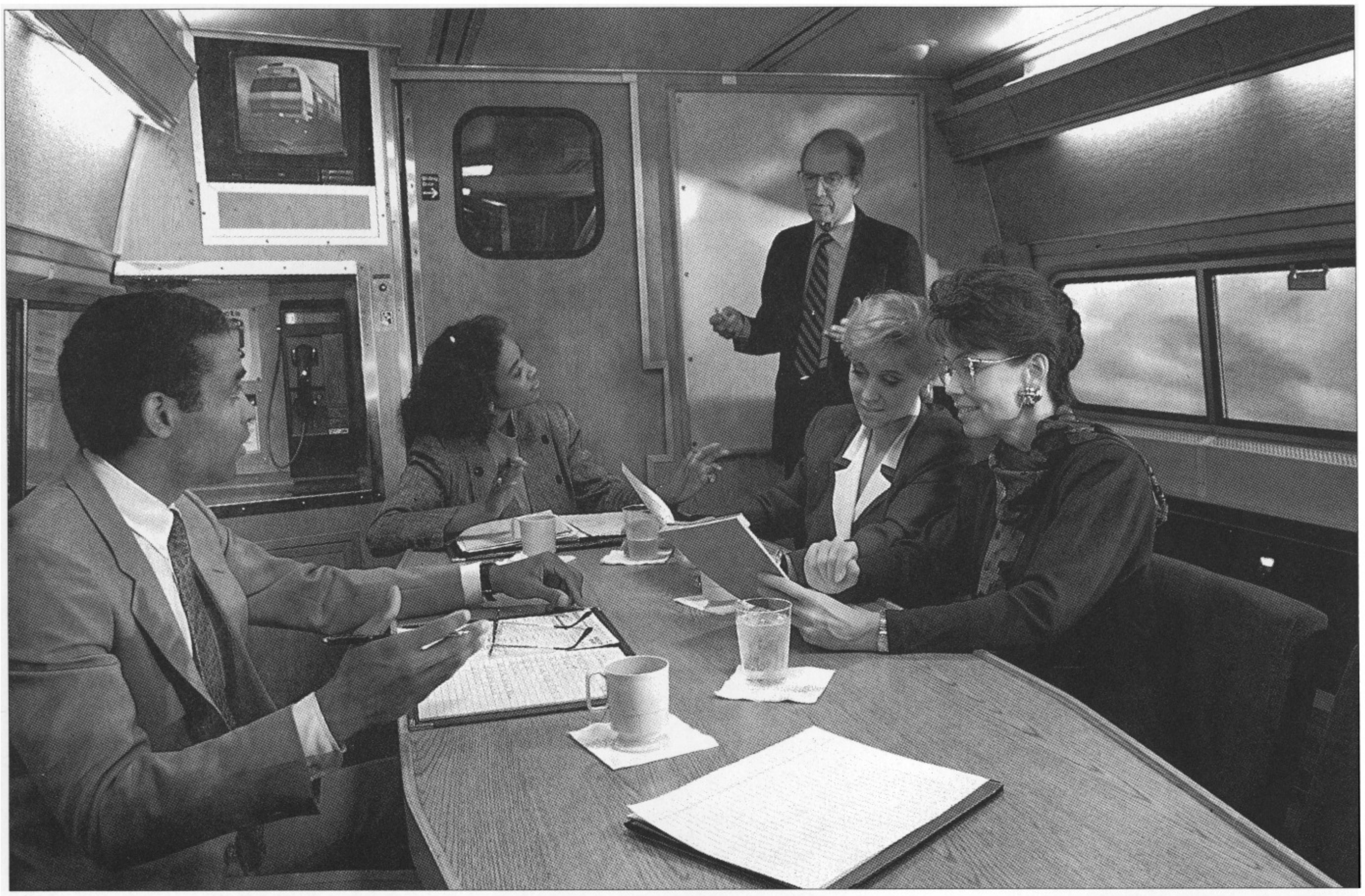
In addition, the state of California funded the purchase of new equipment necessary to add a third round trip to the very popular *San Joaquin* service between Bakersfield and Oakland. California is leading the nation in looking to state-funded rail projects as an alternative to the severe highway congestion choking its cities. In June, voters approved two rail bond issues that will provide nearly $3 billion for improved and expanded intercity and commuter rail service within the state.

Included in the state's plans are additional *San Joaquin, San Diegan* and Santa Barbara trains; improvement of rail passenger stations, including construction of a new station at Jack London Square to replace Amtrak's current Oakland station, which was damaged in last year's earthquake; extension of *San Joaquin* service to Sacramento in the north and Los Angeles in the south; and high-speed rail improvements to permit 125 mph operations along the *San Joaquin* route.

Although California has taken the lead in funding rail service improvements, the demand for new service goes far beyond the Golden State. During FY 1990, Amtrak received more than 350 letters from individual members of Congress and more than 1,000 letters from the general public requesting the institution of new Amtrak routes and service. In addition, Congress directed Amtrak to undertake six new studies of passenger service across the country, including restoration of passenger service between Chicago and Florida via Atlanta, extension of Northeast Corridor service to Maine (including service to southeastern New Hampshire), service between Seattle and Vancouver, restoration of service through Oklahoma, and addition of a second train between Chicago and the West Coast serving central Iowa and Wyoming. Seven states also have requested Amtrak to study new passenger routes. In some cases, marketing and cost studies may indicate that the requested service would require additional federal subsidy and passenger equipment beyond Amtrak's resources.

In addition to new trains, Amtrak is working on new concepts to improve existing service and further distinguish Amtrak's product from those of other carriers. One such concept is the *Metroliner* Club/Conference Car, which has a private conference room equipped with a large table for eight persons, a video player and monitor, Railfone service and a wall-mounted marker board. Four semi-private conference booths for up to four people also are provided, as well as a food-service bar and 18 Club Service seats. The car will enable business groups taking *Metroliner Service* to meet and work together, thereby making the most of their travel time.

In August, Amtrak opened its premiere Metropolitan Lounge at Pennsylvania Station in New York for use by first-class sleeping and



Club Service passengers. The first of several such facilities planned across the country, the Metropolitan Lounge provides business service amenities, complimentary beverage service and newspapers, and private meeting and rest rooms. The new lounge has been extremely well received and serves as an oasis for travelers in the midst of the hustle and bustle of Amtrak's busiest station.

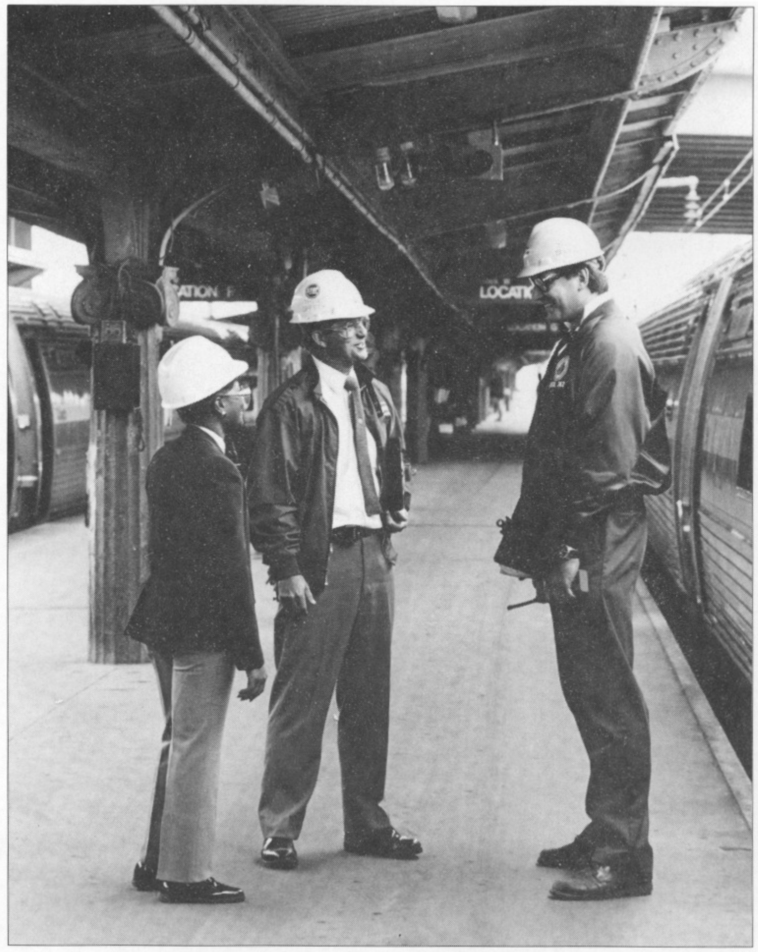
New services such as the Club/Conference Car and first-class lounges are helping attract new passengers and retain existing ones. Amtrak will continue to explore new marketing concepts to further improve service for both its business and long-distance travelers, including expanded Railfone service and on-board movies.

Building Capacity for a New Decade

Adding new trains, particularly for long-distance routes such as the one being studied between Chicago and Florida, requires a significant investment in additional passenger

A prototype Metroliner *Club/Conference Car allows Amtrak to test business travelers' reactions before building more.*

Geri Smith (left), Steve Spies (center) and Joe Petcholan of the Washington Division's Quality Assurance Team coordinate their departments' efforts to ensure superior quality service on trains departing Washington Union Station. Bringing the customer back is their number one priority.



Teamwork to Satisfy the Customer

It's the little details that often spell the difference between customer satisfaction or disappointment. The Washington Division's Quality Assurance Team pays attention to those details.

Starting each day at 6 a.m., a team consisting of a conductor, skilled mechanic and Passenger Services employee inspects every train preparing to depart from Washington Union Station. Are the coffee pots working? Do attendants have proper supplies? Are light bulbs, directional signs, telephones, and bathrooms in working order? Is the train clean? If problems are found, they are quickly fixed on the spot. In addition, the Mechanical Department team member rides selected trains to identify and fix problems en route that may not have been apparent prior to the trip.

The impact of the team has been significant, for not only is service quality improved, but the spirit of cooperation among departments helps improve employee morale.

equipment. Yet, before Amtrak can even consider the needs of new long-distance routes, it must address its shortage of equipment on existing routes and its need to replace the older Heritage fleet with a new generation of modern, efficient and highly marketable cars. The number of cars available for long-distance service actually has declined since receipt of the last Superliner cars in 1982. Sold-out trains represent a lost opportunity for significantly increasing revenues. The goal of eliminating Amtrak's need for federal operating support will not be possible without an enhanced capacity to transport passengers and meet passenger demand.

Amtrak has identified a need for 179 additional bi-level Superliner cars and 223 single-level Viewliner cars to augment capacity and gradually replace the inefficient and aging Heritage fleet of nearly 40-year-old cars. During the past year, Amtrak completed its design specifications for the new Superliners and negotiated with manufacturers for their purchase. Design work on the Viewliner cars also neared completion. In early 1991, Amtrak's Board of Directors will be asked to approve the acquisition of Superliner cars, which could begin arriving in the first half of 1993. The Board also is expected to consider final plans for a Viewliner car order by mid-1991. Much of the funding for these cars will come from the private financial market, supplemented with some federal capital funds.

The new cars will include several important changes mandated by Congress. The Americans With Disabilities Act, enacted in July, requires all new rail passenger cars be accessible to individuals with disabilities. Changes in the design of new cars will reflect Amtrak's goal of providing superior service to all its passengers, including mobility-impaired and other disabled passengers. In addition, cars will include state-of-the-art waste-retention toilet systems to eliminate the need to release wastes along the right-of-way. Amtrak also intends to retrofit many of its existing cars with these new retention systems over the next six years.

When delivered, some of the bi-level Superliner cars will be used to convert *Auto Train*, the *City of New Orleans*, and the *Capitol Limited* from single-level Heritage cars, greatly improving capacity and marketability for these popular trains. Additional sleeping cars on many presently sold-out Western long-distance trains can generate high revenues with little additional operating cost. New cars also will enable Amtrak to make the *Cardinal* a daily train, thereby improving service and providing important new opportunities for handling U.S. Postal Service mail contracts.

In November 1990, the Board formed a committee to participate in the acquisition of locomotives to ease Amtrak's severe shortage of motive power. The new locomotives will in-

Changes in the design of new cars will reflect Amtrak's goal of providing superior service to all its passengers.

Amtrak intends to look to its other revenue-making operations to provide funds to support operations and capital programs in the coming years.

corporate many design changes to improve productivity, reduce maintenance and lengthen useful life. Two F69PH-AC prototype locomotives currently are undergoing extensive testing throughout the climatic extremes of Amtrak's national system to ensure the systems are ready for full production. These new AC-traction locomotives should mean improved long-term fuel savings and reliability.

Diversifying the Revenue Stream

Passenger-related revenues — derived from the sale of passenger tickets and on-board services — make up approximately 71 percent of Amtrak's revenue base. Amtrak intends to look increasingly to its other revenue-making operations to provide the funds necessary to support operations and capital programs in the coming years.

One such area is the transportation of mail, baggage and express, which accounted for $38.4 million in revenue during FY 1990. Contracts with the U.S. Postal Service have become an important growth area for Amtrak and the receipt of new material handling cars, ordered in FY 1989, has provided significant new opportunities for revenue generation.

A second important revenue-generating activity is the operation of contract commuter rail service for state and regional authorities. Amtrak already operates the large MBTA commuter rail system in the Boston area, transporting more than 16 million commuters during FY 1990. Amtrak also runs a portion of the Baltimore-Washington MARC system for the state of Maryland. During 1990, two additional services joined the Amtrak system. Amtrak began operating the *Shore Line East* service for the state of Connecticut between New Haven and Old Saybrook. Commuter service also began between Orange County, Calif., and Los Angeles.

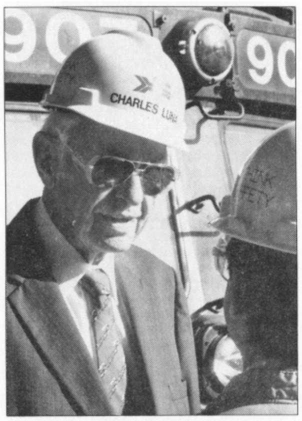
In 1991, Amtrak will begin operating the new *Virginia Railway Express* between communities in Northern Virginia and Washington, D.C. During FY 1990, Amtrak earned $165 million in revenue from contract commuter operations. This is expected to grow to more than $200 million in the next few years as additional services come on line.

In a closely related area, Amtrak is working with a number of states, regional organizations, corporations and consortiums to develop high-speed rail systems in such areas as Florida (between Miami, Orlando and Tampa), Texas (between Dallas and Houston), Nevada (between Las Vegas, Nev., and Anaheim, Calif.), and along various Midwest corridors.

These systems are based both on conventional high-speed rail technology, such as the French TGV or German I.C.E. trains, as well as on magnetic levitation. Many high-speed rail planners are looking to Amtrak to operate the new systems, maintain the equipment and rights-of-way, staff stations, as well as coordinate existing intercity rail service with the new high-speed systems. Amtrak strongly supports developments in this area and sees high-speed rail as both a potentially large source of revenue and an important adjunct to its current business.

Real estate development and operations is a third major area to which Amtrak looks for substantial revenue growth. Nearly $40 million was generated in this area during FY 1990 and Amtrak expects this figure to more than double over the next decade. These revenues include rents received from stores and concessions operating in Amtrak-owned stations. Development projects currently under way at Pennsylvania Station in New York, 30th Street Station in Philadelphia, and Union Station in Chicago will result in significant growth in this area. Amtrak also expects to realize significant future revenues

The first of Amtrak's Metropolitan Lounges for first-class sleeping car and Club Service passengers opened last summer in New York's Pennsylvania Station.



Board member Charles Luna talks about safety with an Amtrak employee. "Safety in the workplace is about preventing injuries and saving lives...your passengers', your fellow workers', and even your own."

from the commercial development of Amtrak-owned air rights. For example, in conjunction with its development partner, Amtrak has prepared a preliminary master plan for development of Amtrak's Sunnyside Yard in Queens, New York. The yard represents one of the largest undeveloped parcels in the entire New York City area.

A Work Force Dedicated to Safe, Quality Service

The growing demand for Amtrak service at the very time much of the company's fleet of cars and locomotives is wearing out adds an element of stress to the already difficult job of Amtrak's employees. Yet, it is Amtrak's dedicated work force that keeps the railroad in the best shape humanly possible. While the number of customers writing to complain about equipment breakdowns unfortunately has increased, many end their letters with a special note of appreciation for the helpfulness and attention of Amtrak employees.

Moreover, these demands on Amtrak's work force come during difficult and drawn-out negotiations for new labor contracts, under which improvements in wages and benefits have been tied to productivity improvements and health care cost containment deemed essential to Amtrak's economic future. These negotiations, which have continued for several years, are expected to be completed during the coming year.

A desire to provide the highest quality of service, coupled with careful hiring, intensive training and some innovative teamwork, is enabling Amtrak's 24,000 employees to maintain and improve service to the customer.

A prime example of Amtrak teamwork is the interdepartmental effort at the national and local level — called Safe Team On Time — that aims to improve and better control the on-time performance of trains. The groups are studying such issues as platform lengths, mail and baggage loading procedures, and other changes needed to ensure that Amtrak takes all steps within its control to keep to train schedules. The New York Division team, which includes a representative from Metro North Commuter Railroad as well as representatives from each Amtrak department, has made improvements resulting in a division on-time performance of 90.3 percent, up from 88.5 percent in FY 1989. Furthermore, such changes as improved platform lighting and resurfacing station platforms make passenger boarding more pleasant and safer as well as quicker.

Amtrak also continues to work closely with other railroads to improve on-time performance. This has been a daunting task with some freight railroads that are heavily engaged in track improvements.

A Commitment to Quality

Perhaps no one better epitomizes the exceptional qualities of Amtrak's work force than James E. Grace, a machinist in Amtrak's Wilmington, Del., maintenance facility, who was named "1989 Employee of the Year" in the President's Achievement Award program.

Working on his own time, Grace helped develop the technical information for a new five-day training course for Amtrak diesel locomotive mechanics. In addition, he has been rebuilding a full-size diesel locomotive from scrap parts to give mechanical trainees hands-on experience.

Although Jim Grace could have selected one of a number of exotic vacations as winner of Amtrak's most prestigious employee award, he instead asked to attend an additional class in diesel mechanics at General Motors' Electro-Motive Division in LaGrange, Ill., just so he could learn more about "his" locomotives.

Freight train interference is a constant problem that must be resolved if the on-time performance of Amtrak's long-distance trains is to improve significantly.

Employee safety is the highest priority established by Amtrak management and is the focus of enormous improvement efforts. This effort is paying important returns as the number of employee injuries continues to decline. Indeed, Amtrak was awarded the Silver Medal in the 1989 Harriman Safety Award contest for the second lowest number of employee injuries among all the Class I railroads in this country. This is a significant achievement: in five years, Amtrak's ratio of reportable injuries per 200,000 manhours has shrunk 42 percent, from 9 injuries in 1985 to just 5.2 for the first 10 months of 1990. The corporation is committed to reducing this number even further.

Again, employee participation is a key to improving the railroad's safety record. Safety teams established at a number of facilities, consisting of both management and agreement-covered employees, work to ferret out potential safety concerns

One of Amtrak's newest contract commuter services, Connecticut DOT's Shore Line East Service *provides 13 daily trips between New Haven and Old Saybrook, Conn.*

before accidents happen and to analyze accidents that do happen to prevent their recurrence.

Amtrak's efforts to eliminate drug and alcohol use from the workplace are achieving important results. Random drug testing of safety-sensitive employees, imposed by federal law, began in January 1990. Although most employees considered these tests an intrusion, they nonetheless have recognized the responsibility associated with their roles in transporting the public and have accepted the need for the tests. The number of Amtrak employees testing positive to the tests has been extremely low and reflects the importance Amtrak employees have attached to eliminating drug use from the railroad.

The contribution to this effort played by Operation RedBlock cannot be overstated. Operation RedBlock is a labor-initiated, management-supported drug and alcohol awareness, education and prevention program. Since its inception, many of Amtrak's unions have signed agreements with Amtrak to participate in the program, and by spring 1991, the program will be fully implemented in all Amtrak divisions. RedBlock peer teams are trained in intervention techniques so they can encourage those needing help to seek it. Employees wanting assistance can enter Amtrak's Employee Assistance Program without jeopardizing their jobs, provided they successfully end their drug or alcohol dependence.

Operation RedBlock has shown that management and labor can work closely together to improve the lives of fellow employees and provide safe transportation for the traveling public.

Meeting the Challenges of the New Decade

The Amtrak of 1990 looks very different from the fledgling experimental passenger railroad created in 1970. Indeed, it is even difficult to compare the two. Amtrak has gone from "rainbow-colored" trains made up of cars heated and cooled by steam, acquired from and operated by the employees of 20 different freight railroads, to a major transportation company with 24,000 employees operating some 220 intercity trains and 459 commuter trains each day. Amtrak has proved there is a market in today's complex national transportation system for reliable and convenient rail passenger service. It also has demonstrated a dramatic improvement in the economics of transporting passengers by rail. It is Amtrak's goal to continue to reduce its need for federal operating support during this decade and ultimately to eliminate it all together.

Operating self-sufficiency is an ambitious, but achievable goal. Essentially, it means Amtrak must surpass in the next decade its dra-

The Amtrak of 1990 looks very different from the fledgling experimental passenger railroad created in 1970.

The nation must make a commitment by investing with Amtrak in capital improvements.

matic financial improvement of the last 10 years. The fuel that fed the 50 percent improvement in Amtrak's revenue-to-cost ratio between 1981 and 1990 was the heavy infusion of capital during the late 1970s and early 1980s. It was the return on this investment in new cars and facility modernization that led to high growth in revenues and helped put the lid on costs. The next decade will require an even greater capital infusion.

What will an operationally self-sufficient Amtrak look like? There will be a sufficiently large fleet of modern passenger cars to meet the growing demand for existing and expanded service, thereby maximizing passenger revenues. There will be a fleet of fuel-efficient locomotives to provide reliable, on-time service. Cars and locomotives will be maintained on schedule in modern maintenance facilities. Trains between New York and Boston will take less than three hours, with high-speed locomotives operating along a newly electrified right-of-way at speeds up to 150 mph. Improvements between New York and Washington also will permit 150 mph operations and schedules approaching two hours. A fleet of material handling cars will be carrying large quantities of U.S. mail and earning high revenues. Additional trains will be operating between San Diego and Los Angeles, Los Angeles and Sacramento along the *San Joaquin* route, New York and Albany, Chicago and the West Coast, and Chicago and Florida, many at substantially higher speeds. Amtrak will be operating additional commuter services in several states, as well as one or more new high-speed services. Construction at 30th Street Station in Philadelphia and Sunnyside Yard in Queens will be well under way as development of Amtrak real estate holdings hits full stride. Amtrak's information systems will enable highly efficient operations and maintenance activities and help achieve maximum revenue potential from available train capacity.

It will take substantial capital investment to reach this vision of an operationally self-sufficient Amtrak. As the nation once again considers its transportation needs in an era of \$1.50–\$2 per gallon gasoline, many argue that funding for Amtrak's capital needs not only makes sense, but is a matter of national necessity. Amtrak agrees. The railroad is willing to finance needed improvements to the maximum extent feasible within the limits of sound financial management. But Amtrak alone simply cannot provide all the capital required to adequately meet the nation's growing need for energy-efficient, safe and environmentally benign transportation. The nation also must make a commitment by investing with Amtrak in these capital improvements.

For the past 20 years, this partnership has produced results of which many Americans are very proud. Amtrak believes the next decade will make most Americans question why there was even a debate about the issue in the first place.

A Career of Advocacy

Samuel E. Stokes, Jr., recipient of Amtrak's first Consumer Advocate Award, looks at the nearly 20 years he has spent advocating improved rail passenger service as a second career.

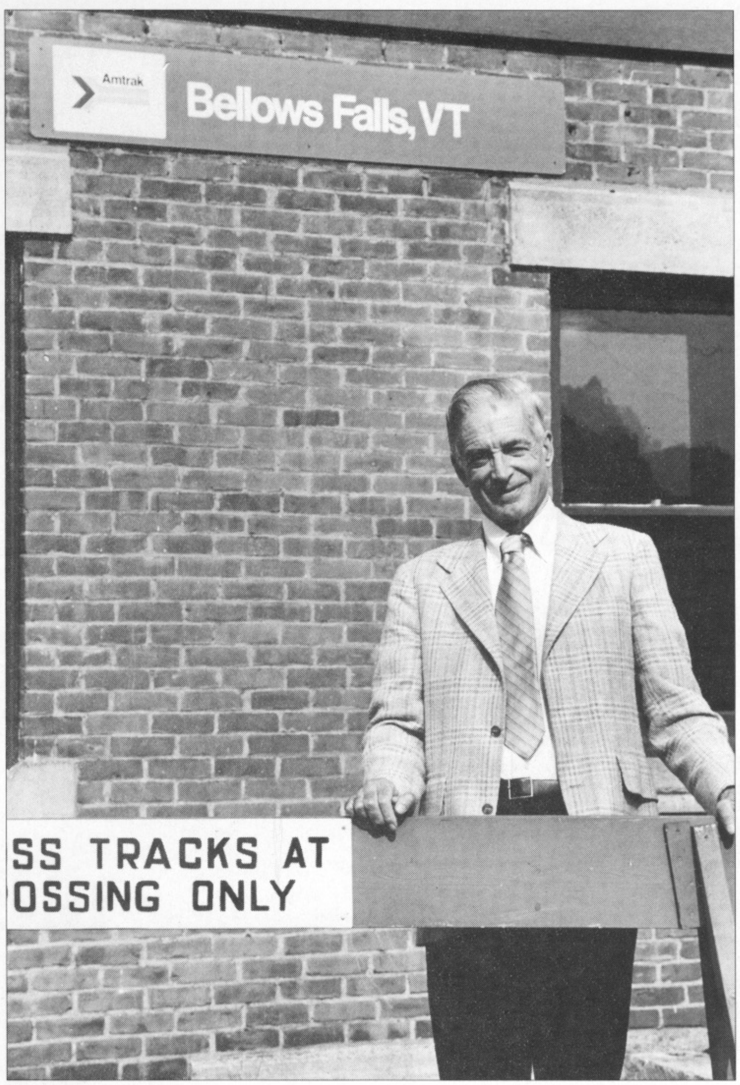
Having retired in 1972 from a successful career teaching French language and literature at some of the country's leading universities, Stokes turned his time and energy to building support for rail service improvements. He has been a persistent correspondent with editors, legislators and other opinion leaders to try to wake the country up to the folly and danger of continued dependence on petroleum resources.

Stokes has argued that not only are trains more fuel efficient than the automobile, but they are also many times safer. The billions of dollars the government, as well as private business, would save by reducing auto accidents could be better spent expanding the nation's intercity rail system, argues Stokes.

Stokes was among the first to advocate that a penny a gallon of the gas tax be allocated for intercity rail improvements, a proposal that is gaining support.

The Alstead, N.H., resident was also instrumental in helping Amtrak get the support needed to resume service on the Washington-Montreal *Montrealer* route after it had been suspended due to poor track conditions. Stokes has been a frequent visitor, as well as passenger, at the Bellows Falls, Vt., passenger station and has obtained community support for facility improvements there.

In presenting Stokes with the Consumer Advocate Award, Amtrak President W. Graham Claytor, Jr., said "It will be a long time before we present this award to anyone so deserving as Sam Stokes."



Labor Organizations and Railroad Partners

The Corporation contracts directly with labor organizations representing approximately 21,000 employees.

Engineers, brakemen, conductors, maintenance workers, signalmen and myriad others work with Amtrak to deliver safe, timely, convenient service. Amtrak and freight railroad employees are represented by these major labor unions:

- American Federation of Railroad Police, Incorporated
- American Railway and Airway Supervisors Association – A Division of TCU
- American Train Dispatchers Association
- Amtrak Service Workers Council
- Brotherhood of Locomotive Engineers
- Brotherhood of Maintenance of Way Employees
- Brotherhood of Railroad Signalmen
- International Association of Machinists and Aerospace Workers
- International Brotherhood of Boilermakers, Iron Ship Builders, Blacksmiths, Forgers and Helpers
- International Brotherhood of Electrical Workers
- International Brotherhood of Firemen and Oilers
- Joint Council of Carmen, Helpers, Coach Cleaners and Apprentices
- Sheet Metal Workers' International Association
- Transportation Communications International Union
- United Transportation Union
- United Transportation Union – Yardmasters Division

Outside its own Northeast Corridor, Amtrak contracts with 14 private freight railroads to dispatch its trains, maintain the tracks and provide other support services necessary for efficient train operations.

Operating Statistics

	1990	1989	1988	1987	1986
General					
System Route Miles (in thousands)	**24**	24	24	24	24
Stations	**516**	504	498	487	491
Train Miles Operated (in millions)	**33**	31	30	30	29
On-Time Performance					
Systemwide	**76%**	75%	71%	74%	74%
Short Distance	**82%**	81%	76%	78%	76%
Long Distance	**53%**	54%	54%	62%	69%
Ridership					
Passengers (in millions)	**22.2**	21.4	21.5	20.4	20.3
Northeast Corridor	**11.2**	11.1	11.2	10.7	10.7
Short Distance	**5.2**	4.7	4.8	4.5	4.4
Long Distance	**5.8**	5.5	5.4	5.2	5.1
Passenger Miles (in millions)	**6,057**	5,859	5,678	5,221	5,013
Locomotive Units					
Operating Fleet	**318**	312	298	289	291
Available for Service (daily average)	**84.0%**	84.1%	87.2%	87.9%	90.6%
Average Age (in years)	**12.0**	11.0	10.0	9.0	8.0
Diesel Units (new deliveries)	**0**	8	9	0	0
Electric Units (new deliveries)	**0**	5	1	0	0
Passenger Train Cars					
Operating Fleet	**1,863**	1,742	1,710	1,705	1,664
Owned and Leased*:					
Superliner Cars	**282**	282	282	282	282
Amfleet I Cars	**482**	483	483	484	486
Amfleet II Cars	**149**	149	149	149	149
Heritage Cars	**841**	827	813	790	789
Turboliners (cars)	**65**	65	65	65	65
Self-Propelled Cars	**28**	40	43	61	64
Low-Level Cab Cars	**33**	21	18	0	0
Horizon Cars	**103**	45	0	0	0
Total Owned and Leased	**1,983**	1,912	1,853	1,831	1,835
Average Age (in years)	**20.0**	17.5	16.6	15.6	14.6

* Includes some older or damaged cars awaiting overhaul, conversion to head-end power or sale.

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Balance Sheets

Assets	September 30, 1990	September 30, 1989
	(Thousands of dollars)	
Current Assets:		
Cash and cash equivalents	**$ 76,902**	$ 113,243
Short-term cash investments, at cost, which approximates market	**30,703**	54,845
Accounts receivable, net of allowance for doubtful accounts of $2,757 and $3,034 in 1990 and 1989, respectively	**79,832**	77,732
Materials and supplies, at average cost	**139,356**	117,016
Other current assets	**14,060**	3,554
Total current assets	**340,853**	366,390
Property and Equipment:		
Passenger cars and locomotives	**1,622,808**	1,559,275
Northeast Corridor	**2,916,199**	2,825,377
Other	**417,788**	357,069
	4,956,795	4,741,721
Less — Accumulated depreciation and amortization	**(1,525,971)**	(1,366,179)
	3,430,824	3,375,542
Other Assets and Deferred Charges:		
Escrowed proceeds from sales of tax benefits	**73,734**	80,877
Penn Station joint venture	**40,148**	44,872
Deferred charges and other	**92,632**	140,140
	206,514	265,889
Total assets	**$ 3,978,191**	$ 4,007,821

Liabilities and Capitalization	September 30, 1990	September 30, 1989
	(Thousands of dollars)	
Current Liabilities:		
Accounts payable	$ 124,540	$ 114,645
Accrued expenses and other current liabilities	182,588	162,014
Current portion of long-term debt and capital lease obligations	7,290	5,780
Total current liabilities	314,418	282,439
Long-Term Debt and Capital Lease Obligations:		
Equipment debt	–	47,028
Capital lease obligations	176,477	73,732
	176,477	120,760
Other Liabilities and Deferred Credits:		
Casualty reserves	65,296	67,159
Deferred revenue — sales of tax benefits	73,734	80,877
Deferred revenue — Penn Station joint venture	36,179	40,389
Advances from railroads and commuter agencies	45,905	43,085
Other	3,535	6,223
	224,649	237,733
Total liabilities	715,544	640,932
Commitments and Contingencies		
Capitalization (see Consolidated Statements of Changes in Capitalization)	3,262,647	3,366,889
Total liabilities and capitalization	$3,978,191	$4,007,821

The accompanying notes are an integral part of these consolidated balance sheets.

NATIONAL RAILROAD PASSENGER CORPORATION AND SUBSIDIARIES (AMTRAK)

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended September 30,

	1990	1989
	(Thousands of dollars)	
Revenues:		
Transportation related	**$1,147,495**	$1,072,484
Other	**160,930**	196,586
Total revenues	**1,308,425**	1,269,070
Expenses:		
Train operations	**417,454**	400,959
Maintenance of equipment	**470,176**	429,038
Maintenance of way	**202,894**	226,798
On-board services	**173,303**	165,598
Stations	**123,488**	115,749
Marketing and reservations	**176,708**	172,879
General support	**150,284**	135,655
Taxes and insurance	**60,805**	76,497
Depreciation and amortization	**181,619**	165,802
General and administrative	**45,526**	42,061
Interest	**9,583**	3,507
Total expenses	**2,011,840**	1,934,543
Net loss	**$ 703,415**	$ 665,473

The accompanying notes are an integral part of these consolidated statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended September 30,

	1990	1989
	(Thousands of dollars)	
Cash Flows From Operating Activities:		
Net loss	**$(703,415)**	$(665,473)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	**181,619**	165,802
Provision for inventory loss and obsolescence	**4,100**	6,000
Provision for losses on accounts receivable	**3,300**	3,225
Gain on sales of property	**–**	(16,520)
Other	**3,950**	2,094
Changes in assets and liabilities:		
Increase in accounts receivable	**(7,676)**	(22,987)
Increase in materials and supplies	**(26,440)**	(12,371)
Decrease (increase) in other current assets	**(10,506)**	865
Increase in other assets and deferred charges	**(3,605)**	(11,395)
Increase in accounts payable and accrued expenses and other current liabilities	**30,469**	73,016
Decrease in other liabilities and deferred credits	**(18,777)**	(5,403)
Net cash used in operating activities	**(546,981)**	(483,147)
Cash Flows From Investing Activities:		
Purchases and refurbishments of property and equipment	**(184,398)**	(126,241)
Proceeds from disposals of property and equipment	**580**	20,929
Cash released from restricted proceeds of tax benefits sales	**16,153**	16,550
Cash advances to Union Station Redevelopment Corporation	**(632)**	(4,680)
Cash designated for Penn Station joint venture	**(3,698)**	(4,223)
Cash investments	**(226,439)**	(306,852)
Proceeds from dispositions of cash investments	**292,830**	281,953
Net cash used in investing activities	**(105,604)**	(122,564)
Cash Flows From Financing Activities:		
Proceeds from issuance of preferred stock	**560,411**	574,300
Proceeds from advance lease rental payments	**38,397**	–
Proceeds from federal paid-in capital	**23,612**	39,433
Proceeds from federal and state capital payments	**16,113**	5,068
Principal payments under long-term debt and capital lease obligations	**(22,289)**	(7,450)
Net cash provided by financing activities	**616,244**	611,351
Net increase (decrease) in cash and cash equivalents	**(36,341)**	5,640
Cash and cash equivalents — beginning of year	**113,243**	107,603
Cash and cash equivalents — end of year	**$ 76,902**	$ 113,243

The accompanying notes are an integral part of these consolidated statements.

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Statements of Changes in Capitalization

	Preferred stock	Common stock	Other paid-in capital	Accumulated deficit	Totals
			(Thousands of dollars)		
Balance at September 30, 1988	$5,476,703	$ 93,857	$3,664,444	$(5,828,923)	$3,406,081
Issuance of preferred stock	579,300	–	–	–	579,300
Federal paid-in capital	–	–	39,433	–	39,433
Federal and state capital payments	–	–	7,548	–	7,548
Net loss	–	–	–	(665,473)	(665,473)
Balance at September 30, 1989	6,056,003	93,857	3,711,425	(6,494,396)	3,366,889
Issuance of preferred stock	560,411	–	–	–	560,411
Federal paid-in capital	–	–	23,612	–	23,612
Federal and state capital payments	–	–	15,150	–	15,150
Net loss	–	–	–	(703,415)	(703,415)
Balance at September 30, 1990	**$6,616,414**	**$ 93,857**	**$3,750,187**	**$(7,197,811)**	**$3,262,647**

The accompanying notes are an integral part of these consolidated statements.

Notes to Consolidated Financial Statements

For the Years Ended September 30, 1990 and 1989

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The financial statements reflect the consolidated operations of the National Railroad Passenger Corporation and its wholly-owned subsidiaries, Chicago Union Station Company and Washington Terminal Company. All significant intercompany transactions have been eliminated. Certain reclassifications have been made to the prior year's statements to conform with the 1990 presentation.

Passenger Related Revenue

Passenger fares are recognized as operating revenues when the related transportation services are furnished. Tickets which have been sold but not used are classified as deferred ticket revenues, and are included in the Consolidated Balance Sheets under "Accrued expenses and other current liabilities."

Contracted Services

The Consolidated Statements of Operations include the gross revenues earned and expenses incurred under various arrangements to provide access to the Northeast Corridor, and to perform services for freight railroads and commuter agencies that provide rail services along the Northeast Corridor.

Cash Equivalents

Amtrak considers all financial instruments purchased having a maturity of three months or less to be cash equivalents. Those financial instruments purchased with a maturity of over three months, and which mature not more than one year from the Consolidated Balance Sheet date, are classified as short-term cash investments.

Property and Depreciation

Property and equipment are stated at cost, and are depreciated using the composite straight-line method over their estimated useful lives. Certain major items of property acquired through capital lease agreements are recorded as assets and are amortized over the shorter of their estimated useful lives or the lease term.

Casualty Losses

Provision is made for Amtrak's portion of the estimated liability for unsettled casualty and accident claims. The current portion of this liability is included in the Consolidated Balance Sheets under "Accrued expenses and other current liabilities." The non-current portion is classified as "Casualty reserves." As of September 30, 1990 and 1989, the current claims liability was $49,800,000 and $46,200,000, respectively.

NOTE 2: FEDERAL AND STATE FUNDING

Funds are provided to Amtrak through federal and state payments for operations and for capital acquisitions and improvements. For funds received from the Federal Government, Section 304 of the Rail Passenger Service Act (45 U.S.C. 544) requires Amtrak to issue to the United States 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. Public Law 101-516, approved on November 5, 1990, provides $665,080,000 in federal funds to Amtrak for fiscal year 1991.

Federal paid-in capital, included in the Consolidated Statements of Changes in Capitalization, reflects certain funding received from the Federal Government to finance acquisition of and improvements to property and equipment. In exchange for past and prospective funding, Amtrak issued two promissory notes to the United States. The first note matures on December 31, 2975, and is secured by Amtrak's real property. The second note matures on November 1, 2082, with successive 99-year renewal terms, and is secured by Amtrak's equipment and certain rolling stock. Neither of the notes bears interest, unless prepaid (which Amtrak does not intend to do). The Federal Government's security interest in Amtrak's real property, equipment, and 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.

NOTE 3: PREFERRED AND COMMON STOCK

At September 30, 1990, 73,100,000 shares of $100 par value preferred stock were authorized, of which 66,164,139 shares were issued and outstanding. During October and November 1990, 888,650 shares of preferred stock were issued at par value, increasing the total number of shares issued and outstanding to 67,052,789. At September 30, 1989, 68,400,000 shares were authorized, of which 60,560,029 shares were issued and outstanding. All issued and outstanding preferred shares are held by the Secretary of Transportation for the benefit of the Federal Government. Dividends are to be fixed at a rate not less than 6% per annum and are cumulative so that no dividends may be paid on the common shares prior to the payment of all accrued but unpaid dividends on the preferred shares. No dividends have been declared. The preferred stockholder is also entitled to a liquidation preference over common shares involving a payment of not less than par value plus all accrued unpaid dividends. Each share of preferred stock is convertible into 10 shares of common stock at the option of the preferred stockholder.

At September 30, 1990 and 1989, 10,000,000 shares of $10 par value common stock were authorized, of which 9,385,694 shares were issued and outstanding.

NOTE 4: LONG-TERM DEBT

On September 25, 1989, Amtrak entered into concurrent agreements to lease 104 passenger rail cars to a third party for a period of 25 years and sublease them back for a period of 20 years. Under the terms of the lease, the lessee assumed a portion of a loan payable which was due from Amtrak to a third-party lender for advances made on Amtrak's behalf toward the cars' construction. At September 30, 1989, 45 finished cars had been delivered and accepted. The lease was treated as a sales-type lease and the leaseback treated as a capital lease (see Note 5). All remaining amounts due to the third-party lender at September 30, 1989, as well as additional advances made during fiscal year 1990 were extinguished or assumed from Amtrak in 1990 when the remaining 59 cars were delivered and put under lease.

During June 1990, Amtrak paid off the total remaining debt due under a 1988 conditional sales agreement for the purchase of nine new diesel locomotives by entering into a lease and leaseback arrangement (as discussed in Note 5).

NOTE 5: LEASING ARRANGEMENTS

Capital Leases

The leaseback of the 104 passenger rail cars referred to in Note 4 has been classified as a capital lease, and accounted for $43,833,000 of capital lease obligations at September 30, 1989, relating to the first 45 finished cars delivered and accepted. An additional $64,317,000 of capital lease obligations occurred during fiscal year 1990 when the remaining 59 cars were delivered and accepted.

In May 1990, Amtrak entered into concurrent agreements to lease 70 material handling cars for a period of 36 years and sublease them back from the lessee for a period of 21 years. Under the terms of the lease agreement, Amtrak received a $22,197,000 advance lease payment from the lessee. The lease was treated as a sales-type lease and the leaseback of the cars is being treated as a capital lease. The leaseback accounted for $22,197,000 of capital lease obligation additions during fiscal year 1990.

Also in June 1990, Amtrak entered into concurrent agreements to lease nine diesel locomotives for a period of 34 years and sublease them back from the lessee for a period of 19 years. Under the terms of the lease agreement, Amtrak received a $16,200,000 advance lease payment from the lessee. The lease was treated as a sales-type lease and the leaseback of the locomotives is being treated as a capital lease. The leaseback accounted for $16,200,000 of capital lease obligation additions during fiscal year 1990.

Amtrak leases certain other items of equipment under capital leasing arrangements. At September 30, 1990, the gross amount of assets recorded under capital leases was $190,090,000 with accumulated amortization of $12,469,000. At September 30, 1990, future minimum lease payments under capital leases were as follows:

Year Ending September 30	Amounts (In Thousands)
1991	$ 17,559
1992	19,003
1993	18,374
1994	16,785
1995	15,988
Later years	256,166
	343,875
Less amount representing interest	162,108
Present value of minimum lease payments at September 30, 1990	$181,767

Operating Leases

At September 30, 1990, Amtrak was obligated for the following minimum rental payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year:

Year Ending September 30	Amounts (In Thousands)
1991	$ 16,207
1992	15,118
1993	13,662
1994	11,438
1995	10,679
Later years	121,712
	$ 188,816

Rent expense for the years ended September 30, 1990 and 1989 was $26,418,000 and $28,004,000, respectively.

NOTE 6: COMMITMENTS AND CONTINGENCIES

In October 1989, Amtrak commenced a lawsuit for $81 million in federal court against a manufacturer of concrete ties. The complaint alleges premature deterioration of the ties which will require unusually early replacement. Recovery is uncertain due to the financial condition of the manufacturer.

Amtrak is involved in various other litigation and arbitration in the normal course of business, including environmental clean-up matters. It is the opinion of management and counsel that the disposition of these matters will not materially affect Amtrak's consolidated financial statements.

NOTE 7: PENSION PLAN

Amtrak has a qualified noncontributory defined benefit retirement plan held in trust covering nonunion employees and certain union employees. Benefits are based on years of credited service, and the employee's average compensation during the highest five consecutive years. Amtrak's funding policy is to contribute annually the amount recommended by outside actuaries. Pension expense for 1990 and 1989 was $3,634,000 and $2,731,000, respectively. The following tables set forth the plan's funded status, amounts recognized in the Consolidated Balance Sheets at September 30, 1990 and 1989, and components of the net pension expense for 1990 and 1989 (amounts in thousands):

	1990	1989
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of $48,949 and $46,908, respectively	$49,538	$47,434
Projected benefit obligation for service rendered to date	$72,228	$65,121
Plan assets at fair value, primarily fixed income investments and listed stocks	75,326	63,503
Plan assets in excess of (less than) projected benefit obligation	3,098	(1,618)
Unrecognized prior service cost being amortized over 11.8 years	7,075	7,763
Unrecognized net loss	60	3,591
Unrecognized net asset existing at October 1, 1986 being amortized over 11.6 years	(8,009)	(9,054)
Prepaid pension expense recognized in Consolidated Balance Sheets	$ 2,224	$ 682
Net pension expense for 1990 and 1989 included the following components:		
Service cost—benefits earned during the period	$ 4,330	$ 4,042
Interest cost on projected benefit obligation	4,795	4,063
Actual return on plan assets	(8,198)	(6,543)
Net amortization and deferral	2,707	1,169
Net pension expense	$ 3,634	$ 2,731

The weighted average discount rate used in determining the projected benefit obligation was 7.5% in 1990 and 1989. The projected rate of increase in future compensation levels was 6.0% in 1990 and 1989. The assumed long-term rate of return on plan assets was 7.75% and 8.0% in 1990 and 1989, respectively. The unfunded accrued pension cost at September 30, 1986, is being amortized over the remaining average service life of plan members, and $2,359,000 and $2,667,000 net of amortization, is included under "Accrued expenses and other current liabilities" in the Consolidated Balance Sheets at September 30, 1990 and 1989, respectively.

NOTE 8: LINES OF CREDIT

Amtrak has line of credit agreements, expiring in September 1991, with commercial banks to borrow up to $25,000,000 at an interest rate of .25% below the prime commercial loan rate of the primary bank on unsecured 90-day loans. As of September 30, 1990 and 1989, there was no outstanding balance on the existing lines of credit.

NOTE 9: SALES OF TAX BENEFITS

Pursuant to provisions of the Economic Recovery Tax Act of 1981, Amtrak sold the rights to the tax benefits associated with certain qualified assets. Cash proceeds from these sales plus accrued interest are subject to certain restrictions, and therefore are presented as a non-current asset and deferred revenue in the Consolidated Balance Sheets. Revenue is recognized to the extent restrictions have been lifted, and funds released to Amtrak. For the years ended September 30, 1990 and 1989, Amtrak recognized revenue of $13,901,000 and $14,133,000, respectively, from these restricted funds.

NOTE 10: PENN STATION JOINT VENTURE

On August 5, 1988, Amtrak leased to the Long Island Rail Road Company (LIRR) certain space in Penn Station, New York City, for 99 years, with an automatic 99-year renewal term, along with the right to jointly use the Penn Station operating facilities for 99 years, for a total of $44,400,000. The space rental was accounted for by Amtrak as a sale. The resulting gain of $42,537,000, net of the book value of assets sold, was deferred, and is being recognized as income as expenditures are incurred by Amtrak as a participant under a concurrently executed joint venture agreement with LIRR and the Metropolitan Transportation Authority, to upgrade the Station's structure and centralize control of train movements in and around Penn Station. During the years ended September 30, 1990 and 1989, Amtrak recognized revenue of $4,211,000 and $2,095,000, respectively. The gross lease proceeds of $44,400,000, plus a pro rata share of future interest income have been designated to fund Amtrak's obligations under the joint venture agreement, and are presented net of joint venture project costs incurred, under "Other Assets and Deferred Charges" in the Consolidated Balance Sheets.

NOTE 11: INSURANCE

Amtrak is self-insured for liability losses up to $25 million. Liability coverage in the $25 million to $100 million layer is provided through insurance companies owned by Amtrak and various other railroads and transit authorities. Amtrak has entered into these arrangements in order to secure a reasonable source of excess liability insurance. Premiums are payable annually, and are set by an independent underwriter using, among other criteria, the claims experience of each insured. Excess liability coverage above the $100 million layer is provided through a commercial insurance company.

NOTE 12: SUPPLEMENTAL CASH FLOW INFORMATION

For the years ended September 30, 1990 and 1989, Amtrak engaged in the following investing and financing activities that affected recognized assets and liabilities, but did not result in a change in cash and cash equivalents (amounts in thousands):

	1990	1989
• Obligations incurred in connection with progress payments made by a third-party lender on Amtrak's behalf for the construction of 104 passenger cars	$ 24,802	$62,498
• Reduction of obligation due third-party lender in connection with the leasing of passenger cars	$ 58,464	$39,847
• Expenditures made for projects along the Northeast Corridor from funds established specifically for those purposes	$ 16,862	$19,637
• Capital lease obligations incurred in connection with the leasing of new equipment	$110,053	$73,293
• Issuance of preferred stock related to property refurbishments	–	$ 5,000

Cash interest of $8,342,000 and $3,003,000 was paid during the years ended September 30, 1990 and 1989, respectively.

Management Report

Management is responsible for the preparation and integrity of the financial statements presented in this Annual Report. These statements have been prepared in accordance with generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgement. Management considers that the financial statements present fairly the financial position of Amtrak and the results of its operations.

To meet its responsibility, management maintains a comprehensive system of internal controls, policies and procedures to assure the proper authorization of transactions, the safeguarding of assets and reliability of financial information. The system can only provide reasonable assurance, not absolute, that the related records fairly reflect all transactions and proper accountability. The concept of reasonable assurance is based on the recognition that the cost of a system of internal controls must be related to the benefits derived.

Amtrak has established its intent to maintain a high standard of ethical conduct in all business activities. Internal accounting controls, operating controls as well as a corporate rules of conduct and a business ethics policy are documented and communicated to all levels of management.

The Board of Directors through its Audit and MIS Committee reviews the system of internal controls and financial reporting. The Committee meets and consults regularly with management, the internal auditors and the independent accountants to review the scope and results of their work. The accounting firm of Arthur Andersen & Co. has performed an independent audit of the financial statements and has full and free access to meet with the Committee, without management representatives present, to discuss the results of the audit.

W. Graham Claytor, Jr.
Chairman and President

Charles W. Hayward
Vice President-Finance and Administration

Report of Independent Public Accountants

To the Board of Directors of National Railroad Passenger Corporation:

We have audited the accompanying consolidated balance sheets of National Railroad Passenger Corporation (incorporated pursuant to the Rail Passenger Service Act and the laws of the District of Columbia) and subsidiaries (Amtrak) as of September 30, 1990 and 1989, and the related consolidated statements of operations, cash flows, and changes in capitalization for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Amtrak as of September 30, 1990 and 1989, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Arthur Andersen & Co.

Washington, D.C.
November 16, 1990

Executive staff

Peter A. Cannito
Vice President-Engineering, 16 years of service. Appointed Assistant General Manager-Operations East in 1984, Assistant Vice President/General Manager-Transportation in 1986; assumed current position in 1988.

W. Graham Claytor, Jr.*
President and Chairman, elected by the Board on June 10, 1982.

Anthony D. DeAngelo
Vice President-Real Estate and Operations Development, eight years of service. Appointed Assistant Vice President-Real Estate in 1982; assumed current position in 1989.

Eugene N. Eden
Vice President-Passenger Services, 16 years of service. Appointed Assistant Vice President-Support Services in 1980, Vice President-Passenger Services in 1981, Vice President-Passenger and Operating Services in 1983; assumed current position in 1987.

Robert E. Gall
Vice President-Sales, 15 years of service. Appointed Assistant Vice President-Market Planning and Analysis in 1980, Vice President-Transportation Marketing in 1982; assumed current position in 1985.

Timothy P. Gardner
Vice President-Passenger Marketing, 10 years of service. Appointed Vice President-Corporate Planning in 1981, Vice President-Corporate Planning and Development in 1982; assumed current position in 1985.

**Member of Management Committee*

Thomas J. Gillespie, Jr.
Assistant Vice President-Government and Public Affairs, 11 years of service; assumed current position in 1987.

Charles W. Hayward*
Vice President-Finance and Administration, 15 years of service. Appointed Assistant Vice President-Resource Management in 1980; elected Vice President-Finance and Treasurer in 1982; assumed current position in 1986.

Harold R. Henderson*
Vice President-Law, 10 years of service. Appointed Assistant General Counsel in 1980, Deputy General Counsel-Labor/Personnel in 1982, and General Counsel in 1984; assumed current position in 1985.

John P. Lange
Assistant Vice President-Labor Relations, four years of service; assumed current position in 1986.

Neil D. Mann
Assistant Vice President-Personnel, three years of service; assumed current position in 1987.

William S. Norman*
Executive Vice President, 11 years of service. Appointed Vice President-Marketing in 1979, Vice President-Sales and Marketing in 1981, Group Vice President-Marketing and Corporate Planning in 1981, Group Vice President-Marketing and Business Development in 1982; assumed current position in 1987.

Norris W. Overton
Vice President-Information Systems, nine years of service. Appointed Assistant Vice President-Resource Management in 1982; assumed current position in 1988.

Dennis F. Sullivan*
Executive Vice President and Chief Operating Officer, 17 years of service. Appointed Assistant Vice President-Engineering in 1981, Vice President/Chief Engineer in 1982, Vice President-Operations and Maintenance in 1985; assumed current position in 1988.

Robert C. VanderClute
Vice President-Transportation, 19 years of service. Appointed Assistant Vice President-Transportation in 1985; assumed current position in 1988.

Elyse G. Wander
Vice President-Corporate Planning and Development, 17 years of service. Appointed Assistant Vice President-Corporate Planning in 1983; assumed current position in 1985.

Other Corporate Officers

Jane E. Bass, *Assistant Corporate Secretary*, 17 years of service; assumed current position in 1988.

William F. Erkelenz, *Corporate Secretary*, 17 years of service; assumed current position in 1983.

Richard I. Klein, *Treasurer*, 13 years of service; assumed current position in 1987.

Robert L. Lewis, III, *Controller*, 17 years of service; assumed current position in 1988.

Medaris W. Oliveri, *Assistant Corporate Secretary* (part-time), eight years of service; assumed current position in 1986.

Nina E. West, *Assistant Corporate Secretary* (part-time), 15 years of service; assumed current position in 1983.

Board of Directors

Haley R. Barbour
Partner
Henry, Barbour and Decell
Yazoo City, Miss.

W. Graham Claytor, Jr.
Chairman
National Railroad Passenger Corporation (Amtrak)
(ex officio)
Washington, D.C.

Eugene R. Croisant
Executive Vice President
Human Resources and Administration
RJR Nabisco, Inc.
New York, N.Y.

Samuel H. Hellenbrand
Former Vice President
Real Estate Operations
International Telephone and Telegraph Corporation
New York, N.Y.

Charles Luna
Former President of the
United Transportation Union
Incorporator of Amtrak
Dallas, Texas

Effective Sept. 30, 1990

Samuel K. Skinner
Secretary of Transportation
Department of Transportation
(ex officio)
Washington, D.C.

Tommy G. Thompson
Governor
State of Wisconsin
Madision, Wis.

Darrell M. Trent
Chief Executive Officer and Chairman
Environmental Treatment and Recovery Corporation
Washington, D.C.

Paul M. Weyrich
President
The Free Congress and Education Foundation, Inc.
Washington, D.C.

It is the policy of the National Railroad Passenger Corporation (Amtrak) to be an Equal Opportunity Employer. We pledge our support to enhance growth opportunities for minorities and women, and to ensure they are effectively represented throughout our work force.

This report was produced by the Amtrak Public Affairs Office, Washington, D.C.

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Max Hirshfeld
Richard Steinheimer

In partnership with the private and

public sectors, Amtrak is eagerly

preparing for the next century and the next

generation, when mobility will

depend on energy-efficient and

environmentally sound transportation alternatives.

Amtrak®

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