2002 AUDITED CONSOLIDATED FINANCIAL STATEMENTS

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Financial Statements

September 30, 2002 and 2001

(With Independent Auditors' Report Thereon)

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, 2002 and 2001, and the related consolidated statements of operations, comprehensive loss, cash flows and changes in capitalization for the years then ended. These consolidated financial statements are the responsibility of Amtrak's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Amtrak and subsidiaries as of September 30, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Company has a history of substantial operating losses and is highly dependent upon substantial Federal government subsidies to sustain its operations. There are currently no Federal government subsidies authorized or appropriated for any period subsequent to the fiscal year ending September 30, 2003 ("fiscal year 2003"). 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

March 31, 2003, except as to Note 2,
which is as of April 9, 2003

National Railroad Passenger Corporation
Consolidated Balance Sheets
(In Thousands of Dollars except share data)

	September 30, 2002	September 30, 2001
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 173,981	$ 33,062
Accounts receivable, net	138,053	93,073
Materials and supplies	117,029	123,765
Other current assets	25,232	24,202
Total current assets	454,295	274,102
Property and Equipment:		
Locomotives	1,717,078	1,659,056
Passenger cars and other rolling stock	3,159,435	3,037,058
Right of way and other properties	7,620,965	7,379,749
Leasehold improvements	218,391	217,191
	12,715,869	12,293,054
Less - Accumulated depreciation and amortization	(4,091,621)	(3,689,443)
	8,624,248	8,603,611
Other Assets, Deposits, and Deferred Charges:		
Escrowed proceeds on sale-leasebacks	829,161	821,961
Deferred charges, deposits, and other	263,291	234,327
	1,092,452	1,056,288
Total assets	$ 10,170,995	$ 9,934,001
LIABILITIES and CAPITALIZATION		
Current liabilities:		
Accounts payable	$ 386,881	$ 344,286
Accrued expenses and other current liabilities	426,223	400,231
Deferred ticket revenue	70,581	81,235
Current maturities of long-term debt and lease obligations	90,147	85,442
Revolving credit facilities	-	85,000
Total current liabilities	973,832	996,194
Long-Term Debt and Lease Obligations:		
Capital lease obligations	3,375,639	3,046,073
Mortgages	304,627	314,305
Equipment and other debt	171,979	271,764
	3,852,245	3,632,142
Other Liabilities and Deferred Credits:		
Deferred federal and state capital payments	289,251	260,755
Casualty reserves	207,606	146,822
Deferred gain on sale-leasebacks	526,918	549,067
Postretirement employee benefits obligation	157,882	142,563
Environmental reserve	43,339	31,534
Other	17,584	3,323
	1,242,580	1,134,064
Total liabilities	6,068,657	5,762,400
Commitments and Contingencies		
Capitalization:		
Preferred stock - $100 par, 109,396,994 authorized, issued and outstanding at September 30, 2002 and 2001	10,939,699	10,939,699
Common stock - $10 par, 10,000,000 shares authorized, 9,386,694 issued and outstanding at September 30, 2002 and 2001	93,857	93,857
Debt and other paid-in capital	10,044,339	8,981,568
Accumulated deficit and comprehensive loss	(16,975,557)	(15,843,523)
Total capitalization	4,102,338	4,171,601
Total liabilities and capitalization	$ 10,170,995	$ 9,934,001

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

National Railroad Passenger Corporation
Consolidated Statements of Operations
(In Thousands of Dollars)

	Year Ended September 30, 2002	2001
Revenues:		
Passenger related	**$ 1,468,189**	$ 1,383,606
Mail and express	**124,753**	117,219
Commuter	**295,225**	289,182
Other	**323,685**	298,584
Federal payments and state capital payments	**16,393**	20,743
Total revenues	**2,228,245**	2,109,334
Expenses:		
Salaries, wages, and benefits	**1,617,399**	1,667,293
Train operations	**251,593**	263,413
Fuel, power, and utilities	**174,952**	188,163
Materials	**122,544**	127,614
Facility, communication, and office related	**154,940**	176,338
Advertising and sales	**98,532**	105,810
Casualty and other claims	**161,458**	116,744
Depreciation	**501,473**	489,188
Amortization of gain on sale-leasebacks	**(22,150)**	(22,108)
Depreciation net of amortization of gain on sale-leasebacks	**479,323**	467,080
Other	**220,377**	244,291
Indirect cost capitalized to property and equipment	**(57,517)**	(68,713)
Total expenses	**3,223,601**	3,288,033
Loss from operations	**995,356**	1,178,699
Other (Income) and Expense:		
Interest income	**(75,918)**	(85,116)
Interest expense	**212,458**	154,513
Other expense - net	**136,540**	69,397
Net loss	**$ 1,131,896**	$ 1,248,096

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

National Railroad Passenger Corporation
Consolidated Statements of Comprehensive Loss
(In Thousands of Dollars)

	Year Ended September 30,	
	2002	2001
Net loss	**$ 1,131,896**	$ 1,248,096
Other comprehensive (income) loss:		
Unrealized loss (gain) on derivatives	**138**	(138)
Comprehensive loss	**1,132,034**	1,247,958

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

National Railroad Passenger Corporation
Consolidated Statements of Cash Flows
(In Thousands of Dollars)

	Year Ended September 30, 2002	Year Ended September 30, 2001
Cash Flows From Operating Activities:		
Net loss	**$ (1,131,896)**	$ (1,248,096)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation net of amortization of gain on sale-leasebacks	**479,323**	467,080
Gain on sale of air rights	**(32,847)**	-
Other	**-**	3,285
Changes in assets and liabilities:		
Accounts receivable	**(44,980)**	18,579
Materials and supplies	**6,736**	15,009
Other current assets	**(1,168)**	(9,150)
Other assets, deposits, and deferred charges	**(9,850)**	(26,022)
Accounts payable, deferred ticket revenue and other current liabilities	**30,354**	104,485
Deferred federal and state capital payments	**(12,757)**	(17,707)
Other liabilities and deferred credits	**102,170**	14,528
Net cash used in operating activities	**(614,915)**	(678,009)
Cash Flows From Investing Activities:		
Purchases and refurbishments of property and equipment	**(359,216)**	(352,011)
Proceeds from disposals of property and equipment	**41,122**	5,914
Net cash used in investing activities	**(318,094)**	(346,097)
Cash Flows From Financing Activities:		
Proceeds from federal paid-in capital	**1,038,216**	550,989
Proceeds from federal payments and state capital payments	**65,808**	76,630
Proceeds from borrowings and lease financings	**140,134**	527,766
Repayments of debt and capital lease obligations	**(170,230)**	(204,746)
Net cash provided by financing activities	**1,073,928**	950,639
Net increase (decrease) in cash and cash equivalents	**140,919**	(73,467)
Cash and cash equivalents-beginning of period	**33,062**	106,529
Cash and cash equivalents-end of period	**$ 173,981**	$ 33,062

National Railroad Passenger Corporation
Consolidated Statements of Changes in Capitalization
(In Thousands of Dollars)

	Preferred stock	Common stock	Debt and other paid-in capital	Accumulated deficit and comprehensive loss	Totals
Balance at September 30, 2000	$ 10,939,699	$ 93,857	$ 8,416,514	$ (14,595,565)	$ 4,854,505
Federal paid-in capital	-	-	561,623	-	561,623
Federal capital and other payments	-	-	3,431	-	3,431
Net (loss)	-	-	-	(1,248,096)	(1,248,096)
Unrealized gain on derivatives	-	-	-	138	138
Balance at September 30, 2001	$ 10,939,699	$ 93,857	$ 8,981,568	$ (15,843,523)	$ 4,171,601
Federal paid-in capital	-	-	1,038,216	-	1,038,216
Federal capital and other payments	-	-	24,555	-	24,555
Net (loss)	-	-	-	(1,131,896)	(1,131,896)
Unrealized loss on derivatives	-	-	-	(138)	(138)
Balance at September 30, 2002	$ 10,939,699	$ 93,857	$ 10,044,339	$ (16,975,557)	$ 4,102,338

National Railroad Passenger Corporation and Subsidiaries (Amtrak)
Notes to Consolidated Financial Statements
For the Years Ended September 30, 2002 and 2001

NOTE 1: NATURE OF OPERATIONS

The National Railroad Passenger Corporation (Amtrak or the Company) is a passenger railroad, whose preferred stock is primarily owned by the United States government through the United States Department of Transportation. Its principal business is to provide rail passenger transportation service to the general public in the major intercity travel markets of the United States. The Company was organized into four operating business units based on geographic and market segment lines. The Northeast Corridor primarily served the region from Virginia to Maine. The West served the California-to-Washington State region. The Intercity served the rest of the United States. Mail and Express provided mail and goods delivery service. Effective October 1, 2002, these business units were dissolved and consolidated into overall operations. The Company also operates commuter rail operations on behalf of several states and their respective transit agencies. A majority of these operations are in the Northeast Corridor and operate in part using Amtrak rail and other infrastructure.

NOTE 2: BUSINESS CONDITION AND LIQUIDITY

Operations and Liquidity

Under the Rail Passenger Service Act of 1970, Amtrak was created in 1971 and authorized to operate a nationwide system of passenger rail transportation. The Company has a history of recurring operating losses. It is highly dependent on subsidies from the United States government ("Federal government") to operate the national passenger rail system and maintain the underlying infrastructure. These subsidies are usually received through annual appropriations and Amtrak's ability to continue operating in its current form is dependent upon the continued receipt of subsidies.

For the fiscal year ending September 30, 2003, Congress approved an appropriation totaling $1.050 billion, subject to a 0.65% partial rescission that nets to $1.043 billion available for Amtrak. In addition, Amtrak was permitted to defer until after fiscal year 2003 the repayment of a $100 million loan granted to it by the Federal Railroad Administration (FRA) in July 2002 (see Note 6). This loan is contingent upon Amtrak's compliance with certain conditions set forth by the FRA.

The fiscal year 2003 appropriation is in the form of a grant to be administered by the Secretary of the United States Department of Transportation (the Secretary) to provide oversight of the fiscal spending of the Company. House Joint Resolution 2 (the 2003 Act) passed on February 20, 2003 as Public Law 108-7 enables the Secretary to make grants to the Company until September 30, 2003, including $518.6 million in the form of quarterly grants for operating expenses, $293.1 million in the form of quarterly grants for capital expenses along the Northeast Corridor Mainline, and $231.5 million in the form of quarterly grants for general capital improvements. The 2003 Act includes a number of provisions including that: the Secretary shall approve funding to cover operating losses on an Amtrak long-distance train only after reviewing a grant request accompanied by a detailed financial analysis and revenue projection for each train route justifying the federal support to the Secretary's satisfaction; that the Secretary and the Amtrak Board of Directors shall ensure that sufficient sums are reserved to satisfy the contractual obligations of the Company for commuter and intercity passenger rail service; that Amtrak shall transmit to the Secretary and the House and Senate Committees on Appropriations a business plan for operating and capital improvements to be funded in fiscal year 2003 under section 24104(a) of title 49, United States Code; that not later than June 1, 2003 and each month thereafter, Amtrak shall submit to the Secretary and the House and Senate Committees on Appropriations a supplemental report regarding the business plan, which shall describe the work completed to date, any changes to the business plan, and the reasons for such changes. In addition, the 2003 Act requires the Company to continue to abide with specified requirements of the $100 million FRA loan (see Note 6). As of April 9, 2003, the Company has submitted its fiscal year 2003 plan showing a funding need of $1.043 billion. Through April 9, 2003, the

Company has received $407.1 million of the appropriation through continuing resolutions and $365.0 million from the DOT through grant agreements. The Company believes that it can achieve its planned results and that it will receive the full amount appropriated under the 2003 Act. To the extent that less than the full appropriation is received from the DOT or the Company's funding needs are greater than $1.043 billion 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 2003.

Amtrak has indicated that it will require $1.8 billion in Federal government funding for fiscal year 2004 to continue operations in its current form and make necessary capital improvements. There are currently no Federal government subsidies authorized or appropriated for years subsequent to September 30, 2003. To the extent that a regular appropriation has not been received prior to October 1, 2003, the Company expects to receive interim Federal government funding under a continuing resolution until the fiscal year 2004 funding is received. There can be no assurances that the Company will receive adequate funding to continue operations in its current form in fiscal year 2004 and beyond. Failure to receive sufficient subsidies may result in severe operational changes and/or restructuring which would likely result in asset impairments and potential bankruptcy or reorganization.

Amtrak Reform Council Finding

The Amtrak Reform and Accountability Act of 1997 (the 1997 Act) (Public Law 105-134) authorized the Federal government to provide subsidies to the Company through the end of fiscal year 2002. The 1997 Act provided for the establishment of a Reform Council (Council), responsible to Congress, to review, evaluate, and recommend changes to improve Amtrak's financial performance. On February 7, 2002, the Council presented a restructuring plan to Congress. Among the recommendations put forth were that train operations and the Northeast Corridor infrastructure be organized as separate companies, and that any reform plan should include more effective government policy and program oversight. The oversight of these proposed companies would be conducted by a successor National Railroad Passenger Corporation, restructured as a small government corporation. As of April 9, 2003, there has been no action taken by Congress as a result of the Amtrak Reform Council finding. There is no requirement for the Senate, the House or the Executive Branch to take further action. The ultimate outcome of the legislative process cannot be predicted at this time and therefore, no provisions have been made related to such potential actions in these Consolidated Financial Statements.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The Consolidated Financial Statements reflect the consolidated operations of Amtrak: its three wholly owned subsidiaries, Chicago Union Station Company (CUS), Passenger Railroad Insurance, Limited (PRIL), and Penn Station Leasing, LLC (PSL); its 99.7% interest in Washington Terminal Company (WTC); and its 99% interest in 30th Street Limited, L.P. (TSL). All significant intercompany balances and transactions have been eliminated.

Cash Equivalents

Amtrak considers all financial instruments purchased with an original maturity of three months or less to be cash equivalents.

Materials and Supplies

Materials and supplies, which are stated at 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 is provided for materials and supplies based on specific identification and turnover rates.

Derivative and Hedging Activities

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Certain Hedging Activities" (SFAS 133). In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activity, an amendment of FASB Statement No. 133." SFAS 133, as amended, requires that all derivative instruments be recorded on the balance sheet at their respective fair values. The Company adopted SFAS 133, as amended, on October 1, 2000.

Amtrak periodically enters into heating oil contracts with durations of 12 months or less to manage a portion of the exposure to fluctuating diesel prices. Changes in the price of heating oil contracts have a high correlation to changes in the price of diesel fuel and therefore, qualify as cash flow hedges under SFAS 133, as amended.

Upon adoption of SFAS 133, as amended, on October 1, 2000, Amtrak recorded the fair market value of fuel hedge contracts on the Consolidated Balance Sheets in "Other current assets." On an ongoing basis, Amtrak adjusts the balance sheet to reflect the current fair market value of fuel hedge contracts. The effective portion of the related gains or losses on these contracts is deferred as a component of "Other comprehensive income." These deferred gains and losses are recognized in income in the period in which the related diesel fuel purchases being hedged are consumed and recognized in expense. The ineffective portion of the change in the value of the fuel hedge contracts is immediately recognized in income. Amtrak calculates the ineffective portion of the hedge performance using the dollar offset method. The ineffective portions of the fuel hedge contracts are included in the Consolidated Statements of Operations as a component of "Fuel, power and utilities." If at any time the hedge no longer qualifies for hedge accounting treatment, expires, is sold, terminates, is exercised, or it becomes probable that the forecasted transaction will not occur, the net gain or loss accumulated in "Other comprehensive income" is reclassified into earnings.

For fiscal years 2002 and 2001, pursuant to SFAS 133, as amended, Amtrak recognized increases of $722,000 and $328,000, respectively, to fuel cost associated with these derivative fuel contracts. At September 30, 2002 and 2001, Amtrak had derivative fuel contracts with fair values of $1,130,000 and $360,000, respectively. As of September 30, 2002 and 2001, the effective portions of these contracts, which qualify as cash flow hedges, amounted to $0 and $138,000, respectively.

Property and Depreciation

Property and equipment are stated at cost, and are depreciated over their estimated useful lives using the straight-line composite group method. Under this method, gains and losses on ordinary retirements and dispositions are charged to accumulated depreciation. Locomotives, passenger cars and other rolling stock are depreciated using useful lives ranging up to 35 years. Right-of-way and other properties (excluding land) are depreciated using useful lives ranging from 2 to 105 years. Other equipment including computers, office equipment and maintenance equipment is depreciated using useful lives ranging up to 30 years. Property held under capital leases and leasehold improvements are depreciated over the shorter of their estimated useful lives or their respective lease terms. Expenditures that significantly increase asset values or extend useful lives are capitalized. Repair and maintenance expenditures, which include progressive overhauls performed on locomotives and passenger cars, 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. Interest of $8,151,000 and $42,815,000 was capitalized in fiscal years 2002 and 2001, respectively.

Impairment of Long-Lived Assets

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. SFAS No. 144 requires companies to separately report discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company adopted SFAS 144 on October 1, 2001. Adoption of SFAS 144 has not materially impacted the results of operations or financial position.

Properties and other long-lived assets are reviewed for impairment whenever events or business conditions indicate that the carrying amount of such assets may not be fully recoverable. Initial assessments of recoverability are based on estimates of undiscounted future net cash flows associated with an asset or group of assets, 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 assumed future Federal government funding at levels consistent with those discussed in Note 2 and historical funding in performing its impairment analysis. At that level of funding, the system-wide carrying amounts of the Company's long-lived assets are recoverable. Management believes that continued funding at historical levels is their best estimate of the future. If future Federal government funding levels drop below these levels, substantial impairments may occur.

Casualty Losses

Provision is made for Amtrak's portion of the estimated actuarial liability for unsettled casualty and other 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, 2002 and 2001, the current claims liability included in "Accrued expenses and other current liabilities" was $96,200,000 and $91,700,000, respectively. Included in "Accounts receivable" in the Consolidated Balance Sheets at September 30, 2002 and 2001, are insurance claims receivable of $16,412,000 and $22,308,000, respectively, relating to a particular loss event that Amtrak paid during fiscal year 2002.

Revenue Recognition

"Passenger related" revenue, for fiscal years 2002 and 2001, includes ticket revenue, state contribution revenue associated with requested service provided by Amtrak beyond that included in the basic route system, food and beverage revenue, and other passenger revenue as shown below (in millions):

	2002	2001
Ticket	$ 1,250.0	$ 1,178.3
State contribution	128.5	123.1
Food and beverage	84.1	74.4
Other passenger	5.6	7.8
Total	$ 1,468.2	$ 1,383.6

These revenues, as well as “Mail and express” revenues, are recognized as operating revenues when the related services are provided. 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 2002 and 2001, includes revenue associated with performing maintenance of way and maintenance of equipment services for freight railroads and others, fees charged to commuter agencies and freight railroads for the use of Amtrak’s right-of-way, lease rental related revenue, one time gain on sale of air rights, and other miscellaneous services revenue as shown below (in millions):

	2002	2001
Maintenance of way and equipment	$ 97.1	$ 92.6
Right-of-way fees	93.8	87.7
Lease rental	56.6	80.8
Gain on sale of air rights	32.8	-
Miscellaneous Services	43.4	37.5
Total	$ 323.7	$ 298.6

“Federal payments and state capital payments” includes contributed federal funds used for operating expenditures received under the Taxpayer Relief Act of 1997 (TRA) (see Note 4), and the amortization of state funds used to acquire depreciable assets. These state capital payments are deferred when received and amortized over the life of the related asset purchased with the funds. The unamortized amounts are included in “Deferred federal and state capital payments” in the Consolidated Balance Sheets.

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. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Pursuant to the provisions of Title 49 of the United States Code, Section 24-301, Amtrak is exempt from all state and local taxes, including income and franchise taxes that are directly levied against the corporation. Therefore, no provision for state and local income or franchise taxes has been recorded in the financial statements for the years ended September 30, 2002 and 2001 (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, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management reviews its estimates, including those related to revenue, allowance for doubtful accounts, recoverability and useful lives of assets, as well as liabilities for casualty claims, litigation, environmental remediation, pensions, postretirement benefits, and wrecked and damaged leased equipment. Changes in facts and circumstances may result in revised estimates.

NOTE 4: ACCOUNTING AND REPORTING FOR FEDERAL PAYMENTS

Certain funds are provided to Amtrak through federal payments for capital and operating expenditures. These federal payments, which are recorded as paid-in capital when received, totaled $1,038.2 million and $551.0 million for fiscal years 2002 and 2001, respectively. Of the amount received during fiscal year 2002, $311.7 million was the remainder of the fiscal year 2001 appropriation, $521.5 million was the appropriation pursuant to Public Law 107-87 and on August 14, 2002, Amtrak received and recorded into paid-in capital, a supplemental appropriation of $205 million from the Federal government (Public Law 107-206) for expenses to ensure the continuation of rail passenger operations. Certain other federal funds that are provided and restricted for use on designated projects are also recorded as paid-in capital when received, and these totaled $24,543,000 and $3,431,000 for fiscal years 2002 and 2001, respectively.

The Taxpayer Relief Act of 1997 (TRA) provided Amtrak with $2.2 billion in funds to be used, along with interest earned, for qualified expenditures as defined in the TRA. TRA payments received that were used for capital expenditures were recorded as other paid-in capital. Such expenditures totaled $0 and $14,711,000 for fiscal years 2002 and 2001, respectively. Payments used for other operating expenditures were recorded as revenue, with $0 and $8,137,000 recognized in 2002 and 2001, respectively, as “Federal payments and state capital payments” in the Consolidated Statements of Operations.

“Debt and other paid-in capital,” included in the Consolidated 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 $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. The second note with a balance of $4.0 billion was issued in 1975 and matures on December 31, 2975, and is secured by the real and personal property of Amtrak, WTC, CUS, PRIL, and TSL. 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 second 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. The amount due to the Federal government is limited to the fair market value of the security.

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, 2002 and 2001, 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.

At September 30, 2002 and 2001, 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 are the predecessors to the Company, 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 held meetings with the owners of the common stock to discuss the redemption of their shares, but there has been no resolution of this matter between Amtrak and the owners. Amtrak does not believe that the common stock has value. 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 wrote to Amtrak and rejected Amtrak's offer as inadequate. Amtrak is considering various courses of action.

NOTE 6: MORTGAGES AND DEBT

Total debt in the Consolidated Balance Sheets consisted of the following at September 30, 2002 and 2001 (in thousands):

	2002		2001	
	Current	Long-term	Current	Long-term
Revolving credit facilities	$ -	$ -	$ 85,000	$ -
Long-term debt:				
FRA loan	$ -	$ 100,000	$ -	$ -
Mortgages payable	9,679	304,627	9,219	314,305
Equipment obligations	2	10,402	11,405	210,057
Notes payable	-	20,000	-	20,000
Bonds	-	30,000	-	30,000
UDAG loan	130	11,577	130	11,707
	$ 9,811	$ 476,606	$ 20,754	$ 586,069

Revolving Credit Facilities

Amtrak had a revolving credit facility of $270 million with consortiums of banks as of September 30, 2002, which expired on November 15, 2002. Borrowings under this facility bore interest based on the Eurodollar rate, prime rate, or federal funds rate. Amtrak paid various fees on this credit facility of $89,000 and $1,346,000 for fiscal years 2002 and 2001, respectively. As of September 30, 2002 and 2001, Amtrak had outstanding, $0 and $85 million, respectively, under the revolving credit facility. In addition, Amtrak had letters of credit outstanding against the credit facility in the amount of $9,190,000 and $11,434,000 as of September 30, 2002 and 2001, respectively. Since Amtrak did not replace the revolving credit facility when it expired, Amtrak replaced all of the outstanding letters of credit issued under the credit facility with new letters of credit in an aggregate amount of $9,133,000 scheduled to expire on November 6, 2003.

Federal Railroad Administration Loan

On July 3, 2002, Amtrak executed a $100 million interest bearing conditional loan under the Federal Railroad Administration's "Railroad Rehabilitation and Improvement Financing Program" for qualified capital expenditures. The loan currently bears interest at 1.81% per annum, and is secured by various Amtrak-owned right-of-way properties and facilities. The loan was originally scheduled to be repaid on the later of November 15, 2002, or the date Amtrak had access to funds from its fiscal year 2003 appropriation in an amount that exceeds $100 million. Public Law 108-7 was passed on February 20, 2003, and defers repayment of the loan plus accrued interest until after fiscal year 2003. 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 Department of Transportation (DOT).

Mortgages Payable

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, 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. As provided for under specific covenant provisions between the mortgage lender and investor group providing the mortgage funds, the fixed mortgage rate of 9.25% per annum at September 30, 2002, was increased to 9.50% effective October 2002. At September 30, 2002 and 2001, the outstanding balance due on the mortgage was $291,900,000 and $300,000,000, respectively.

In May 2001, CUS separately mortgaged the property air rights of two real estate sites located in Chicago for $21,500,000 in total, each at fixed rates of interest of 7.04% per annum. Quarterly principal plus interest payments are due on each of the two mortgage notes through their maturities in June 2011. At September 30, 2002 and 2001, the total outstanding balance due on the notes was $21,169,000 and $21,394,000, respectively.

In December 2000, Amtrak acquired land and office facilities located in Connecticut in exchange for $2,750,000 cash and a $2,750,000 mortgage note bearing a fixed rate of interest of 9.0% per annum. Monthly principal and interest payments are due through December 2003. The note is secured by the land and office facilities. At September 30, 2002 and 2001, the outstanding balance due on the note was $1,237,000 and $2,130,000, respectively.

Equipment Obligations

Under separate financing arrangements, Amtrak could borrow up to $870 million toward the construction and acquisition of high-speed locomotives and trainsets, and related maintenance facilities. As of September 30, 2002 and 2001, the Company had borrowed a total of $749 million and $700 million, respectively. Upon delivery of the locomotives and trainsets, and the completion of the maintenance facility, Amtrak has been refinancing the related outstanding advances under capital leasing arrangements. As of September 30, 2002 and 2001 outstanding advances made on Amtrak's behalf under these arrangements totaled $10,404,000 and $210,057,000, respectively. All outstanding advances at September 30, 2002 were secured by the remaining two trainsets. One trainset was delivered in October 2002 and the last trainset is expected to be delivered in summer 2003. Interest charged is based on the London Interbank Offered Rate (LIBOR) and is capitalized during the construction phase. Semi-annual principal plus interest payments on all outstanding borrowings would commence on June 30, 2003, and continue over 20-year terms.

Amtrak had $85 million and $45 million under separate loan agreements to fund the overhaul and refurbishment of certain locomotives at September 30, 2001. The $45 million loan agreement expired in November 2001, with no amounts drawn. Amounts borrowed under the $85 million agreement incurred interest, based on the LIBOR, which was payable semi-annually and was being capitalized during refurbishment. As of September 30, 2001, outstanding draws totaled $11,405,000. This remaining outstanding balance was refinanced under a capital leasing arrangement in February 2002.

Notes Payable

Amtrak acquired a parking facility located in Chicago, Illinois in exchange for a $20 million promissory note due in December 2003 bearing a fixed rate of interest. The seller has secured the note with the parking facility as well as an irrevocable unconditional $4 million letter of credit as collateral.

Bonds and Urban Development Action Grant

Included in TSL's long-term debt at September 30, 2002 and 2001, is $30 million of Philadelphia Authority for Industrial Development tax-exempt private-activity bonds (Bonds) issued for the benefit of TSL's rehabilitation of 30th Street Station (Station) in the city of Philadelphia, Pennsylvania (City). The Bonds were issued on December 30, 1987, mature on January 1, 2011, and bear interest at a fixed or variable rate payable until maturity at intervals determined under provisions in the bond indenture. No payments of bond principal prior to maturity are required. Amtrak is periodically required to make annual deposits into a sinking fund to be used to pay off the bonds when they mature. As of September 30, 2002 and 2001, Amtrak's aggregate deposits into the fund were $7,461,000 and $6,277,000, respectively, which are included in "Deferred charges, deposits, and other" in the Consolidated Balance Sheets. Since the Bonds are subject to optional tender by the bondholders in the case of significant events, specifically those pertaining to any damage to, destruction of, or condemnation of the Station facilities. TSL has executed a Liquidity Facility which provides funds to purchase the Bonds surrendered under the optional tender provisions.

TSL has a non-interest bearing obligation of $11,707,000 and $11,837,000 to the City under an Urban Development Action Grant (UDAG) loan agreement as of September 30, 2002 and 2001, 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, 2002 and 2001 are shown below (in percentages of 100%):

	2002	2001
Revolving credit facilities	N/A	4.40
FRA loan	1.81	N/A
Mortgages payable	9.10	9.10
Equipment obligations	3.49	4.90
Notes payable	9.00	9.00
Bonds	1.40	2.50

The overall weighted average interest rate on all interest-bearing borrowings was 7.0% and 6.9% per annum at September 30, 2002 and 2001, respectively.

Scheduled Debt Maturities

At September 30, 2002, scheduled maturities of debt over the next five years are as follows (in thousands):

2003	$ 9,811
2004	130,429
2005	11,062
2006	12,042
2007	13,114
Thereafter	309,959
	$ 486,417

Amtrak is subject to various covenants and restrictions under its borrowing arrangements. A default by Amtrak under, or acceleration of Amtrak's indebtedness may result in cross-default to other Amtrak indebtedness, and may have a material adverse effect on the Company. Most of Amtrak's financing transactions require that Amtrak deliver its audited annual financial statements within 90 to 120 days of the end of its fiscal year. Amtrak has not delivered within this timeframe its audited financial statements for fiscal year 2002. Under its financings, Amtrak is required to maintain property and liability insurance. Under some agreements the current deductibles exceed allowable limits. To date, Amtrak has obtained the consent of all lenders, except under two agreements, regarding the increase in deductibles and it believes that it will be able to obtain consents or otherwise cure any technical defaults. Excluding the foregoing, Amtrak is in compliance with all of its covenants.

NOTE 7: LEASING ARRANGEMENTS

Facilities

During fiscal year 2001, the Pennsylvania Economic Development Financing Authority (PEDFA) completed two separate issues of exempt facilities revenue bonds, the net proceeds of which are being 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 rentals 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. Since Amtrak is maintaining continuing involvement with the facility, assuming the true risks of ownership, and eventually resuming legal title to and ownership of the facility upon termination of the ground lease, the lease and leaseback were accounted for as a capital lease. Accordingly, 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.

Equipment

Amtrak leases equipment, primarily passenger cars and locomotives, under capital leasing arrangements. At September 30, 2002 and 2001, the gross amount of assets recorded under capital leases was $3,628,205,000 (38% for locomotives, 59% for passenger cars, and 3% for other assets), and $3,240,869,000 (36% for locomotives, 62% for passenger cars, and 2% for other assets), respectively, with accumulated amortization of $744,850,000 and $571,844,000, respectively.

During 2000, Amtrak entered into four separate defeased sale and leaseback transactions involving passenger cars. In exchange for $915,155,000 consisting of net cash proceeds and set-aside assets in the form of defeasance instruments, Amtrak sold the cars having a net book value of $334,690,000, resulting in a deferred gain of $580,465,000. The defeasance instruments are held by the buyers, and Amtrak accretes value at fixed interest rates of approximately 6.8% to 8.8% per annum. Simultaneously, Amtrak is leasing back the cars over terms ranging from 23 to 28 years. The leasebacks are accounted for as capital leases. In addition, the set-aside assets together with future accreted interest are designated toward satisfying Amtrak's rent payment obligations under the capital leaseback arrangements. The assets economically defease, but do not legally defease Amtrak's obligations under the leasebacks. Consequently, the set-aside assets plus accreted interest are not netted against the capital lease obligations, but instead are presented as "Escrowed proceeds on sale-leasebacks" in the Consolidated Balance Sheets. The $580,465,000 gain on the sales is being deferred and amortized into income as a reduction to depreciation expense over the terms of the capital leasebacks. This gain was subsequently adjusted downward by $518,000 in 2001 as a result of additional transaction costs incurred. Also in 2001, Amtrak entered into a $24,000,000 sale and leaseback transaction relating to refurbished locomotives, resulting in $1,179,000 of additional deferred gain. During fiscal years 2002 and 2001, $22,150,000 and $22,108,000 of deferred gains on these transactions were amortized, respectively.

At September 30, 2002, future minimum lease payments under capital leases including amounts from defeasance trusts were as follows (in thousands):

2003	$ 268,835
2004	276,826
2005	278,604
2006	277,610
2007	278,434
Thereafter	4,444,761
	5,825,070
Less amount representing interest	2,369,095
Present value of minimum lease payments at September 30, 2002	$3,455,975

The current portion of capital lease obligations at September 30, 2002 and 2001 was $80,336,000 and $64,688,000, respectively, and is included in "Current maturities of long-term debt and capital lease obligations" in the Consolidated Balance Sheets.

The Company had certain wrecked and damaged leased equipment as of September 30, 2002 and 2001. Casualty provisions under these agreements require that the equipment be restored to its original condition, or the lessor be reimbursed for the equipment loss if like equipment is not substituted under the lease. The casualty liability for the damaged and wrecked equipment was estimated to be $34,979,000 and $31,160,000 as of September 30, 2002 and 2001, respectively, and is recorded on the Consolidated Balance Sheets under "Accrued expenses and other current liabilities." The amounts expensed relating to these items are reflected in the "Train operations" line item in the Consolidated Statements of Operations.

Amtrak is subject to various covenants including acceleration clauses and restrictions under its capital lease arrangements. A default by Amtrak under, 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.

Operating Rights and Leases

At September 30, 2002, Amtrak was obligated for the following minimum rental payments, principally for station and office space, under operating leases that have initial or remaining noncancelable lease terms in excess of one year (in thousands):

2003	$ 34,524
2004	24,346
2005	19,161
2006	16,925
2007	16,690
Thereafter	85,894
	$ 197,540

Rent expense for the years ended September 30, 2002 and 2001 was $41,302,000 and $48,279,000, 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 5 to 15 years. The total amount paid to the railroads for use of their rights-of-way in 2002 and 2001 totaled $103.9 million and $96.8 million, respectively.

NOTE 8: INCOME TAXES

No provision for federal taxes has been recorded as the Company incurred net operating losses for the years ended September 30, 2002 and 2001. As of September 30, 2002, the company had net operating loss carry-forwards available to offset future taxable income of approximately $7.1 billion, which begin to expire January 1, 2009.

The provision for income taxes differed from the income tax benefit which would be computed based upon the statutory federal tax rates as a result of the recording of a valuation allowance equal to the increase in net deferred tax assets.

The net operating losses give rise to a significant portion of deferred tax assets. Other deferred tax assets are due to timing differences associated with fixed assets, reserves for claims, and accruals. These are offset by deferred tax liabilities associated with leases. Based upon the Company's history of operating losses, management does not believe that it is likely that the deferred tax assets will be realized. As a result, management has applied a full valuation allowance against the net deferred tax assets at September 30, 2002 and 2001.

NOTE 9: COMMITMENTS AND CONTINGENCIES

Insurance Claims

Amtrak has self-insured certain risks with respect to losses for employer's liability, third-party liability, and property damage. Amtrak also has in place various insurance coverages for liability losses, procured from commercial insurance companies, either directly or as reinsurance through PRIL. PRIL was incorporated under the laws of Bermuda on December 18, 1996, as a Class 1 captive insurance company to provide excess liability and property coverage to its parent company, Amtrak. Amtrak renewed its excess liability insurance program on December 31, 2002. PRIL did not participate in the renewed excess liability insurance placement, as the liability insurance was purchased directly by Amtrak rather than as a reinsurance of PRIL. However, PRIL's reinsurers remain at risk for a number of open claims made prior to December 31, 2002.

The Amtrak Reform and Accountability Act of 1997 limits the amount railroad passengers may recover from a single accident to an aggregate of $200 million. Since non-passenger liability is not so limited, Amtrak purchases excess liability insurance limits beyond this statutory cap.

Labor Agreements

All labor agreements currently in force were amendable as of January 1, 2000, and will remain in effect until new agreements are reached or the Railway Labor Act's procedures are exhausted. Approximately 90% of Amtrak's workforce is covered by labor agreements.

Legal Proceedings

In December 1995, Amtrak entered into a $321 million fixed-price contract with a joint venture consisting of Balfour Beatty Construction, Inc. and Mass. Electric Construction Co. (BBC/MEC) for the design and construction of an electrified catenary system along Amtrak's Northeast Corridor right-of-way between New Haven, Connecticut and Boston, Massachusetts. To date BBC/MEC has made various claims alleging problems with site conditions, design, owner-directed changes, work interference, and work schedule acceleration. The claims total approximately $116 million, of which Amtrak has paid $35 million. Amtrak is vigorously defending the remaining $81 million in claims, a process that is likely to take several years. Amtrak is asserting its own claims against BBC/MEC for a variety of contract non-compliance issues and is holding $11 million in retainage against Amtrak's claims. In addition, the United States Department of Justice has undertaken investigations of BBC/MEC that may result in additional claims against it. The total value of claims against BBC/MEC is substantial, but cannot be estimated with accuracy at this time. No provision for claims against Amtrak is reflected in the accompanying Consolidated Financial Statements.

On November 8, 2001, Bombardier Corporation (Bombardier) filed a complaint in United States District Court for the District of Columbia against Amtrak alleging that Amtrak through various actions and failures caused Bombardier (as partner to a consortium along with Alstom Transportation, Inc.) to incur substantial additional costs relating to the design and manufacture of high-speed electric trainsets and locomotives, and the related maintenance facilities. Bombardier's complaint claims entitlement to recovery and requests an award of damages of not less than $200 million. Bombardier filed an amended complaint on November 16, 2001. In its amended complaint, Bombardier alleges Amtrak breached its contracts with the Bombardier-Alstom Consortium, and violated other legal obligations Amtrak allegedly owed Bombardier, thereby interfering with these contracts. In its amended complaint, Bombardier seeks damages of not less than $200 million. On December 3, 2001, Amtrak filed a motion to dismiss Bombardier's complaint on the basis that Bombardier had not complied with the contracts' dispute resolution provisions, and that compliance with these provisions was a prerequisite to filing suit. The District Court denied Amtrak's motion on September 30, 2002. Amtrak has appealed this denial to the United States Court of Appeals for the District of Columbia Circuit, and anticipates that the Court of Appeals will rule on the appeal during calendar year 2003. Amtrak has breach of contract claims against the Consortium that exceed $200 million, which it will assert at the appropriate time. The ultimate outcome of this matter cannot be determined at this time.

Amtrak is involved in various other litigation and arbitration proceedings in the normal course of business. While the outcome of these matters cannot be predicted with certainty, it is the opinion of management and counsel that the disposition of these matters will not materially affect Amtrak's Consolidated Financial Statements.

Commitments

Amtrak has entered into various agreements with States, cities and other local transportation authorities and private companies for railroad facility and infrastructure improvements and for the remanufacture and supply of railroad passenger equipment. The largest commitments arise from agreements with two Northeastern States. Under these contracts, Amtrak agreed to fund a portion of the costs with a remaining scope of work at September 30, 2002 of approximately $148 million. Amtrak has the right to terminate future work contemplated by the contracts. Amtrak is discussing with the States a number of contract scope changes that would result in a reduction in the overall cost. Amtrak has also entered into shared use agreements with certain state agencies and municipalities that require Amtrak to pay the agencies annual amounts to maintain track structure and facilities. The terms of such agreement vary and extend into 2008 and beyond.

NOTE 10: ENVIRONMENTAL MATTERS

Some of Amtrak's past and present operations involve activities which are subject to extensive and changing federal and state environmental regulations which 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, 2002 and 2001, the reserve was $43,339,000 and $31,534,000, respectively. Of these amounts, $37,437,000 and $29,106,000 relate to estimated capitalizable costs to be incurred as of September 30, 2002 and 2001, respectively. Costs of future expenditures for environmental remediation obligations are not discounted to their present value. At September 30, 2002 and 2001, a deferred charge for each amount is included in the Consolidated Balance Sheets under "Deferred charges, deposits, and other." Amtrak has not recorded any receivables for recoveries from other parties or from insurance because such recoveries are not sufficiently certain.

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

NOTE 11: RETIREMENT 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. As a result of a voluntary separation plan offered to qualified nonunion employees in late fiscal year 2001 with acceptances received and the plan finalized in early fiscal year 2002, a curtailment loss and termination benefits are included as a component of the fiscal year 2002 net periodic pension benefit cost. 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, 2002, and a statement of the funded status as of September 30, 2002 and 2001 (in thousands):

	Pension Benefits		Other Benefits	
	2002	2001	2002	2001
Reconciliation of projected benefit obligation:				
Obligation at October 1,	$ 155,157	$ 137,846	$ 170,562	$ 142,253
Service cost	6,425	6,147	6,810	5,731
Interest cost	10,824	10,546	14,397	11,668
Actuarial loss (gain)	(2,392)	5,256	48,726	17,542
Effect of curtailment	(262)	-	(5,013)	-
Benefit payments	(5,014)	(4,638)	(7,004)	(6,632)
Obligation at September 30,	$ 164,738	$ 155,157	$ 228,478	$ 170,562
Reconciliation of fair value of plan assets:				
Fair value of plan assets at October 1,	$ 175,344	$ 194,239	$ -	$ -
Actual loss on plan assets	(11,167)	(14,276)	-	-
Employer contributions	4	19	7,004	6,632
Effect of curtailment	(1,697)	-	-	-
Benefit payments	(5,014)	(4,638)	(7,004)	(6,632)
Fair value of plan assets at September 30,	$ 157,470	$ 175,344	$ -	$ -
Funded status:				
Funded status at September 30,	$ (7,268)	$ 20,187	$ (228,478)	$ (170,562)
Unrecognized prior service cost	1,292	1,517	18,272	19,475
Unrecognized (gain) loss	7,446	(13,172)	46,124	3,124
Other	-	(2)	-	-
Net asset (liability) recognized in Consolidated Balance Sheets	$ 1,470	$ 8,530	$ (164,082)	$ (147,963)
Accumulated benefit obligation	$ 137,326	$ 126,146	$ 228,478	$ 170,562
Weighted average assumptions as of September 30, (in percentages of 100%):				
Discount rate	7.25	7.50	7.25	7.50
Expected return on plan assets	8.00	10.00	N/A	N/A
Rate of compensation increase	4.00	4.00	N/A	N/A

The pension plan's assets consist primarily of fixed income investments, as well as U.S. and international equity investments. The postretirement benefits program has no plan assets. Amtrak funds this program on a pay-as-you-go basis.

For measurement purposes, a 9.0% and 7.0% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2002 and 2001, respectively. The rate was assumed to gradually decrease to 4.5% by 2008, and remain at that level thereafter.

The following table provides the components of net periodic benefit (credit) cost for the plans for fiscal years 2002 and 2001 (in thousands):

	Pension Benefits		Other Benefits	
	2002	2001	2002	2001
Service cost	$ 6,425	$ 6,147	$ 6,810	$ 5,731
Interest cost	10,824	10,546	14,397	11,668
Expected return on plan assets	(13,805)	(19,177)	-	-
Amortization of prior service cost	206	365	1,203	1,203
Amortization of net (gain) loss	(294)	(2,344)	713	-
Curtailment loss	20	-	-	-
Termination benefits	3,689	-	-	-
Other	(2)	(7)	-	-
Net periodic benefit (credit) cost	$ 7,063	$ (4,470)	$ 23,123	$ 18,602

The prior service costs are amortized on a straight-line basis over the average remaining service period of active participants for both plans. Gains and losses in excess of 10% of the greater of the benefit obligation and the market-related value of assets are amortized over the average remaining service period of active participants.

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 still 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 copayment provisions and other limitations.

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

	1% Increase	1% Decrease
Effect on total of service and interest cost component	$ 3,569	$ (2,926)
Effect on postretirement benefit obligation	$ 33,572	$ (27,943)

Amtrak provides a 401(k) savings plan for nonunion employees. Under the plan, Amtrak matches a portion of employee contributions up to five percent, subject to applicable limitations. Amtrak's expenses under this plan were $6,996,000 and $7,532,000 for the years ended September 30, 2002 and 2001, respectively.

NOTE 12: FAIR VALUE OF FINANCIAL INSTRUMENTS

For cash and cash equivalents, 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 the revolving credit facilities, 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 and notes payable were based upon discounted cash flow analyses using interest rates available to Amtrak at September 30, 2002 and 2001 for debt with the same remaining maturities. Although interest free, the UDAG loan was also valued based upon a discounted cash flow analysis using September 30, 2002 and 2001 market interest rates. The estimated fair values of these financial instruments are as follows (in thousands):

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Mortgage obligations	$ 314,306	$ 356,316	$ 323,524	$ 355,137
Equipment obligations	$ 10,404	$ 10,405	$ 221,462	$ 221,462
Notes payable	$ 20,000	$ 18,916	$ 20,000	$ 16,912
Bonds	$ 30,000	$ 30,000	$ 30,000	$ 30,000
UDAG loan	$ 11,707	$ 10,266	$ 11,837	$ 9,359

NOTE 13: SUPPLEMENTAL CASH FLOW INFORMATION

For the years ended September 30, 2002 and 2001, 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 (in thousands):

	2002	2001
Refinancing of equipment obligations into capital leases	$ 259,134	$ 623,870
Financed property acquisitions and improvements	$ 52,682	$ 216,156
Property acquired through capital lease obligations	$ 73,555	$ 223,240
Other non-cash increases in property, primarily accruals of amounts due for purchases	$ 27,579	$ 96,595
Debt and capital lease reduction through use of escrow deposits	$ 8,719	$ 6,583
Escrowed proceeds received from capital lease and mortgage obligation	$ 51,047	$ 107,578
Reclassification of deferred federal capital payments to other paid-in capital	$ -	$ 14,711
Reclassification of receivable from Federal government to other paid-in capital	$ -	$ 4,078
Property acquired with escrowed deposits	$ 14,829	$ -

Cash interest (net of amounts capitalized and non-cash amounts associated with economically defeased capital leases) of $159,935,000 and $76,959,000 was paid during the years ended September 30, 2002 and 2001, respectively.