National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Management's Discussion and Analysis of Financial Condition and Results of Operations and Consolidated Financial Statements With Report of Independent Auditors

Fiscal Year 2016

Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following is a discussion of Amtrak's fiscal year ended September 30, 2016 (FY2016) results of operations, certain changes in its financial position, liquidity, and business developments for the periods covered by the Consolidated Financial Statements included in this report. This discussion should be read in conjunction with the Consolidated Financial Statements, the related notes, and other information included elsewhere in this report.

FORWARD-LOOKING STATEMENT DISCLOSURE

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contains forward-looking statements that may be identified by the use of words like "believe," "expect," "anticipate," "project" and similar expressions. Forward-looking statements reflect management's good-faith evaluation of information currently available and are subject to a number of risks and uncertainties, including but not limited to the risks and uncertainties set forth below:

- If we do not receive sufficient Federal Government funding, our ability to operate in current form may be adversely affected;
- Our business is subject to federal, and to some state and local, laws and regulations;
- Our business is capital intensive and without sufficient capital investment, we may be unable to maintain and improve current infrastructure and rolling stock;
- Our business is subject to numerous operational risks, such as changes in general economic, weather, or other conditions, equipment failure, disruption of our supply chain, war, acts of terrorism, and other catastrophic events which could result in significant disruptions to our operations, increased expenses or decreased revenues;
- Large portions of our operating costs are driven by prices for diesel fuel and electricity; spikes in energy costs can greatly affect our ability to fund other programs and projects that are necessary to achieve our goals;
- Most of our employees are represented by unions, and failure to negotiate reasonable collective bargaining agreements may result in strikes, work stoppages or substantially higher ongoing labor costs;
- Catastrophic events could result in liabilities exceeding our insurance coverage; and
- Any decline in the economy that reduces business travel or depresses consumer spending in the U.S. will have a negative impact on Amtrak.

Forward-looking statements are not guarantees of future performance and actual results may differ materially from those envisaged by such forward-looking statements. Accordingly, readers should not place undue reliance on any such forward-looking statements. Forward-looking statements speak only as of the date of this report. Amtrak does not assume any obligation to update or revise any forward-looking statement, whether as a result of new information, future events and developments, or otherwise.

GENERAL BUSINESS DESCRIPTION

Amtrak is America's Railroad®, the nation's intercity passenger rail service and its high-speed rail operator. Our principal business is to provide rail passenger service in the major intercity travel markets of the United States. In addition to our core business of intercity passenger railroad operations, we engage in related ancillary businesses that include:

- operating commuter railroads on behalf of various states and transit agencies;
- providing infrastructure access to commuter agencies and freight railroads;
- performing rail services for other rail operators, both commuter agencies and freight railroads, on a reimbursable basis; and
- managing and leasing of commercial real estate.

We operate a national rail network of more than 21,300 route miles serving more than 500 destinations in 46 states, the District of Columbia and three Canadian provinces. As of September 30, 2016, Amtrak's active fleet included 20 *Acela Express* high-speed trainsets, 1,236 passenger cars, 80 *Auto Train* vehicle carriers, 80 baggage cars, 260 road diesel locomotives and 70 electric locomotives. In addition, the *Cascades* Service operates with seven Talgo trainsets with cars owned by Amtrak and certain state partners. We continue to take delivery under agreements to purchase 130 new long-distance single-level cars. In August 2016, we placed an order to purchase 28 next generation high-speed trainsets, which will replace our existing 20 *Acela Express* trainsets. We currently expect that all new trainsets will be in service by the end of 2022. Amtrak is the nation's only high-speed intercity rail passenger provider, operating at a top speed of 150 mph (241 kph). More than half of our trains operate at top speeds of 100 mph (160 kph) or greater.

Amtrak is the only railroad in North America to maintain right-of-way for service at speeds in excess of 125 mph (201 kph) and our engineering forces maintain more than 350 route-miles of track for 100+ mph (160 + kph) service.

We serve 525 stations in the United States and Canada. At these stations, Amtrak owns 78 station structures, 47 platforms and 31 parking facilities. In addition, there are 60 stations in the United States where Amtrak owns one or more station components (i.e., station structure, platform, parking facility) but does not serve the station. We own 18 tunnels consisting of 24 miles of track and 1,414 bridges. We own most of the maintenance and repair facilities for our fleet.

The Northeast Corridor (NEC) is the busiest railroad segment in North America with more than 2,200 trains operating over some portion of the Washington, D.C. - Boston route each day. In FY2016, the Boston-New York-Washington, D.C. portion of the NEC carried 11.9 million passengers on the *Acela Express* or *Northeast Regional* Service.

Amtrak receives funding from 21 state agencies representing 18 states for financial support of 29 short distance routes (less than 750 miles). In FY2016, five state-supported corridors had ridership of one million passengers or more:

- *Pacific Surfliner* service (San Diego-Los Angeles-San Luis Obispo) - 2.9 million;
- *Capitol Corridor* service (San Jose-Oakland-Sacramento-Auburn) - 1.6 million;
- *Keystone Corridor* service (Harrisburg-Philadelphia-New York City) - 1.5 million;
- *Empire* service (New York-Albany-Niagara Falls-Toronto) - 1.2 million; and
- *San Joaquin* service (Oakland/Sacramento-Bakersfield) - 1.1 million.

Four other corridors had ridership in excess of 500,000 passengers in FY2016:

- *Hiawatha* service (Chicago-Milwaukee) - 0.8 million;
- *Amtrak Cascades* service (Eugene-Portland-Seattle-Vancouver, B.C.) - 0.8 million;
- *Lincoln* service (Chicago-St. Louis) - 0.6 million; and
- *Downeaster* service (Brunswick - Portland - Boston) - 0.5 million

Amtrak owned and/or maintained property includes:

- Northeast Corridor: 363 miles of the 457-mile mainline NEC which connects Washington, D.C., Philadelphia, New York City, and Boston, the busiest passenger line in the country, with trains regularly reaching speeds of 125-150 mph (201-241 kph). Two sections are owned by others: (1) the New York Metropolitan Transportation Authority (10 miles) and Connecticut Department of Transportation (46 miles) own 56 miles on Metro North between New Rochelle, New York, and New Haven, Connecticut and (2) the Commonwealth of Massachusetts owns 38 miles between the Massachusetts/Rhode Island border and Boston that is operated and maintained by Amtrak;
- Springfield Line: A 60.5-mile track segment from New Haven, Connecticut, to Springfield, Massachusetts;
- Harrisburg Line (also known as the *Keystone Corridor*): The 104.2 miles of up to 110 mph (177 kph) track in Pennsylvania between Philadelphia and Harrisburg;
- Michigan Line: A 95.6-mile segment of 110 mph (177 kph) track from Porter, Indiana to Kalamazoo, Michigan; and
- New York Hudson Line: In December 2012, Amtrak and CSX Transportation reached an agreement for Amtrak to operate, maintain and dispatch approximately 94 miles of the New York City to Niagara Falls *Empire Corridor* in New York between Poughkeepsie and Hoffmans (near Schenectady).

Outside of the NEC, we contract with freight railroads for the use of their tracks and other resources required to operate our trains, with incentives for on-time dispatching. These host railroads are responsible for the condition of their tracks and for the dispatching on their tracks. Approximately 72 percent of Amtrak's train miles are run on tracks owned by other railroads.

On December 4, 2015, the President signed as Public Law 114-94, the Fixing America's Surface Transportation Act (the FAST Act). Title XI-Rail of the FAST Act, cited as the Passenger Rail Reform and Investment Act of 2015 (PRRIA 2015), authorizes funding to the Secretary of the U.S. Department of Transportation (DOT) for annual grants to Amtrak totaling $8.1 billion for fiscal years 2016 through 2020. PRRIA 2015 directs $2.6 billion of this support to our NEC and $5.5 billion to our National Network as defined in the FAST Act, and it authorizes an additional $2.2 billion for other rail grant programs in which we may participate. Please refer to Note 2 to the Consolidated Financial Statements included elsewhere in this report for detailed information regarding the FAST Act.

Excluding Amtrak's Office of Inspector General, we have approximately 20,000 employees and approximately 85 percent of our labor force is covered by labor agreements.

PRINCIPAL BUSINESSES

Northeast Corridor

The NEC is the centerpiece of the Amtrak system - a high-speed railroad developed over the course of a multi-year partnership among Amtrak, the Federal Government, commuter railroads and states. While portions of the right-of-way follow alignments that date back to the 1830s, Amtrak, the U.S. DOT and the commuter railroads have created a network that supports an intense daily schedule of more than 2,200 trains and provides hourly high-speed service, with a top speed (on the Boston to New York route) of 150 mph. On each of our major routes (New York to Washington, D.C. and New York to Boston), we carry more passengers than all of the airlines serving these routes, and our share of the air-rail market from the endpoints to intermediate cities such as Philadelphia is even larger. One hundred and forty Amtrak trains run on the NEC each day.

State-Supported and Other Short-Distance Routes (SD and other routes)

Our short-distance corridor trains operate outside of the NEC. These trains include routes in California and the Pacific Northwest, routes serving the Chicago Union Station hub in the Midwest, extensions of *Northeast Regional* trains continuing outside of Amtrak's NEC, and others. These routes provide a travel alternative that is generally trip-time competitive with other modes for shorter distance trips, and also provide connections to our national network at larger stations. State-supported services are vital links in the Amtrak national network. The power of increasing demand for passenger rail is recognized through state investments to improve service, speed, and safety. In addition, states and communities realize stations served by Amtrak are anchors for economic development, catalysts for historic preservation and tourism growth, sites for commercial and cultural uses and points of civic pride.

Long-Distance Routes (LD routes)

Under the Passenger Rail Investment and Improvement Act of 2008 (PRIIA), Congress stated that long-distance passenger rail is a vital and necessary part of our national transportation system and economy and that Amtrak should maintain a national passenger rail system, including LD routes that connect the continental United States from coast to coast and from border to border. We operate long-distance trains, most of them on a daily basis, on 15 routes. These trains are the only passenger rail service in 23 of the 46 states we serve. Operating over routes that range up to 2,728 miles in length, the long-distance trains serve several purposes, connecting nearby communities with one another, with terminal cities, and with other Amtrak services at major hubs such as Chicago. The majority of coach passengers travel over only portions of these routes. For longer distance travel, and for trips between the endpoints, we offer sleeping car service. These trains are heavily patronized by senior citizens and passengers with disabilities. In many places, long-distance trains have helped to "incubate" short-distance corridor service on portions of their route, and many long-distance trains provide an additional service frequency on SD and other routes, offering travelers a greater range of travel options, and combining the needs of growing state-supported service with the requirement to tie the national system together. The majority of train-miles traveled by Amtrak on these routes are on the host railroad tracks owned by freight and commuter railroads.

OTHER BUSINESS

Our other business is comprised of other transportation revenue from use of Amtrak-owned premises and other services; revenue from reimbursable engineering and capital improvement activities; commercial development revenue from retail, parking, advertising, real property leases/easements/sales, access fees; and freight access fee revenue from the use of Amtrak-owned tracks.

CONSOLIDATED RESULTS OF OPERATIONS

The following discussion presents an analysis of results of our operations for FY2016 and FY2015 (in millions):

	Year Ended September 30, 2016	2015	$ Change	% Change
Total revenues	**$ 3,240.6**	$ 3,211.0	$ 29.6	0.9 %
Total operating expenses	**4,261.3**	4,332.6	(71.3)	(1.6)
Net other expense	**58.0**	62.1	(4.1)	(6.6)
Loss before income taxes	**1,078.7**	1,183.7	(105.0)	(8.9)
Income tax expense	**1.8**	49.0	(47.2)	(96.3)
Net loss	**$ 1,080.5**	$ 1,232.7	$ (152.2)	(12.3)
Ridership	**31.3**	30.9	0.4	1.3 %

The annual federal appropriations for both FY2016 and FY2015 totaled $1.4 billion. Of these amounts, $288.5 million and $250.0 million were appropriated for general operating expenses for FY2016 and FY2015, respectively. The portion of eligible operating expenses covered by our revenue was 95% and 92% for FY2016 and FY2015, respectively.

Total Revenues (in millions)

	Year Ended September 30, 2016	2015	$ Change	% Change
Passenger-related:				
Ticket	**$ 2,136.1**	$ 2,123.8	$ 12.3	0.6 %
State supported	**227.0**	222.8	4.2	1.9
Food and beverage	**132.3**	132.1	0.2	0.2
Subtotal - Passenger-related revenue	**2,495.4**	2,478.7	16.7	0.7
Commuter	**120.8**	122.7	(1.9)	(1.5)
Other	**624.4**	609.6	14.8	2.4
Total revenues	**$ 3,240.6**	**$** 3,211.0	$ 29.6	0.9 %

Total revenues increased $29.6 million, or 0.9%, from FY2015. The increase is primarily attributable to PRIIA Section 212, which became effective on October 1, 2015 and which determines how Amtrak and commuter operators contribute capital and operating funds to the NEC, and to higher ticket revenue as a result of increased ridership and higher yield per revenue passenger mile.

Ticket Revenues and Ridership Analysis

Amtrak Ridership and Ticket Revenues (in millions)

	Ridership			Ticket Revenues[1] ($)		
	2016	**2015**	**% Change**	**2016**	**2015**	**% Change**
NEC	**11.9**	11.7	1.7 %	$ **1,209.2**	$ 1,198.7	0.9 %
SD and Other	**14.7**	14.7	—	**490.7**	489.4	0.3
LD	**4.7**	4.5	4.4	**492.3**	497.4	(1.0)
Total	**31.3**	30.9	1.3 %	$ **2,192.2**	$ 2,185.5	0.3 %

[1] Ticket revenues in this table include food and beverage provided as part of the ticket price.

NEC ridership and ticket revenue increased by 1.7% and 0.9%, respectively, in FY2016, compared with FY2015. In FY2015, both NEC ridership and ticket revenue were negatively impacted by the service disruption caused by the derailment of Amtrak's Train #188, which occurred on May 12, 2015 (the Train #188 Derailment). In FY2016, the NEC benefited from improved on time performance compared to FY2015.

SD and other routes ticket revenue increased by 0.3% in FY2016, compared with FY2015. Ridership and ticket revenue on the *Keystone, Pacific Surfliner* and *Capital Corridor* routes continue to increase while the *San Joaquin, Albany-Niagara Falls-Toronto* and *New Haven-Springfield* routes decreased in ridership and ticket revenue. The large increase on *Keystone* was mainly due to added service and the large decrease on *New Haven-Springfield* was due to significant trackwork-related service disruptions. Lower fuel prices also negatively impacted SD and other routes' overall performance.

LD routes ridership increased by 4.4% and ticket revenue decreased by 1.0% in FY2016, compared with FY2015. Ridership and ticket revenue on the *Palmetto, California Zephyr* and *Lake Shore Ltd* routes increased. The increase in ridership on the *Palmetto* was due to local NEC trips, which it began serving in FY2016. Some LD routes, including the *California Zephyr* and *Lake Shore Ltd.*, benefited from improved on-time performance, while others saw declines. Lower fuel prices also negatively impacted LD routes' overall performance.

State Supported Revenues

We receive funding from 21 state agencies representing 18 states to bring service to their communities, and these services comprise more than half of our departures. Total state-supported revenues of $227.0 million in FY2016 came from California, Connecticut, Illinois, Indiana, Maine, Massachusetts, Michigan, Missouri, New York, North Carolina, Oklahoma, Oregon, Pennsylvania, Texas, Vermont, Virginia, Washington, and Wisconsin. State supported revenues increased by $4.2 million, primarily due to contractual increases in state supported route subsidies in FY2016.

Commuter Revenues

In addition to providing 18 states with state-supported Amtrak intercity service, we partnered with the states or regional transportation authorities in California, Connecticut, Florida, and Maryland, to operate commuter rail services for a cost-based fee. We also provide maintenance of way, maintenance of equipment and/or dispatching services for transportation authorities in Florida, Virginia and Washington. Commuter revenues decreased by $1.9 million primarily due to decreased operating revenue from the Connecticut Department of Transportation as a result of lower fuel prices.

Other Revenues

We had other revenues of $624.4 million in FY2016, comprised of revenue from reimbursable engineering and capital improvement projects; other transportation revenue from use of Amtrak-owned tracks and other services; commercial development revenue from retail, parking, advertising, real property leases/easements/ sales, and access fees; amortization of state funds used to acquire depreciable assets; and freight access fee revenue from the use of Amtrak-owned tracks from freight railroad companies. In FY2016, other revenues increased by $14.8 million or 2.4% primarily due to PRIIA Section 212 which became effective on October 1, 2015. The increase was partially offset by overall decreases in reimbursable work done for various states.

Total Operating Expenses (in millions)

	Year Ended September 30,			
	2016	**2015**	**$ Change**	**% Change**
Operating Expenses:				
Salaries, wages, and benefits	**$ 2,087.6**	$ 2,136.6	$ (49.0)	(2.3) %
Train operations	**300.2**	251.9	48.3	19.2
Fuel, power, and utilities	**230.4**	283.3	(52.9)	(18.7)
Materials	**157.9**	182.6	(24.7)	(13.5)
Facility, communication, and office-related	**174.9**	198.3	(23.4)	(11.8)
Advertising and sales	**104.4**	95.2	9.2	9.7
Casualty and other claims	**72.9**	90.3	(17.4)	(19.3)
Depreciation and amortization	**813.4**	747.8	65.6	8.8
Other	**468.7**	486.0	(17.3)	(3.6)
Indirect cost capitalized to property and equipment	**(149.1)**	(139.4)	(9.7)	7.0
Total operating expenses	**$ 4,261.3**	$ 4,332.6	$ (71.3)	(1.6) %

Salaries, wages & benefits expenses decreased by $49.0 million or 2.3% in FY2016, compared with FY2015, primarily due to higher credits reducing other postretirement plan expenses in FY2016 as a result of a plan amendment effective on July 1, 2015. The decrease was partially offset by employee short-term incentive bonus earned in FY2016, which was not earned in FY2015.

Train operations expenses increased by $48.3 million or 19.2% in FY2016, compared with FY2015, primarily due to higher incentive payments made to and lower penalty payments received from Host Railroads for adherence to scheduled departure and arrival times as well as payments made to various commuter railroads along the NEC as a result of PRIIA Section 212 which became effective on October 1, 2015.

Fuel, power and utilities expenses decreased by $52.9 million or 18.7% in FY2016, compared with FY2015, primarily due to lower fuel prices and energy usage.

Materials expenses decreased by $24.7 million or 13.5% in FY2016, compared with FY2015, primarily due to inventory warranty settlements from certain vendors in FY2016 as well as better contract program management and decreased reimbursable work.

Facility, communication, and office-related expenses decreased by $23.4 million or 11.8% in FY2016, compared with FY2015, primarily due to decreased reimbursable work as well as lower building maintenance expense.

Advertising and sales expenses increased by $9.2 million or 9.7% in FY2016, compared with FY2015, primarily due to increased advertising for Amtrak's master brand, multi-platform campaign, which was launched at the end of FY2015, as well as increased incremental long distance advertising.

Casualty and other claims expenses decreased by $17.4 million or 19.3% in FY2016, compared with FY2015, primarily due to the $20 million insurance deductible accrual related to the Train #188 Derailment in FY2015.

Depreciation and amortization expense increased by $65.6 million or 8.8% in FY2016, compared with FY2015, primarily due to $29.3 million in additional depreciation expense which was recorded in FY 2016 related to certain older electric locomotives which were removed from active service and replaced by newly purchased electric locomotives and also due to an overall increase in the cost basis of property and equipment.

Other expenses decreased by $17.3 million or 3.6% in FY2016, compared with FY2015, primarily due to an overall decrease in reimbursable work in FY2016 and a property loss recorded in FY2015 as a result of the Train #188 Derailment.

Indirect cost capitalized to property and equipment increased by $9.7 million or 7.0% in FY2016, compared with FY2015, primarily due to a higher volume of capitalized projects.

Net Other Expense (in millions)

Net other expense includes interest income on cash and cash equivalents and escrow deposits held, interest expense associated with the financing of equipment and buildings, and other non-operating income and expenses.

	Year Ended September 30,			
	2016	**2015**	**$ Change**	**% Change**
Other Expense:				
Interest income	**$ (4.4)**	$ (2.3)	$ (2.1)	91.3 %
Interest expense	**65.9**	66.1	(0.2)	(0.3)
Other income, net	**(3.5)**	(1.7)	(1.8)	105.9
Net other expense	**$ 58.0**	$ 62.1	$ (4.1)	(6.6) %

Interest income increased by $2.1 million or 91.3% primarily due to overall higher cash balances in FY2016.

Interest expense was relatively unchanged from year to year. During FY2016, our total interest bearing debt balance decreased by $69.2 million, or 5.6%. The reduction in interest expense attributable to the decrease in debt was partially offset by a reduction in capitalized interest upon acceptance in FY2016 of the newly acquired electric locomotives.

Other income, net increased by $1.8 million or 105.9% in FY2016, primarily because of gains realized on sales of property in FY2016.

Income Tax Expense

We recorded $1.8 million and $49.0 million of income tax expense in FY2016 and FY2015, respectively. In both years, income tax expense resulted from net deferred tax liabilities that arise in periods subsequent to the expiration of our existing net operating losses computed in accordance with the requirements of FASB ASC 740, *Income Taxes*. Please refer to Note 9 to the Consolidated Financial Statements included elsewhere in this report for detailed information regarding our income tax expense.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is a company's ability to generate adequate amounts of cash to meet both current and future needs for obligations as they mature and to provide for planned capital expenditures, including those to implement regulatory and legislative initiatives.

Overview of Cash Flows

We rely on cash flows from operating activities and appropriations from the Federal Government to operate the national passenger rail system and to maintain the underlying infrastructure we own. Our primary uses of cash are to support operations; maintain and improve our infrastructure; pay debt service; acquire new and maintain existing locomotives, rolling stock and other equipment; and meet other obligations.

Summary Cash Flow Data (in millions)

	Year Ended September 30,			
	2016	**2015**	**$ Change**	**% Change**
Cash flows (used in) provided by:				
Operating activities	**$ (92.0)**	$ (409.7)	$ 317.7	(77.5) %
Investing activities	**(1,434.6)**	(1,112.3)	(322.3)	29.0
Financing activities	**1,759.0**	1,620.8	138.2	8.5
Net increase in cash and cash equivalents, including restricted cash	**232.4**	98.8	133.6	135.2
Beginning balance of cash and cash equivalents, including restricted cash	**528.0**	429.2	98.8	23.0
Ending balance of cash and cash equivalents, including restricted cash	**$ 760.4**	$ 528.0	$ 232.4	44.0 %

Operating Cash Flows

Net operating cash outflows for FY2016 decreased by $317.7 million to $92.0 million. The lower FY2016 operating cash outflow was primarily driven by a decrease in our total net loss.

Investing Cash Flows

Cash outflows relating to investing activities consist primarily of cash used for capital expenditures. Net cash used in investing activities was $1.4 billion in FY2016, compared with $1.1 billion in FY2015. The increase in investing cash outflows was primarily driven by (i) $152.6 million spending in FY2016 towards the acquisition of 28 next generation high speed trainsets, (ii) $74.6 million in higher capital expenditures during FY2016 as compared to FY2015 on the Springfield Line double track work being done in Connecticut, and (iii) $90.1 million insurance proceeds collected and recorded as a reduction of investing outflows in FY2015 related to casualty losses on property and equipment incurred in connection with Super Storm Sandy.

Financing Cash Flows

Cash flows from financing activities consist primarily of federal and state appropriations, and proceeds from issuance of long-term debt, offset by repayment of debt and capital lease obligations. Financing activities provided cash of $1.8 billion in FY2016, compared with $1.6 billion in FY2015. The year-over-year increase was primarily driven by higher state capital payments received in FY2016 as a result of PRIIA Section 212 which became effective on October 1, 2015.

Financing cash flows for FY2016 and FY2015 are discussed in more detail below:

- Net financing cash inflows for FY2016 were $1.8 billion. Appropriations from the Federal Government under the 2016 Full-Year Continuing Appropriations Act provided funding of $1.1 billion in FY2016. In addition, we received $294.9 million of our FY2015 appropriations in FY2016. During the same period, we received $297.2 million in state capital payments; $93.2 million under the American Recovery and Reinvestment Act of 2009 High Speed Intercity Passenger Rail program; $47.2 million under a financing agreement with the Federal Railroad Administration (FRA), through the Railroad Rehabilitation & Improvement Financing (RRIF) loan program; $41.3 million under the Disaster Relief Appropriations Act, 2013 and $9.0 million under various security grants. Proceeds from federal appropriations and other grants were used for debt and capital lease obligations repayments of $114.9 million.

- Net financing cash inflows for FY2015 were $1.6 billion. Appropriations from the Federal Government under the 2015 Full-Year Continuing Appropriations Act provided funding of $1.1 billion in FY2015. In addition, we received $153.7 million of our FY2014 capital subsidy in FY2015. During the same period, we received $187.1 million in state capital payments; $106.8 million under the American Recovery and Reinvestment Act of 2009 High Speed Intercity Passenger Rail program; $94.8 million under a financing agreement with the FRA, through the RRIF loan program; $39.5 million under various security grants and $35.7 million under the Disaster Relief Appropriations Act, 2013. Proceeds from federal appropriations and other grants were used for debt and capital lease obligations repayments of $121.3 million.

We are subject to various covenants and restrictions under our borrowing arrangements. A default by us or acceleration of our indebtedness may result in cross-default with other debt and may have a material adverse effect on us. As of September 30, 2016, we satisfied all of our covenant obligations.

Overview of Contractual Obligations and Capital Expenditures

Contractual Obligations

We have historically funded debt service payments on our indebtedness and capital leases (other than RRIF financing) from federal capital appropriations. If capital funds are insufficient to cover our eligible debt service payments, we would expect to use cash from operating revenues to cover such payments.

The following table outlines our material obligations under long-term debt and capital and operating lease obligations as of the end of FY2016 (in millions):

	Payments Due by Period				
	Total	**Up to 1 year**	**>1 year to 3 years**	**>3 years to 5 years**	**> 5 years**
Long-term debt[1]	$ 436.7	$ 145.4	$ 82.5	$ 81.1	$ 127.7
Equipment and facility capital lease obligations[2]	1,091.8	116.1	192.4	179.6	603.7
Operating leases[2]	88.2	17.2	25.9	16.3	28.8
Total	**$ 1,616.7**	**$ 278.7**	**$ 300.8**	**$ 277.0**	**$ 760.2**

[1] As described in Note 6 to the Consolidated Financial Statements.
[2] As described in Note 7 to the Consolidated Financial Statements.

In the normal course of business, we enter into long-term contractual commitments for future services needed for the operations of our business. Such commitments are not in excess of expected requirements and are not reasonably likely to result in performance penalties or payments that would have a material adverse effect on our liquidity. Such commitments are not included in the above table.

Please refer to Notes 6 and 7 to the Consolidated Financial Statements included in this report for detailed information regarding our indebtedness.

The enactment of a series of continuing appropriations acts and a joint resolution, along with the enactment on May 5, 2017 of the Consolidated Appropriations Act, 2017, as Public Law 115-31, appropriated total funding of $1.5 billion for Amtrak's FY2017. Please refer to Note 2 to the Consolidated Financial Statements included elsewhere in this report for detailed information regarding our annual funding.

Off Balance Sheet Arrangements

Off balance sheet arrangements consist of obligations related to operating leases, which are included in the table of contractual obligations above and disclosed in Note 7 to the Consolidated Financial Statements.

Capital Expenditures

Capital spending programs are and have been designed to assure the ability to provide safe, efficient and reliable transportation services. We receive funds from state and local entities for capital programs as well as from federal appropriations.

The following table summarizes major capital expenditures by department for FY2016 and FY2015 (in millions):

	Year Ended September 30,	
	2016	**2015**
Engineering	**$ 863.5**	$ 657.1
Mechanical	**322.1**	450.6
Information Technology (IT)	**43.2**	39.8
Other	**367.2**	167.9
Total	**$ 1,596.0**	**$** 1,315.4

- Engineering major capital expenditures in FY2016 included $599.5 million for right-of-way (track, signals, substations, etc.) replacement and upgrade projects; $100.0 million for construction and upgrades to bridges, tunnels, and culverts; and $129.7 million for station and facility upgrades. Included in the station and facility upgrades is approximately $25.8 million of capital improvements for compliance with the Americans with Disabilities Act.

- Mechanical major capital expenditures in FY2016 included $79.2 million for overhauls and conversions of Amfleets (single-level intercity passenger cars built for us in the 1970s and 1980s); $62.5 million for overhauls and modifications on Superliners (bi-level passenger cars built for us in the 1970s and 1990s and used on long distance trains that do not use the NEC); $51.4 million for locomotive overhauls; $44.0 million related to the acquisition of new ACS-64 locomotives; and $26.4 million for other passenger car overhauls.

- IT major capital expenditures in FY2016 included $14.9 million for the IT Strategic Technology Program (various initiatives assessed as critical to provide world class IT services); $7.5 million for the IT Technology Upgrade Program (a program providing an organizational, systematized and policy-based response to recurring requirements for application upgrades and technological refreshment); and $6.6 million for our regular employee hardware replacement program.

- Other major capital expenditures in FY2016 included $152.7 million for the Next Generation High Speed trainsets; $44.9 million for the Operations Foundation project (a program to implement new technology within the Operations Department); $34.4 million for station and facility upgrades; $27.8 million for Customer Experience Programs (a marketing initiative to provide customers with intuitive, personal and simple experiences when shopping, planning and booking their travel); $12.0 million related to safety, security, and infrastructure protection; and $10.4 million for Passenger Information Display System installation at various stations.

CRITICAL ACCOUNTING ESTIMATES

This MD&A is based on our Consolidated Financial Statements contained elsewhere in this report, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base these estimates and judgments on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

We believe the following accounting estimates are most critical to an understanding of our financial statements. Estimates are considered to be critical if they meet both of the following criteria: (i) the estimate requires assumptions about material matters that are uncertain at the time the accounting estimates are made, and (ii) material changes in the estimates are reasonably likely from period to period. For a detailed discussion on the application of these and other accounting estimates, refer to Note 3 in our Consolidated Financial Statements.

Capitalization, Depreciation and Amortization of Property and Equipment

Due to the highly capital intensive nature of the railroad industry, capitalization and depreciation of property and equipment are substantial components of our financial statements. Property and equipment, including leasehold improvements, comprised 87.5% of our total assets at the end of FY2016, and related depreciation and amortization comprised 19.1% of total operating expenses in FY2016.

Except as described below, property and equipment that we own are carried at cost and are depreciated using the group method of depreciation (group method) in which a single composite depreciation rate is applied to the gross investment in a particular class of property or equipment, despite differences in the service life or salvage value of individual property units within the same class. This excludes computer equipment and software, which are stated at cost and are individually depreciated on a straight-line basis over their estimated useful lives, which are generally three to ten years. Properties held under capital leases and leasehold improvements are depreciated over the shorter of their estimated useful lives or their respective lease terms.

We periodically engage a civil engineering firm with expertise in railroad property usage to conduct a study to evaluate depreciation rates for assets subject to the group method. In addition to the adjustment to group depreciation rates because of periodic depreciation studies, certain other events might occur that could affect our estimates and assumptions related to depreciation. Unforeseen changes in operations or technology could substantially alter assumptions regarding our ability to realize the return of investment on our operating assets and, therefore, affect the amount of current and future depreciation expense. Because group method depreciation expense is a function of analytical studies made of property and equipment, subsequent studies could result in different estimates of useful lives and net salvage values. If future group method depreciation studies yield results indicating that assets have shorter lives because of obsolescence, physical condition, changes in technology, or changes in net salvage values, the depreciation expense for assets under the group method could increase. Likewise, if future studies indicate that assets have longer lives, the depreciation expense for assets under the group method could decrease.

Impairment of Long-Lived Assets

Properties and other long-lived assets are reviewed for impairment whenever events or business conditions indicate that the carrying amount of an asset may not be recoverable. Initial assessments of recoverability are based on estimates of undiscounted future net cash flows. If impairment indicators are present, the assets are evaluated for sale or other dispositions, and their carrying amounts are reduced to fair value based on discounted cash flows or other estimates of fair value.

In performing our impairment analysis, we assume future Federal Government subsidies at levels consistent with the historical funding levels discussed in Note 2 to our Consolidated Financial Statements. We believe funding at historical levels is the best estimate to be used of the future. At this approximate level of funding, we determined that no indicators of impairment existed as of September 30, 2016. If future Federal Government funding drops below historical levels, substantial impairment may occur.

Casualty Losses and Claims

Casualty reserves represent accruals for personal injury, occupational injury, passenger liability and miscellaneous liability claims. The ultimate loss projections are undiscounted and estimated using standard actuarial methodologies, including estimates for provisions for incurred but not reported claims. As of September 30, 2016 and 2015, the reserve for casualty losses and claims was $477.2 million and $498.3 million, respectively. The reserve balances include our best estimate of the liability for passenger and employee claims incurred related to the Train #188 Derailment.

Positive Train Control

In 2008, Congress enacted the Rail Safety Improvement Act. The legislation included a mandate that all Class I railroads and each railroad hosting intercity or commuter rail passenger service have Positive Train Control (PTC) systems installed and operating by December 31, 2015, provided, however, that a Class I railroad is only required to install PTC on routes where there are five million or more gross tons of railroad traffic per year and the presence of either passenger trains or poison by inhalation hazardous materials. The FRA rules for PTC provide for exceptions to these PTC requirements, which are subject to FRA approval, on rail lines hosting passenger trains on which freight traffic volumes, and the number of passenger trains operated, do not exceed limits specified in the rule. In October 2015, Congress passed the Surface Transportation Extension Act of 2015, which included a three-year extension of the PTC deadline. We are working with federal authorities and commuter and freight railroads to ensure our trains are compliant with PTC systems adopted for use by host railroads. Additional funding to fully comply with PTC requirements is necessary and will be requested. Compliance with PTC requirements on the host railroads outside of the NEC could result in significant costs to us. Our contribution to PTC installation and maintenance on host railroad property has not yet been defined. Accordingly, our financial statements do not reflect an estimated liability for the cost of Amtrak becoming fully compliant with PTC. See Note 10 to the Consolidated Financial Statements for additional information.

Environmental

As further described in Note 11 to the Consolidated Financial Statements included elsewhere in this report, we are subject to extensive and complex federal and state environmental laws and regulations that can give rise to environmental issues. As a result of our operations and acquired properties, we are from time to time involved in administrative and judicial proceedings and administrative inquiries related to environmental matters. Our policy is to accrue estimated liabilities and capitalize such remediation costs if they extend the life, increase the capacity or improve the safety or efficiency of the property; mitigate or prevent environmental contamination that has not occurred but may result from future operations; are incurred in preparing the property for sale; or are incurred on properties acquired with existing environmental conditions, and to expense other remediation costs. The liability is periodically adjusted based on our present estimate of the costs we will incur related to these sites and/or actual expenditures made. Some of our real estate properties may have the presence of environmentally regulated wastes or materials. If these properties undergo excavations, major renovations or are demolished, certain environmental regulations that are in place may specify the manner in which the wastes or materials must be assessed, handled, and disposed. We have identified a number of locations for which excavations and major renovations are planned and liabilities have been recorded. In the future, we may plan other excavations, demolitions, major renovations or other construction activities that affect similar wastes or materials.

Although a potential liability exists for the removal or remediation of environmentally regulated materials, sufficient information is not available currently to estimate the liability, as the range of time over which we may settle these obligations is unknown or cannot be reasonably estimated at this time. Although we believe we have appropriately recorded current and long-term reserves for known and estimable future environmental costs, we could incur significant costs that exceed reserves or require unanticipated cash expenditures as a result of any of the foregoing. Based upon information currently available, we believe our environmental reserves are adequate to fund remedial actions to comply with present laws and regulations, and that the ultimate liability for these matters, if any, will not materially affect our overall financial condition, results of operations, or liquidity. As of September 30, 2016 and 2015, the environmental reserve was $66.9 million and $57.6 million, respectively. These reserves for estimated future environmental costs are undiscounted and include future costs for remediation and restoration of sites as well as any significant ongoing monitoring costs.

Pension and Other Post-Retirement Benefits

Accounting for pension and other post-retirement benefits requires management to make several estimates and assumptions (see Note 12 to the Consolidated Financial Statements). These include the discount rates used to measure future obligations and interest expense, long-term rate of return on plan assets, health care cost trend rates, and other assumptions. In addition, the amounts recorded are affected by changes in the interest rate environment because the associated liabilities are discounted to their present value.

We engage an independent, external actuary to compute the amounts of liabilities and expenses relating to these plans subject to the assumptions that we select. We review the discount, long-term plan asset, and health care cost trend rates on an annual basis and make modifications to the assumptions based on current rates and trends as appropriate. We have a qualified, non-contributory defined benefit retirement plan (the Retirement Income Plan) whose assets are held in trust covering certain nonunion employees and certain employees who at one time held nonunion positions. Prior to FY2016, the Retirement Income Plan was closed to new entrants and frozen for future benefit accruals. On August 10, 2016, the Retirement Income Plan was amended to permit certain retirees to receive a lump sum payment equal to the actuarial equivalent of the retiree's accrued benefit or an actuarial equivalent immediate annuity in the applicable normal annuity form under the plan. See Note 12 to the Consolidated Financial Statements for additional information.

Discount Rates

Discount rates affect the amount of liability recorded and the interest expense component of pension and other post-retirement benefit expense. Discount rates reflect the rates at which pension and other post-retirement benefits could be effectively settled, or in other words, how much it would cost us to buy enough high quality bonds to generate cash flow equal to our expected future benefit payments.

We determine the discount rate based on the market yield as of each fiscal year end for high quality corporate bonds whose maturities match the plans' expected benefit payments. The discount rate we used to value our pension obligation at September 30, 2016 was 3.74% and the discount rate used to value our other post-retirement benefit obligations at September 30, 2016 was 3.44% for obligations under our Union plan and 3.50% for obligations under our Management plan. The discount rate we used to value our pension obligation at September 30, 2015 was 4.43% and the discount rate used to value our other post-retirement benefit obligations at September 30, 2015 was 3.99% for obligations under our Union plan and 4.17% for obligations under our Management plan. Each year, these discount rates are reevaluated and adjusted to reflect the best estimate of the currently effective settlement rates. If interest rates generally decline or rise, the assumed discount rates will change.

Long-term Rate of Return on Plan Assets

The expected long-term rate of return on plan assets reflects the average rate of earnings expected on the funds invested, or to be invested, to provide for benefits included in the projected benefit obligation. In estimating that rate, we give appropriate consideration to the returns being earned by the plan assets in the funds and the rates of return expected to be available for reinvestment.

Our expected long-term rate of return on plan assets considers the current and projected asset mix of the funds. Management balances market expectations obtained from various investment managers and economists with both market and actual plan historical returns to develop a reasonable estimate of the expected long-term rate of return on assets. As this assumption is long-term, it is adjusted less frequently than other assumptions used in pension accounting. We used a long-term rate of return on plan assets of 7.25% to value FY2016 and FY2015 pension obligations.

Health Care Cost Trend Rates

Health care cost trend rates are based on recent plan experience and industry trends. We use guidance from employee benefits and actuarial consultants, Amtrak-specific claims trends, and health care cost studies to substantiate the inflation assumption for health care costs. The assumed health care cost trend rate ranged from 7.25% to 8.25% as of September 30, 2016, compared with a range of 7.50% to 8.50% as of September 30, 2015, based upon current actuarial projections.

Assumed health care cost trend rates have a significant effect on the amounts reported for our other post-retirement benefit obligations. A one-percentage-point change in assumed health care cost trend rates in FY2016 would have the following effects (in thousands):

	1% Increase	1% Decrease
Effect on total service and interest cost component	$ 5,433	$ (4,790)
Effect on postretirement benefit obligation	$ 46,193	$ (40,848)

Other Assumptions

The calculations made by the actuaries also include assumptions relating to mortality rates, turnover and retirement age. These assumptions are based upon historical data and are selected by management.

Provision for Income Taxes

The accounting for income taxes requires recognition of deferred tax assets and liabilities for 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 liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted rates expected to be in effect during the year in which the differences reverse. Deferred tax assets generally represent items that can be used as a tax deduction or credit on our tax return in future years for which the tax benefit has already been reflected in our Consolidated Statements of

Operations. We establish valuation allowances for our deferred tax assets if it is more likely than not that some or all of the deferred tax asset will not be realized. Judgment is required in estimating valuation allowances. The determination of the amount of valuation allowance to be provided on recorded deferred tax assets involves estimates regarding (1) the timing and amount of the reversal of taxable temporary differences, (2) expected future taxable income, and (3) the impact of tax planning strategies, which can also be impacted by changes to tax laws. Deferred tax liabilities primarily relate to fixed assets for which we have no basis for tax purposes because the fixed assets were purchased with federal grants, which are recorded within equity and are not included in taxable income.

We evaluate our potential exposures from tax positions taken that have or could be challenged by taxing authorities in the evaluation. These potential exposures result because taxing authorities may take positions that differ from those taken by management in the interpretation and application of statutes, regulations, and rules. Management considers the possibility of alternative outcomes based upon past experience, previous actions by taxing authorities (e.g., actions taken in other jurisdictions), and advice from tax experts. We have evaluated income tax positions taken in prior years and believe that all positions are more likely than not to be sustained in an audit.

Legal

As part of our operations, we are a party to various legal proceedings and administrative actions in the normal course of business. An accrual for a loss contingency is established if information available prior to issuance of our financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements, and the amount of loss can be reasonably estimated. If no accrual is made for a loss contingency because one or both of these conditions are not met, or if an exposure to loss exists in excess of the amount accrued, disclosure of the contingency is made when there is at least a reasonable possibility that a loss or an additional loss may have been incurred.

We evaluate all exposures relating to legal liabilities on a monthly basis and adjust reserves when appropriate under the guidance noted above. The amount of a particular reserve may be influenced by factors that include official rulings, newly discovered or developed evidence, or changes in laws, regulations and evidentiary standards.

Inflation

In preparing financial statements, U.S. generally accepted accounting principles require the use of historical cost, which does not reflect the effects of inflation on the replacement cost of property. Due to the capital intensive nature of our business, the replacement cost of these assets would be significantly larger than the amounts reported under the historical cost basis.

CONSOLIDATED FINANCIAL STATEMENTS

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Years Ended September 30, 2016 and 2015

With Report of Independent Auditors

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Financial Statements

Years Ended September 30, 2016 and 2015

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Report of Independent Auditors

The Board of Directors and Stockholders
National Railroad Passenger Corporation

We have audited the accompanying consolidated financial statements of National Railroad Passenger Corporation and subsidiaries (Amtrak or the Company), which comprise the consolidated balance sheets as of September 30, 2016 and 2015, and the related consolidated statements of operations, comprehensive loss, changes in capitalization, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of National Railroad Passenger Corporation and subsidiaries at September 30, 2016 and 2015, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Federal Government Funding

As explained in Notes 1 and 2 in the accompanying consolidated financial statements, the Company has a history of operating losses and is dependent upon substantial Federal Government subsidies to sustain its operations and maintain its underlying infrastructure. As further explained in Note 2 to the consolidated financial statements, the Company is receiving Federal Government funding under the Continuing Appropriations Act, 2017 and the Further Continuing Appropriations Act, 2017. The Company expects to receive additional interim Federal Government funding under Congressional continuing resolutions for fiscal year 2017 until the formal appropriations bill is signed into law. There are currently no Federal Government subsidies appropriated by law for any period subsequent to April 28, 2017. Without the receipt of Federal Government funding, Amtrak will not be able to continue in its current form and significant operating changes, restructurings, or bankruptcy might occur. Our opinion is not modified with respect to this matter.

Ernst + Young LLP

January 27, 2017

A member firm of Ernst & Young Global Limited

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Balance Sheets

(In Thousands of Dollars, Except Share Data)

	September 30, 2016	September 30, 2015
Assets		
Current Assets:		
Cash and cash equivalents, including restricted cash of $7,966 and $4,978 as of September 30, 2016 and 2015, respectively	**$ 760,454**	$ 528,006
Accounts receivable, net of allowances of $5,352 and $5,067 as of September 30, 2016 and 2015, respectively	**294,548**	308,875
Materials and supplies, net of allowances of $27,653 and $27,782 as of September 30, 2016 and 2015, respectively	**255,095**	272,689
Prepaid expenses	**37,730**	27,721
Other current assets	**306,342**	36,653
Total current assets	**1,654,169**	1,173,944
Property and equipment:		
Locomotives	**2,127,329**	1,944,706
Passenger cars and other rolling stock	**3,247,105**	3,168,946
Right-of-way and other properties	**12,694,726**	12,124,468
Construction-in-progress	**1,713,510**	1,410,974
Leasehold improvements	**572,610**	556,327
Property and equipment, gross	**20,355,280**	19,205,421
Less: Accumulated depreciation and amortization	**(8,026,218)**	(7,502,347)
Total property and equipment, net	**12,329,062**	11,703,074
Other assets, deposits, and deferred charges:		
Notes receivable on sale-leasebacks	**55,833**	55,210
Deferred charges, deposits, and other	**45,160**	362,356
Total other assets, deposits, and deferred charges	**100,993**	417,566
Total assets	**$ 14,084,224**	$ 13,294,584

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Balance Sheets (continued)

(In Thousands of Dollars, Except Share Data)

	September 30, 2016	2015
Liabilities and capitalization		
Current liabilities:		
Accounts payable	**$ 579,686**	$ 380,505
Accrued expenses and other current liabilities	**1,011,063**	629,847
Deferred ticket revenue	**143,565**	146,197
Current maturities of long-term debt and capital lease obligations	**216,182**	120,609
Total current liabilities	**1,950,496**	1,277,158
Long-term debt and capital lease obligations:		
Capital lease obligations	**664,099**	617,089
Other long-term debt	**291,020**	502,822
Total long-term debt and capital lease obligations	**955,119**	1,119,911
Other liabilities and deferred credits:		
Deferred state capital payments	**1,557,909**	1,323,929
Casualty reserves	**148,745**	440,708
Deferred gain on sale-leasebacks	**44,686**	49,521
Postretirement employee benefits obligation	**781,073**	863,817
Environmental reserve	**42,609**	46,290
Deferred income taxes	**51,049**	49,222
Other liabilities	**123,474**	132,404
Total other liabilities and deferred credits	**2,749,545**	2,905,891
Total liabilities	**5,655,160**	5,302,960
Commitments and contingencies *(Note 10)*		
Capitalization:		
Preferred stock - $100 par, 109,396,994 shares authorized, issued and outstanding at September 30, 2016 and 2015	**10,939,699**	10,939,699
Common stock - $10 par, 10,000,000 shares authorized, 9,385,694 issued and outstanding at September 30, 2016 and 2015	**93,857**	93,857
Other paid-in capital	**31,203,808**	29,672,867
Accumulated deficit	**(33,665,346)**	(32,584,857)
Accumulated other comprehensive loss	**(142,954)**	(129,942)
Total capitalization	**8,429,064**	7,991,624
Total liabilities and capitalization	**$ 14,084,224**	$ 13,294,584

See accompanying notes.

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Statements of Operations

(In Thousands of Dollars)

	Year Ended September 30, 2016	2015
Revenues:		
Passenger related	**$ 2,495,410**	$ 2,478,740
Commuter	**120,767**	122,671
Other	**624,381**	609,612
Total revenues	**3,240,558**	3,211,023
Expenses:		
Salaries, wages and benefits	**2,087,609**	2,136,564
Train operations	**300,176**	251,855
Fuel, power and utilities	**230,369**	283,320
Materials	**157,943**	182,601
Facility, communication and office related	**174,936**	198,323
Advertising and sales	**104,438**	95,214
Casualty and other claims	**72,848**	90,336
Depreciation and amortization	**813,403**	747,797
Other	**468,625**	485,950
Indirect cost capitalized to property and equipment	**(149,079)**	(139,353)
Total expenses	**4,261,268**	4,332,607
Loss before other (income) and expense	**1,020,710**	1,121,584
Other (income) and expense:		
Interest income	**(4,376)**	(2,259)
Interest expense	**65,943**	66,116
Other income, net	**(3,615)**	(1,751)
Other expense, net	**57,952**	62,106
Loss before income taxes	**1,078,662**	1,183,690
Income tax expense	**1,827**	48,996
Net loss	**$ 1,080,489**	$ 1,232,686

See accompanying notes.

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Statements of Comprehensive Loss

(In Thousands of Dollars)

	Year Ended September 30,	
	2016	**2015**
Net loss	**$ 1,080,489**	$ 1,232,686
Other comprehensive loss:		
Pension and other postretirement benefit items:		
Net (gain) loss arising during the period	**(64,086)**	19,820
Prior service credit during the period related to plan amendment	—	(402,854)
Amortization of actuarial loss	**(53,331)**	(51,849)
Amortization of prior service credit	**130,429**	75,976
Total pension and other postretirement benefit items	**13,012**	(358,907)
Comprehensive loss	**$ 1,093,501**	$ 873,779

See accompanying notes.

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Statements of Changes in Capitalization

(In Thousands of Dollars)

	Preferred Stock	Common Stock	Other Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance as of September 30, 2014	$ 10,939,699	$ 93,857	$ 28,209,068	$ (31,352,171)	$ (488,849)	$ 7,401,604
Federal paid-in capital	—	—	1,463,799	—	—	1,463,799
Net loss	—	—	—	(1,232,686)	—	(1,232,686)
Total pension and other postretirement benefit items	—	—	—	—	358,907	358,907
Balance as of September 30, 2015	10,939,699	93,857	29,672,867	(32,584,857)	(129,942)	7,991,624
Federal paid-in capital	**—**	**—**	**1,530,941**	**—**	**—**	**1,530,941**
Net loss	**—**	**—**	**—**	**(1,080,489)**	**—**	**(1,080,489)**
Total pension and other postretirement benefit items	**—**	**—**	**—**	**—**	**(13,012)**	**(13,012)**
Balance as of September 30, 2016	**$ 10,939,699**	**$ 93,857**	**$ 31,203,808**	**$ (33,665,346)**	**$ (142,954)**	**$ 8,429,064**

See accompanying notes.

National Railroad Passenger Corporation and Subsidiaries (Amtrak)

Consolidated Statements of Cash Flows

(In Thousands of Dollars)

	Year Ended September 30, 2016	2015
Cash flows from operating activities		
Net loss	**$ (1,080,489)**	$ (1,232,686)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	**813,403**	747,797
Deferred income taxes	**1,827**	48,996
Gain on sale of/recovery on property and equipment	**(4,093)**	(9,979)
Other	**4,615**	5,619
Changes in assets and liabilities:		
Accounts receivable	**6,246**	(35,842)
Materials and supplies	**15,814**	(6,098)
Prepaid expenses	**(10,009)**	(12,325)
Other current assets	**(269,689)**	7,566
Other assets, deposits and deferred charges	**316,573**	(287,106)
Accounts payable, deferred ticket revenue, accrued expenses and other current liabilities	**577,433**	111,301
Deferred state capital payments	**(63,253)**	(53,754)
Other liabilities and deferred credits	**(400,331)**	306,832
Net cash used in operating activities	**(91,953)**	(409,679)
Cash flows from investing activities		
Purchases and refurbishments of property and equipment	**(1,446,634)**	(1,209,961)
Insurance proceeds attributable to casualty losses related to property and equipment	**9,336**	96,162
Proceeds from disposals of property and equipment	**2,744**	1,475
Net cash used in investing activities	**(1,434,554)**	(1,112,324)
Cash flows from financing activities		
Proceeds from federal paid-in capital	**1,530,941**	1,463,799
Proceeds from state capital payments	**297,233**	187,091
Repayments of debt and capital lease obligations	**(114,897)**	(121,299)
Proceeds from issuance of debt	**45,678**	91,228
Net cash provided by financing activities	**1,758,955**	1,620,819
Net change in cash and cash equivalents, including restricted cash	**232,448**	98,816
Beginning balance of cash and cash equivalents, including restricted cash	**528,006**	429,190
Ending balance of cash and cash equivalents, including restricted cash	**$ 760,454**	$ 528,006
Supplemental disclosure of cash payments		
Interest paid, net of amount capitalized	**$ 69,936**	$ 73,081

See accompanying notes.

1. Nature of Operations

The National Railroad Passenger Corporation (Amtrak or the Company) was incorporated in 1971 pursuant to the Rail Passenger Service Act of 1970 and is authorized to operate a nationwide system of passenger rail transportation. The United States government (the Federal Government) through the Secretary of the United States Department of Transportation (the DOT) owns all issued and outstanding preferred stock. Amtrak's principal business is to provide rail passenger transportation service in the major intercity travel markets of the United States. The Company also operates commuter rail operations on behalf of certain states and transit agencies, provides equipment and right-of-way maintenance services, and has leasing operations.

The Company has a history of recurring operating losses and is dependent on subsidies from the Federal Government to operate the national passenger rail system and maintain the underlying infrastructure. These subsidies are usually received through annual appropriations. Appropriated funds for Amtrak are generally provided to the DOT, which through its agency the Federal Railroad Administration (the FRA) provides those funds to Amtrak pursuant to annual grant agreements. Amtrak's ability to continue operating in its current form is dependent upon the continued receipt of subsidies from the Federal Government. The DOT, formerly through the FRA, and now through the National Surface Transportation and Innovative Finance Bureau of the Federal Government (also referred to as the Build America Bureau), also provides financing to Amtrak through the Railroad Rehabilitation and Infrastructure Financing (RRIF) Program.

See Notes 2, 4, 5, 6 and 7 for additional information about Amtrak and its relationship with the Federal Government.

2. Annual Funding

On December 4, 2015, the President signed as Public Law 114-94, the Fixing America's Surface Transportation Act (the FAST Act). Title XI-Rail of the FAST Act, cited as the Passenger Rail Reform and Investment Act of 2015 (PRRIA 2015), authorizes funding to the Secretary of the DOT (the Secretary) for annual grants to Amtrak totaling $8.1 billion for fiscal years (FY) 2016 through 2020. PRRIA 2015 directs $2.6 billion of this support to Amtrak's Northeast Corridor (NEC) and $5.5 billion to Amtrak's National Network as defined in the FAST Act, and it authorizes an additional $2.2 billion for other rail grant programs in which Amtrak may participate. Although PRRIA 2015 provides that this structure, which separates funding for the NEC and the National Network, would begin for Amtrak's FY2016, the FY2016 Appropriations Law was drafted before the FAST Act was enacted, which deferred the implementation until FY2017. Accordingly, for FY2016, Amtrak received a capital and debt service grant and an operating grant, consistent with past practice.

The FAST Act funding authorizations supersede those within the Passenger Rail Investment and Improvement Act of 2008 (PRIIA 2008), which was enacted on October 16, 2008 as Public Law 110-432. PRIIA 2008 authorized the appropriation of funds totaling $9.8 billion for FY2009 through FY2013 to be used by the Secretary for annual operating and capital grants to Amtrak. Some of the requirements in PRIIA 2008 continue to apply to Amtrak.

Pursuant to appropriations under PRIIA 2008 and subsequent continuing resolutions (CRs) and annual appropriations through Amtrak's FY2016, the terms of Amtrak's annual operating grant generally provide

2. Annual Funding (continued)

funding for the associated fiscal year while the terms of the annual capital and debt service assistance grant generally provide that such funds can be retained until expended, generally expected to be by December 31 of the subsequent year. Pursuant to certain requirements in the FAST Act, the Continuing Appropriations Act, 2017 along with the Further Continuing and Security Assistance Appropriations Act, 2017 provided FY2017 funding for Amtrak's National Network and NEC through April 28, 2017. There are currently no federal funds appropriated for the Company for any period subsequent to April 28, 2017. 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. The Company ultimately expects it will receive sufficient funds in the form of CRs or other appropriations legislation to support its operations for the foreseeable future.

PRRIA 2015 mandates reforms for Amtrak and its grant programs. Requirements include the development of five-year plans for business lines and assets to be used as the basis for Amtrak's annual grants, separate financial reporting for the National Network and the NEC, and a process for transferring funds between the two accounts. Beginning in FY2017, rather than providing annual grants for Amtrak's capital and operating needs, the authorized funds are provided for activities associated with Amtrak's National Network and NEC. Amtrak is the sole eligible entity for these grant funds and payments are to be advanced with 50% provided at the beginning of each fiscal year and 25% paid in each of the following two quarters. PRRIA 2015 directs the formation of committees and, where applicable, requires Amtrak to work in partnership with stakeholders including representatives of transit, state and Federal rail transportation authorities to plan, implement, and fund certain rail programs. There are also competitive and partnership grant programs authorized to which Amtrak may apply: for FY2016 through FY2020, a total of $1.1 billion is authorized for rail infrastructure and safety improvements, $1.0 billion for Federal-State partnership grants for State-of-Good Repair projects, and $100 million for rail restoration and enhancement grants. No funds were received through these programs in FY2016.

The table below provides information on funding for the Company's fiscal years ended September 30, 2017, 2016 and 2015 under CRs and the Consolidated Appropriations Act or Consolidated and Further Continuing Appropriations Act (collectively, Full Year Funding) related to those years (dollars in millions):

2. Annual Funding (continued)

	FY2017		FY2016		FY2015
Enactment dates for CRs	September 29, 2016 December 12, 2016		**September 30, 2015**		September 19, 2014
Public Law numbers for CRs	114-223 114-254		**114-53**		113-164
Enactment date for Full Year Funding	N/A [1]		**December 18, 2015**		December 16, 2014
Public Law number for Full Year Funding	N/A [1]		**114-113**		113-235
Appropriated capital and debt service funds		**$**	**1,101.5**	$	1,140.0
Appropriated operating service funds			**288.5**		250.0
Appropriated for National Network	$ 664.6				
Appropriated for NEC	135.2				
Total funds appropriated	799.8		**1,390.0**		1,390.0
FRA authorized withholdings	(8.0)		**(10.5)**		(10.7)
Total appropriated funds designated for Amtrak	$ 791.8 [2]	**$**	**1,379.5**	$	1,379.3
Funds received by Amtrak:					
In FY2015				$	1,084.4
In FY2016		**$**	**1,069.6**		294.9
In FY2017, as of January 27, 2017	$ 263.9		**123.3**		—
Total funds received to date	$ 263.9	**$**	**1,192.9**	$	1,379.3

[1] FY2017 Full Year Funding is not yet in place.
[2] Funding appropriated through April 28, 2017.

3. Basis of Presentation and Summary of Significant Accounting Policies

Method of Accounting

The accompanying consolidated financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Principles of Consolidation

The Consolidated Financial Statements reflect the consolidated operations of Amtrak and its four subsidiaries, Chicago Union Station Company (CUS), Passenger Railroad Insurance, Limited (PRIL), Penn Station Leasing, LLC (PSL) and Washington Terminal Company (WTC). All significant intercompany balances and transactions have been eliminated.

CUS was incorporated on July 3, 1913 as the Union Station Company, for the purpose of constructing, operating and maintaining a new railroad terminal in the City of Chicago. The name was officially changed to Chicago Union Station Company on May 7, 1915. Amtrak acquired 50% stock ownership interest in CUS in 1976 as part of the conveyance of the NEC and off-Corridor properties. Amtrak purchased the remaining 50% stock ownership in 1984. CUS's business is comprised of the following segments: provision of right-

3. Basis of Presentation and Summary of Significant Accounting Policies (continued)

of-way and station access and use of intercity and commuter services; and lease and licensing of station space for retail services, display advertising, special events and other commercial uses.

PRIL was incorporated on December 18, 1996 under the laws of Bermuda to provide excess liability and property insurance coverage to Amtrak. In addition, PRIL also provides insurance and reinsurance coverage to third parties performing work on Amtrak property.

PSL was formed on April 17, 2001 to acquire and lease back to Amtrak the real property and improvements located in New York, commonly known as Penn Station.

WTC was formed on December 6, 1901 and is comprised of buildings and rail yard adjacent to Washington Union Station. WTC provides switching services for passenger trains using the station or passing through the area.

Cash and Cash Equivalents

All short-term investments with original maturities of 90 days or less are considered cash and cash equivalents. These consist of bank deposits and money market fund investments. Cash and cash equivalents are maintained at various financial institutions and, at times, balances may exceed federally insured limits.

Restricted cash and cash equivalents consist primarily of funds received that are restricted for specific purposes or cash set aside and restricted for specific payments. Restricted cash and cash equivalents consists of a money market fund held in trust restricted from withdrawals based upon certain collateral requirements and funds restricted for certain operations of the Amtrak Police Department.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable in the Consolidated Balance Sheets include billed and unbilled accounts receivable. Billed accounts receivable represent amounts for which invoices have been sent to customers. These accounts receivable are recorded at the invoiced amount and do not bear interest. Unbilled accounts receivable represent amounts recognized as revenue for which invoices have not yet been sent to customers but for which services and work have been performed. The Company recorded $101.4 million and $121.1 million of unbilled accounts receivable as of September 30, 2016 and 2015, respectively.

The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's billed accounts receivable. To determine its allowance for doubtful accounts, the Company evaluates historical loss experience and the characteristics of current accounts, as well as general economic conditions and trends. Uncollectible billed accounts receivables are applied against the allowance.

Materials and Supplies

Materials and supplies, which are stated at weighted-average cost, net of allowance for shrinkage and obsolescence, consist primarily of items for repairs and maintenance of property and equipment. The allowance for shrinkage and obsolescence is recorded based on specific identification and expected usage rates.

3. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Property, Equipment, and Depreciation

Except as described below, property and equipment owned by the Company are carried at cost and depreciated using the group method of depreciation (group method) in which a single composite depreciation rate is applied to the gross investment in a particular class of property or equipment, despite differences in the service life or salvage value of individual property units within the same class. This excludes computer equipment and software, which are stated at cost and are individually depreciated on a straight-line basis over their estimated useful lives, which are generally three to ten years. Properties held under capital leases and leasehold improvements are depreciated over the shorter of their estimated useful lives or their respective lease terms, and the related depreciation expense is reported within "Depreciation and amortization" in the Consolidated Statements of Operations. Land is carried at cost.

For assets depreciated under the group method, upon normal sale or retirement, the cost less the net salvage value is applied to "Accumulated depreciation" in the Consolidated Balance Sheets and no gain or loss is recognized. Gains or losses on the disposal of land and accelerated depreciation related to significant premature retirements of assets under the group method are recorded in the Consolidated Statements of Operations at the time of occurrence. During FY2016, in connection with the delivery of new electric locomotives for use in the NEC, the Company removed from active service older electric locomotives. The Company concluded that the locomotives would not be returned to active service and, as a result, $29.3 million in additional depreciation expense was recorded in FY2016. There were no significant premature retirements of depreciable property or disposals of land for which gains or losses were recorded in FY2015.

Amtrak periodically engages an outside civil engineering firm with expertise in railroad property usage to conduct a study to evaluate depreciation rates for assets subject to the group method. In addition to the adjustment to group depreciation rates because of periodic depreciation studies, certain other events might occur that could affect Amtrak's estimates and assumptions related to depreciation. Unforeseen changes in operations or technology could substantially alter assumptions regarding Amtrak's ability to realize the return on its investment in operating assets and, therefore, affect the amounts of current and future depreciation expense. Because group method depreciation expense is a function of analytical studies made of property and equipment, subsequent studies could result in different estimates of useful lives and net salvage values. If future group method depreciation studies yield results indicating that assets have shorter lives because of obsolescence, physical condition, changes in technology, or changes in net salvage values, the depreciation expense for assets under the group method could increase. Likewise, if future studies indicate that assets have longer lives, the depreciation expense for assets under the group method could decrease.

Construction-in-progress is stated at cost and includes direct costs of construction and interest expense capitalized during the period of construction of major facilities, locomotives, and passenger cars. Construction-in-progress is transferred to property and equipment when substantially all the activities necessary to prepare such assets for their intended use are completed, at which time depreciation commences. When constructed assets are funded through long-term debt, capitalized interest is recorded as part of the asset to which it relates and is depreciated over the asset's useful life. Total interest cost incurred by the Company was $66.4 million and $72.6 million for FY2016 and FY2015, respectively, of which interest cost capitalized on construction projects was $0.5 million and $6.5 million for FY2016 and FY2015, respectively.

3. Basis of Presentation and Summary of Significant Accounting Policies (continued)

The useful lives of locomotives, passenger cars, and other rolling stock assets for depreciation purposes range up to 40 years. Right-of-way and other properties (excluding land) are depreciated using useful lives ranging up to 105 years. Within other properties is other equipment including computers, office equipment, and maintenance equipment which are depreciated using useful lives ranging from three to 40 years. Expenditures that significantly increase asset values or extend useful lives are capitalized, including major overhauls. Repair and maintenance expenditures, including preventive maintenance, are charged to operating expense when the work is performed. The cost of internally developed software is capitalized and amortized over its estimated useful life, which is generally five to ten years.

The Company accounts for asset retirement obligations (AROs) in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 410, *Asset Retirement and Environmental Obligations*. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the asset. In accordance with FASB ASC Topic 410, the Company recognizes the fair value of any liability for conditional AROs, including environmental remediation liabilities, in the period in which it is incurred, which is generally upon acquisition, construction, or development and/or through the normal operation of the asset, if sufficient information exists with which Amtrak can reasonably estimate the fair value of the obligation. Amtrak capitalizes the cost by increasing the carrying amount of the related long-lived asset. The capitalized cost is depreciated over the useful life of the related asset and upon settlement of the liability Amtrak either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The asset retirement costs capitalized were $10.0 million and $9.3 million as of September 30, 2016 and 2015, respectively, and were included in "Right-of-way and other properties" in the Consolidated Balance Sheets.

Indirect Cost Capitalized to Property and Equipment

Capitalized overhead cost represents the indirect support expenses related to specific geographic regions and departments that are involved in particular capital projects. These indirect costs, which include fringe benefits allocable to direct labor, are capitalized along with the direct costs of labor, material, and other direct costs. Amtrak's overhead rates are updated at the end of each fiscal year based upon the actual activity and costs incurred during the fiscal year.

Impairment of Long-Lived Assets

Properties and other long-lived assets are reviewed for impairment whenever events or business conditions indicate that their carrying amounts may not be recoverable. Initial assessments of recoverability are based on estimates of undiscounted future net cash flows. If impairment indicators are present, the assets are evaluated for sale or other disposition, and their carrying amounts are reduced to fair value based on discounted cash flows or other estimates of fair value.

In performing its impairment analysis, the Company assumes future Federal Government subsidies at levels consistent with the historical funding levels discussed in Note 2. The Company believes funding at historical levels is the best estimate to be used of the future. At this approximate level of funding, the Company determined that no indicators of impairment existed as of September 30, 2016. If future Federal Government funding drops below historical levels, substantial impairment may occur as discussed in Note 2.

3. Basis of Presentation and Summary of Significant Accounting Policies (continued)

On October 29, 2012, Super Storm Sandy (Sandy) came ashore in the Northeast and mid-Atlantic region of the United States. Amtrak sustained damage to tunnels and other structures in New York and New Jersey. The Company determined that there was no impairment to the tunnels, but certain infrastructure assets would need to be replaced sooner than previously anticipated. Accordingly, the Company assigned unique group depreciation rates to these assets. As a result, depreciation expense totaling $193.1 million is being accelerated over the remaining life of these assets. The acceleration of depreciation expense increased the Company's net loss by $30.4 million and $31.7 million in FY2016 and FY2015, respectively. See Note 10 for additional information on Sandy.

Casualty Losses and Claims

Provision is made for Amtrak's portion of the estimated actuarial liability for unsettled casualty and other claims. Personal injury liability and ultimate loss projections are undiscounted and estimated using standard actuarial methodologies. These actuarial estimates include an estimate for unasserted claims. As of September 30, 2016 and 2015, the reserve for casualty losses and claims was $477.2 million and $498.3 million, respectively. Of the total amount reserved as of September 30, 2016 and 2015, the estimated current claims liability included in "Accrued expenses and other current liabilities" in the Consolidated Balance Sheets was $328.5 million and $57.6 million, respectively. The balance of the reserve as of both September 30, 2016 and 2015 is included in "Casualty reserves" in the Consolidated Balance Sheets. The total reserve balances include the Company's best estimate of the liability for passenger and employee claims incurred related to the derailment of Amtrak's Train #188, which occurred on May 12, 2015 (the Train #188 Derailment). See Note 10 for additional information on the Train #188 derailment.

Revenue Recognition

"Passenger related" revenue in the Consolidated Statements of Operations includes ticket revenue, state contribution revenue associated with requested service performed by Amtrak, and food and beverage revenue as follows (in millions):

	Year Ended September 30,	
	2016	**2015**
Ticket	**$ 2,136.1**	$ 2,123.8
State contribution	**227.0**	222.8
Food and beverage	**132.3**	132.1
Total passenger related revenue	**$ 2,495.4**	$ 2,478.7

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

"Commuter" revenue includes the revenues earned under contractual arrangements to operate various commuter rail services for a cost-based fee. These revenues are recognized when the related services are performed.

3. Basis of Presentation and Summary of Significant Accounting Policies (continued)

"Other" revenue, for FY2016 and FY2015, includes (i) revenue from reimbursable engineering and capital improvement activities (these revenues are generally recognized as the associated costs are incurred); (ii) other transportation revenue from use of Amtrak-owned tracks and other services (these revenues are generally recognized when the related services are performed); (iii) commercial development revenue from retail, parking, advertising, real property leases/easements/sales, and access fees (these revenues are generally recognized as the services are performed); (iv) amortization of state funds used to acquire depreciable assets (such payments are deferred when received and amortized over the estimated life of the related assets purchased with the funds, and the unamortized amounts are included in "Deferred state capital payments" in the Consolidated Balance Sheets); and (v) freight access fee revenue from the use of Amtrak-owned tracks by freight railroad companies and other gains.

The components of other revenue are as follows (in millions):

	Year Ended September 30,	
	2016	**2015**
Reimbursable	**$ 252.0**	$ 269.9
Other transportation	**166.4**	146.6
Commercial development	**84.2**	79.9
Amortization of state capital payments	**63.3**	53.8
Freight access fees and other	**58.5**	59.4
Total other revenue	**$ 624.4**	$ 609.6

Advertising Expenses

The Company records advertising expenses as incurred and reports these amounts in "Advertising and sales" in the Consolidated Statements of Operations. Advertising expenses were $46.6 million and $37.2 million for FY2016 and FY2015, respectively.

Income Taxes

The Company accounts for its income taxes in accordance with FASB ASC Topic 740, *Income Taxes*, which requires recognition of deferred tax assets and liabilities for 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 carry-forwards. 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.

Management evaluates its potential exposures from tax positions taken that have been or could be challenged by taxing authorities. These potential exposures result because taxing authorities may take positions that differ from those taken by management in the interpretation and application of statutes, regulations, and rules. Management considers the possibility of alternative outcomes based upon historical experience, previous actions by taxing authorities (e.g., actions taken in other jurisdictions), and advice from tax experts. The Company has evaluated income tax positions taken in prior years and believes that all positions are more likely than not to be sustained in an audit.

3. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Pursuant to the provisions of Title 49 of the United States Code, Section 24301, Amtrak is exempt from all state and local taxes, including income and franchise taxes that are directly levied against the Company. Accordingly, there is no provision for state and local income or franchise taxes recorded in the consolidated financial statements for FY2016 and FY2015 (see Note 9).

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, disclose contingent assets and liabilities at the date of the financial statements, and report amounts of revenues and expenses during the reporting period. The Company bases these estimates on historical experience, the current economic environment, and various other assumptions that are believed to be reasonable under the circumstances. However, uncertainties associated with these estimates exist and actual results may differ from these estimates. Some of the more significant estimates include: allowance for doubtful accounts and obsolescence of material and supplies, estimated useful lives of property and equipment, calculation of accelerated depreciation related to Sandy, recoverability of long-lived assets, estimates of wrecked and damaged equipment, estimates of casualty reserves, pension and other postretirement employee benefits expense and obligations (including expected return on plan assets, discount rates, and health care cost trend rates), estimated costs for retroactive wages for union employees, estimated costs of asset retirement obligations, valuation allowance for deferred tax assets and environmental reserves.

Comprehensive Loss

Amtrak reports a comprehensive loss in the Consolidated Statements of Comprehensive Loss. Comprehensive loss is defined as changes in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. As of September 30, 2016 and 2015, “Accumulated other comprehensive loss” consists of adjustments for pension and other postretirement liabilities.

Recently Adopted Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The ASU provides guidance on eight specific cash flow items, including classification of proceeds from the settlement of insurance claims, with the objective of reducing the existing diversity in practice. The ASU is effective for the Company for the fiscal year ending September 30, 2020, with early adoption permitted. The ASU must be adopted retrospectively to each prior period presented unless it is impractical to do so. The Company early adopted the ASU during FY2016. The adoption of the guidance resulted in reclassification of $73.0 million in insurance proceeds received from operating activities to investing activities in FY2015 and treatment of $1.4 million in insurance proceeds as operating activities instead of investing activities in FY2016.

3. Basis of Presentation and Summary of Significant Accounting Policies (continued)

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230):Restricted Cash.* The ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU is effective for the Company for the fiscal year ending September 30, 2020, with early adoption permitted. The ASU must be adopted retrospectively to each prior period presented. The Company early adopted the ASU during FY2016. The adoption of the guidance did not have a significant impact on the Company's consolidated statements of cash flows.

Recently Issued but Not Yet Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes previous revenue recognition guidance. The new standard requires that a company recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the company expects to receive in exchange for those goods and services. Companies will need to use more judgment and estimates than under the guidance currently in effect, including estimating the amount of variable revenue to recognize over each identified performance obligation. Additional disclosures will be required to help users of financial statements understand the nature, amount and timing of revenue and cash flows arising from the contracts. In August 2015, the FASB issued a deferral of the effective date of this pronouncement. The new standard will become effective for the Company beginning with the fiscal year ending September 30, 2020, and can be adopted either retrospectively to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption. The Company is currently evaluating the impact of adopting this new guidance on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern.* This ASU provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The guidance will be effective for the Company beginning with the fiscal year ending September 30, 2017, with early adoption permitted. As the Company expects to continue to receive funding from the Federal Government, Amtrak does not expect the adoption of this ASU to have a significant impact on its consolidated statements of financial condition or results of operations.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* The ASU enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The guidance addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments, including eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for non-public business entities. This ASU is effective for the Company beginning with the fiscal year ending September 30, 2019. The Company may adopt the ASU earlier as of the fiscal year ending September 30, 2018. The adoption of this ASU will eliminate fair value disclosure on the Company's debt instruments, but it will not have an impact on the Company's consolidated statements of financial condition or results of operations.

3. Basis of Presentation and Summary of Significant Accounting Policies (continued)

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842).* The ASU was issued to increase transparency and comparability among companies by requiring most leases to be included in the balance sheet and by expanding disclosures on leasing arrangements. This ASU is effective for the Company beginning with the fiscal year ending September 30, 2021, with early adoption permitted. The Company is currently evaluating the impact of adopting this new guidance. As the Company is and will continue to be involved in multiple leasing arrangements whereby the Company is either the lessee or the lessor, the adoption of the ASU is expected to have a significant impact on the Company's consolidated financial statements and disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments (Topic 326): Measurement of Credit Losses on Financial Instruments.* The ASU provides guidance for accounting for credit losses on certain types of financial instruments, modifies the impairment model for available-for-sale debt securities, and provides a simplified model for purchased financial assets with credit deterioration. This ASU is effective for the Company beginning with the fiscal year ending September 30, 2022, with early adoption permitted beginning with the Company's fiscal year ending September 30, 2020. The Company carries long term receivables which are evaluated for credit losses periodically. The adoption of the ASU is not expected to have a material effect on Amtrak's consolidated financial statement presentation or disclosures.

4. Accounting and Reporting for Federal Payments

Certain funds are provided to Amtrak during the year through federal payments. These federal payments, which are recorded when received in "Other paid-in capital" in the Consolidated Balance Sheets and Consolidated Statements of Changes in Capitalization, totaled $1.5 billion per year in each of FY2016 and FY2015.

Note 2 provides information on the Company's annual funding. Additional federal funding received by the Company, all of which was recorded within "Other paid-in capital" when received, is described below.

In accordance with the Disaster Relief Appropriations Act, 2013 (Public Law No. 113-2, January 29, 2013), Amtrak was provided with a grant of $30.2 million for damages incurred following Sandy on October 29, 2012, all of which had been received as of September 30, 2015, and with grants totaling $235.0 million for the Hudson Yards Concrete Encasement Project, of which Amtrak has cumulatively received $219.1 million and $177.8 million as of September 30, 2016 and 2015, respectively.

Since 2005, the Department of Homeland Security has awarded Amtrak a total of $170.0 million in annual grants from the Intercity Passenger Rail Grants Program, American Recovery and Reinvestment Act Rail and Transit Security Grant Program, and other security grants. Funding is provided on a reimbursable basis. Amtrak has cumulatively received $156.8 million and $147.8 million as of September 30, 2016 and 2015, respectively.

In May 2011, the DOT awarded Amtrak $449.9 million in American Recovery and Reinvestment Act of 2009 High Speed Intercity Passenger Rail funding to upgrade its rail infrastructure to support more frequent and faster high-speed rail service, and to improve reliability of current service between New York and Washington. The funding supports the project to upgrade electrical power, signal systems, and track and overhead catenary wires between Trenton and New Brunswick, New Jersey — one of the busiest segments of the NEC and

4. Accounting and Reporting for Federal Payments (continued)

where the densest concentration of Acela Express high-speed rail operations occurs. Funding is provided on a reimbursable basis. As of September 30, 2016 and 2015, Amtrak cumulatively received $333.7 million and $240.5 million, respectively.

Additional appropriations are made to directly fund operations of Amtrak's Office of Inspector General (OIG). $24.5 million was appropriated in FY2016 to be spent by September 30, 2016. Amtrak and the OIG entered into a services agreement on January 8, 2010, whereby Amtrak would continue to provide accounting and financial management services for the OIG. Amtrak is reimbursed for expenses incurred upon the submission of invoices to the OIG. As of September 30, 2016, Amtrak received $20.5 million.

"Other paid-in capital", included in the Consolidated Balance Sheets and Statements of Changes in Capitalization, also includes the effects of certain funding received from the Federal Government for the acquisition of and improvements to property and equipment. In exchange for this funding, Amtrak issued two promissory notes to the United States of America. The first note has a balance of $4.0 billion as of September 30, 2016 and 2015, was issued in 1976 and matures on December 31, 2975, and is secured by the real and personal property of Amtrak, WTC, CUS, and PRIL. The second note has a balance of $1.1 billion as of September 30, 2016 and 2015, was issued in 1983 and matures on November 1, 2082, with successive 99-year automatic renewal terms, if the note has not been paid at maturity or accelerated in accordance with its terms, and is secured by all rolling stock owned by Amtrak. Neither of the notes bears interest, unless prepaid, which Amtrak does not intend to do. The Federal Government is entitled to repayment and interest in the event Amtrak ceases operations, is acquired by another entity, or seeks relief under bankruptcy or insolvency laws. The amount due to the Federal Government on the first note may be accelerated by enactment of federal law or upon the occurrence of an event of default under the leases and mortgage entered into by Amtrak and PSL on June 20, 2001 (see Penn Station mortgage in Note 6), or upon the occurrence of various actions concerning an Amtrak bankruptcy, reorganization, or assignment for the benefit of creditors.

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 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. As of September 30, 2016 and 2015, 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 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. The Act abolished the voting rights and the liquidation preference of the preferred stockholder and abolished the requirement that additional preferred stock be issued by Amtrak in exchange for federal grants received. At the time of enactment of the Act, the minimum undeclared cumulative preferred dividend in arrears for all series issued and currently outstanding approximated $5.8 billion and ranged between $0.02 and $97.08 per share. Each share of preferred stock is convertible into ten shares of common stock at the option of the preferred stockholder.

As of September 30, 2016 and 2015, 10,000,000 shares of $10 par value common stock were authorized, of which 9,385,694 shares were issued and outstanding. The common stockholders, who acquired their stock

5. Preferred and Common Stock (continued)

from four railroads whose intercity rail passenger operations Amtrak assumed in 1971, have voting rights for amendments to Amtrak's Articles of Incorporation proposed by the Board of Directors and for certain other extraordinary events. 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 FY2002. In an effort to comply with the Act, Amtrak made an offer to the stockholders to redeem the stock for cash at a price of $0.03 per share. By a letter, dated November 2, 2000, counsel for the four common stockholders responded to Amtrak and rejected the offer. See Note 10 for information related to a lawsuit filed by one of the common stockholders.

6. Mortgages and Debt

Total mortgages and debt is recorded at amortized cost in the Consolidated Balance Sheets and consists of the following (in thousands):

	September 30, 2016		September 30, 2015	
	Current	**Long-Term**	**Current**	**Long-Term**
Mortgage obligations:				
Penn Station mortgage	**$ 64,290**	**$ —**	$ 27,405	$ 64,290
High speed maintenance facilities	**7,883**	**46,897**	7,397	54,780
Frequency converter facility	**46,825**	**88,290**	1,740	135,115
Subtotal	**118,998**	**135,187**	36,542	254,185
PEDFA 30th St. Garage Revenue Bonds	**1,817**	**33,604**	1,774	35,421
Term Loan A	**18,164**	**72,746**	17,672	90,911
Term Loan B	**6,461**	**49,750**	6,248	56,211
2011 RRIF Loan[1]	—	—	2,455	69,255
Principal amount of mortgages and debt	**145,440**	**291,287**	64,691	505,983
Less unamortized discount	**(125)**	**(267)**	(328)	(3,161)
Total mortgages and debt	**$ 145,315**	**$ 291,020**	$ 64,363	$ 502,822

[1] Debt component of 2011 RRIF Loan obligation (see below and Note 7).

Letters of Credit

The Company has an unsecured commercial letter of credit of $2.5 million that supports the issuance of auto fleet insurance. As of September 30, 2016 and 2015, there were no draws against this letter of credit.

Revolving Credit Facility

On July 26, 2016, Amtrak entered into a Credit Agreement with three lenders for a $100 million unsecured revolving facility. Borrowings under the facility will be used to enhance Amtrak's liquidity. The facility will expire on July 26, 2021. Borrowings under the facility have an interest rate based on the interest rate option selected by Amtrak. The Company may select (a) the base rate option, which is a variable rate equal to the highest of (i) the Federal Funds Open Rate plus 0.5%, (ii) the Prime Rate, and (iii) the Daily London Interbank Offered Rate (LIBOR) plus 1.0%, plus in all cases an applicable margin based on the Company's Standard & Poor's and Moody's ratings (Credit Ratings); or (b) the LIBOR rate option, which is equal to the LIBOR

6. Mortgages and Debt (continued)

rate for the applicable period plus a margin based on the Company's Credit Ratings. Amtrak must pay a commitment fee on any undrawn portion of the revolving credit facility commitment ranging between 8.5 and 25 basis points based on Amtrak's Credit Ratings. Under the facility, Amtrak is subject to restrictive covenants and financial covenants that require the Company and its subsidiaries to maintain certain financial ratios on a consolidated basis. As of September 30, 2016, the Company has not made any draws under the facility.

Mortgage Obligations

Penn Station Mortgage

In June 2001, PSL mortgaged a substantial portion of improvements located at Penn Station in New York, New York for $300.0 million at a fixed rate of interest of 9.25% per annum, which increased to 9.50% effective October 2002. Approximately $34.3 million was deposited into escrow for the benefit of the lender and is recorded in "Other current assets" in the Consolidated Balance Sheet as of September 30, 2016 as the mortgage will mature in June 2017. The deposit was recorded in "Deferred charges, deposits, and other" as of September 30, 2015. The mortgage loan is not insured or guaranteed by any governmental entity, private mortgage or other insurer, trustee, or any other person.

High Speed Maintenance Facilities

On October 30, 2012, Amtrak purchased the equity ownership interests related to leveraged lease agreements under which Amtrak leases three Acela maintenance facilities. As a result of the buyout, Amtrak no longer makes lease payments relating to the equity interest, but continues to make payments servicing the leveraged lease debt. Amtrak's obligations are collateralized by a pledge of Amtrak's interests in the maintenance facilities.

Frequency Converter Facility

During FY2001, the Pennsylvania Economic Development Financing Authority (PEDFA) completed two issues, Series A and Series B, of exempt facilities revenue bonds, the net proceeds of which were used to finance part of the costs associated with Amtrak's construction of a frequency converter facility (the Facility). Amtrak procured the bond proceeds of each issue through a structured financing arrangement with PEDFA. Under this arrangement, Amtrak leased the Facility to PEDFA until November 2041, under a long-term ground lease, in exchange for the total net proceeds. Simultaneously, Amtrak leased the Facility back from PEDFA 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.

On February 15, 2012, the Series B bonds were reissued to a commercial bank for a period of five years. The interest rate was converted to a tax-effected fraction of the one-month LIBOR plus 0.65% per annum, which was an effective rate of 0.80% and 0.58% as of September 30, 2016 and 2015, respectively. The LIBOR-based interest rate will continue unless or until converted to another interest rate mode by Amtrak.

On March 31, 2012, PEDFA issued $95.1 million of PEDFA exempt facilities revenue refunding bonds (Series A 2012) to refund Series A of 2001 with varying maturities between November 1, 2013 and 2041. The interest rates on the Series A 2012 bonds range from 3.0% to 5.0% (yields ranging from 1.1% to 4.7%).

6. Mortgages and Debt (continued)

Amtrak's obligations in connection with the Series A Bonds and the Series B Bonds are collateralized by a pledge of Amtrak's interest in the Facility. In addition, Amtrak guaranteed all principal and interest payments by PEDFA on the Series A and Series B bonds.

PEDFA 30th St. Garage Revenue Bonds

On January 7, 2003, PEDFA issued $50.0 million of Revenue Bonds (the 2003 PEDFA Garage Bonds) for the purpose of financing the construction and other related costs of a parking garage located at the 30th Street Station in Philadelphia, Pennsylvania (30th Street Station Garage).

On November 2, 2012, at Amtrak's request, PEDFA issued $42.0 million of Revenue Bonds (the 2012 PEDFA Garage Bonds) to refinance the 2003 PEDFA Garage Bonds. At the date of issuance, the 2012 PEDFA Garage Bonds were remarketed to a commercial bank that agreed to hold them for a period of seven years. The 2012 PEDFA Garage Bonds mature in 20 years, with mandatory purchase by Amtrak at par plus accrued interest at the end of the seventh year unless an extension agreement is executed with the commercial bank that holds them. Interest accrues at a variable one month LIBOR rate. On November 2, 2012, Amtrak also entered into an interest rate swap agreement to manage the interest cost and risk associated with the 2012 PEDFA Garage Bonds. As a result, the effective interest rate on the 2012 PEDFA Garage Bonds is 2.39%.

Amtrak's obligations with regard to the 2012 PEDFA Garage Bonds are collaterized by a pledge of Amtrak's interests in the 30th Street Station Garage.

Term Loan A and Term Loan B

On November 27, 2013, the Company entered into a $130.0 million credit facility with PNC National Bank, N.A. (the Bridge Loan). On June 19, 2014, the Company converted the Bridge Loan into a $200.0 million long-term loan, secured by certain of the Company's P-42 diesel locomotives, of which $130.0 million was financed with PNC Equipment Finance, LLC (Term Loan A) and $70.0 million was financed with RBS Asset Finance Inc. (Term Loan B). Under the terms of the agreement for Term Loan A, the Company incurs interest at a rate of LIBOR plus 1.0%. At the time that Term Loan A was entered into, the Company entered into an interest rate swap agreement, the impact of which made the effective interest rate on Term Loan A 2.76%. Under the agreement for Term Loan B, the Company incurs interest at a rate of 3.36%. Term Loan A and Term Loan B will mature on June 20, 2021 and June 20, 2024, respectively.

2011 RRIF Loan

On June 21, 2011, the Company entered into a $562.9 million RRIF Loan financing agreement with the FRA (the 2011 RRIF Loan) and a related Master Lease Agreement with Wells Fargo Bank Northwest (Owner Trustee), to finance the purchase of 70 new electric locomotives, related spare parts, and improvements to existing maintenance facilities to service the new locomotives. Amtrak's obligations are collateralized by the locomotives, spare parts, and certain facilities expected to be constructed with loan proceeds. The Owner Trustee's role in the Master Lease Agreement is as a trustee for the benefit of the FRA. Amtrak began repaying the FRA advances (plus interest thereon) via quarterly lease payments under the Master Lease Agreement, beginning on September 15, 2014. Upon acceptance of each locomotive, the associated portion of the obligation under the 2011 RRIF Loan converted to a capital lease for accounting purposes. As of September 30, 2016, all locomotives had been delivered and accepted and, accordingly, the entire balance payable under

6. Mortgages and Debt (continued)

the 2011 RRIF Loan at September 30, 2016 of $465.0 million is recorded as a capital lease obligation as of that date. As of September 30, 2015, the total outstanding balance under the 2011 RRIF Loan was $429.9 million, of which $71.7 million was classified as a debt obligation and $358.2 million was classified as a capital lease obligation. See Note 7.

During the years ended September 30, 2016 and 2015, the Company received new advances under the 2011 RRIF Loan of $47.2 million and $94.8 million, respectively. All advances under the 2011 RRIF Loan bear interest at an interest rate of 4.04% per annum.

Amtrak pays a 4.424% credit risk premium on all amounts advanced under the 2011 RRIF Loan. As of September 30, 2016 and 2015, the Company had paid cumulative credit risk premiums of $20.7 million and $18.6 million, respectively. The credit risk premium is recorded as a reduction of the outstanding balance of the 2011 RRIF Loan.

Subsequent to September 30, 2016, the Company repaid all outstanding obligations under the 2011 RRIF Loan with the proceeds of a new debt offering. See Note 13.

2016 RRIF Loan

On August 16, 2016, the Company entered into a $2.45 billion financing agreement with the Federal Government under the RRIF Loan program (the 2016 RRIF Loan), to finance the purchase of 28 Next Generation High-Speed Trainsets (the Trainsets), related spare parts, and improvements to existing facilities and properties. Amtrak's obligations under the 2016 RRIF Loan are collateralized by the Trainsets, spare parts, Amtrak's right to construct and receive delivery of the Trainsets and spare parts, and the debt service reserve account required under the financing agreement. See Note 10 for a description of the contracts issued to a vendor for the construction and delivery of the Trainsets and related spare parts and services.

By June 15, 2021, the Company will be required to fund and maintain a restricted debt service reserve account equal, over time, to increasing percentages of the projected first year debt service payments to support future debt service. Delivery of the Trainsets is expected to occur between 2021 and 2022. The Company is not required to begin making repayments on borrowings under the 2016 RRIF Loan until September 15, 2022.

All borrowings under the 2016 RRIF Loan will bear interest at a rate of 2.23% per annum. The Company expects to capitalize interest incurred during the construction period of the Trainsets as part of Construction-in-progress in the Consolidated Balance Sheets. The Company will also pay a credit risk premium of 5.80% for all amounts borrowed under the 2016 RRIF Loan. The credit risk premiums paid will be recorded as a reduction of the outstanding balance of the 2016 RRIF Loan. The amortization of the credit risk premium will be recognized as interest expense and during the construction period will be capitalized as part of Construction-in-progress.

As of September 30, 2016, no amounts had been borrowed under the 2016 RRIF Loan.

6. Mortgages and Debt (continued)

Interest Rates

The annual weighted-average interest rates for all interest-bearing borrowings (inclusive of the impact of any interest rate swaps) are shown below:

	September 30,	
	2016	**2015**
Mortgage obligations	**5.61 %**	5.96 %
PEDFA 30th St. Garage Revenue Bonds	**2.39**	2.39
Term loans	**2.99**	2.98
2011 RRIF Loan	**4.04**	4.04

The overall weighted-average interest rate on all interest-bearing borrowings (inclusive of the impact of any interest rate swaps) is 4.5% and 4.6% per annum at September 30, 2016 and 2015, respectively.

Scheduled Mortgages and Debt Maturities

On September 30, 2016, scheduled maturities of mortgages and debt are (in thousands):

Year Ending September 30,	
2017	$ 145,440
2018	39,481
2019	43,055
2020	44,771
2021	36,355
Thereafter	127,625
Principal amount of mortgages and debt	436,727
Less unamortized discount	(392)
Total mortgages and debt	$ 436,335

Amtrak is subject to various covenants and restrictions under its borrowing arrangements. A default by Amtrak or acceleration of Amtrak's indebtedness may result in cross-default with other debt and may have a material adverse effect on the Company. As of September 30, 2016, the Company had satisfied all of its covenant obligations.

7. Leasing Arrangements

Amtrak leases equipment, primarily passenger cars and locomotives, and related maintenance infrastructure under capital leasing arrangements. Amtrak has entered into various lease transactions in which the lease structure contains variable interest entities (VIEs). These VIEs were created solely for the purpose of doing lease transactions and have no other activities, assets or liabilities outside of the lease transactions. In some of the arrangements, Amtrak has the option to purchase some or all of the assets at a fixed price, thereby creating variable interests for Amtrak in the VIEs.

Amtrak maintains and operates the assets based on contractual obligations within the lease arrangements, which set specific guidelines consistent with industry standards. As such, Amtrak has no control over activities that could materially impact the fair value of the leased assets. Amtrak does not hold the power to direct the activities of the VIEs and, therefore, does not control the ongoing activities that have a significant impact on the economic performance of the VIEs. Additionally, Amtrak does not have the obligation to absorb losses, or the right to receive benefits of the VIEs.

As of September 30, 2016 and 2015, the gross amount of assets recorded under capital leases was $1.9 billion and $1.7 billion, respectively, with accumulated amortization of $0.8 billion as of September 30 of both years.

Amtrak is subject to various covenants and restrictions under its leasing arrangements. Amtrak has given guarantees or entered into reimbursement agreements in connection with certain of these lease transactions. A default by Amtrak or acceleration of Amtrak's indebtedness may result in cross-default to other Amtrak indebtedness, and may have a material adverse effect on the Company (see Note 6).

2011 RRIF Loan

As of September 30, 2016, all 70 of the new electric locomotives had been delivered to the Amtrak Equipment Trust 2011 (Trust) for the 2011 RRIF Loan and leased to Amtrak. Prior to the repayment of the 2011 RRIF Loan described in Note 13, the Trustee of such Trust maintained title to the locomotives and administered the 2011 RRIF Loan.

As of September 30, 2016, the entire outstanding balance under the 2011 RRIF Loan of $465.0 million was classified as a capital lease obligation and was recorded net of unamortized credit risk premium of $18.6 million. The unamortized credit risk premium balance was being amortized over the term of the 2011 RRIF Loan using the effective interest method. See additional disclosure regarding the 2011 RRIF Loan in Note 6 and Note 13.

7. Leasing Arrangements (continued)

Future Minimum Lease Payments

As of September 30, 2016, future minimum lease payments under capital leases are (in thousands):

Year ending September 30,		
2017	$	116,110
2018		95,578
2019		96,807
2020		92,002
2021		87,630
Thereafter		603,643
Total minimum lease payments		1,091,770
Less: discounted to current period amount at interest rates ranging from 4.5% to 9.1%		(356,804)
Present value of minimum lease payments at September 30, 2016	$	734,966

The current portion of capital lease obligations as of September 30, 2016 and 2015, was $70.9 million and $56.2 million, respectively, and is presented in "Current maturities of long-term debt and capital lease obligations" in the Consolidated Balance Sheets.

Operating Leases

As of September 30, 2016, Amtrak is obligated for the following minimum rental payments under operating lease agreements (in thousands):

Year ending September 30,		
2017	$	17,164
2018		14,666
2019		11,202
2020		8,692
2021		7,600
Thereafter		28,836
Total	$	88,160

Rent expense for FY2016 and FY2015 was $52.6 million and $52.0 million, respectively.

Amtrak leases offices, operating areas, stations and other terminal space. These leases often contain renewal options to enable the Company to retain the use of facilities. Some of the leases contain escalation clauses that increase the rents based on a fixed or variable rate, such as an inflation factor index. Under certain leases, the Company is obligated to pay additional amounts based on the facility's operating expenses.

8. Fair Value Measurements

FASB ASC Topic 820, *Fair Value Measurements and Disclosures,* clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosures about the use of fair value measurements. FASB ASC Topic 820 established a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 - observable market inputs that are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 - other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.).
- Level 3 - significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments).

The estimated fair value of Amtrak's financial instruments is as follows (in thousands):

	September 30, 2016		September 30, 2015	
	Principal Amount	**Fair Value**	**Principal Amount**	**Fair Value**
Mortgage obligations	**$ 254,185**	**$ 287,287**	$ 290,727	$ 319,876
PEDFA 30th St. Garage Revenue Bonds	**35,421**	**33,297**	37,195	32,402
Term Loan A	**90,910**	**92,588**	108,583	108,920
Term Loan B	**56,211**	**58,746**	62,459	63,354
2011 RRIF Loan (debt component)	**—**	**—**	71,710	72,428
Total	**$ 436,727**	**$ 471,918**	$ 570,674	$ 596,980

The estimated fair values of the financial instruments listed above are based upon discounted cash flow analyses using interest rates available to Amtrak at September 30, 2016 and 2015, for debt with the same remaining maturities.

For cash and cash equivalents, including restricted cash and cash equivalents; accounts receivable; accounts payable; and accrued expenses and other current liabilities, the carrying amounts approximate fair value given the short-term nature of the financial instruments.

9. Income Taxes

The Company recorded $1.8 million and $49.0 million of income tax expense for the years ended September 30, 2016 and 2015, respectively. In both years, income tax expense resulted from net deferred tax liabilities that arise in periods subsequent to the expiration of the Company's existing net operating losses calculated in accordance with the requirements of FASB ASC 740, *Income Taxes*.

A reconciliation of the expected amount computed by applying the U.S. federal statutory income tax rate of 35% to Amtrak's pretax loss to Amtrak's actual effective income tax rate for FY2016 and FY2015 is as follows:

9. Income Taxes (continued)

	Year ended September 30, 2016	2015
U.S. federal statutory income tax rate	**35.0 %**	35.0 %
Book/tax basis difference	**(31.2)**	(25.3)
Federal operating grants	**(10.9)**	(7.4)
Valuation allowance	**4.4**	2.8
Adjustments to OCI	**0.5**	(10.7)
Other	**2.0**	1.5
Effective income tax rate	**(0.2) %**	(4.1) %

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

	September 30, 2016	2015
Deferred tax assets:		
Net operating loss carryforward	**$ 2,633,165**	$ 2,563,366
Pension and other postretirement employee benefits	**302,538**	331,436
Capital leases	**100,666**	117,842
Claims reserves	**73,038**	73,237
Accrued vacation and other compensation accruals	**65,153**	39,515
Other accruals	**32,405**	32,575
Deferred gain on sale leaseback	**15,640**	17,332
Insurance recoveries	**12,179**	15,554
Inventory reserve	**9,679**	9,724
Bad debt reserve	**1,873**	1,773
Capitalized software	**209**	223
Capital loss (rate security)	**—**	3,229
Gross deferred tax assets	**3,246,545**	3,205,806
Less: valuation allowance	**(47,676)**	(103,469)
Net deferred tax assets	**3,198,869**	3,102,337
Deferred tax liabilities:		
Fixed assets	**(3,248,541)**	(3,150,061)
Deferred rent	**(1,377)**	(1,498)
Gross deferred tax liabilities	**(3,249,918)**	(3,151,559)
Net deferred tax liability	**$ (51,049)**	$ (49,222)

Amtrak has recorded valuation allowances against net deferred tax assets as it is more likely than not that the results of future operations will not generate sufficient taxable income to realize deferred tax assets. In the current year, the valuation allowance decreased by $55.8 million.

9. Income Taxes (continued)

Net operating loss carryforwards were $7.5 billion and $7.3 billion as of September 30, 2016 and 2015, respectively. The carryforwards at September 30, 2016, will expire in various years from 2018 through 2036.

10. Commitments and Contingencies

Financial Assistance

Amtrak receives significant financial assistance from the Federal Government in the form of grants and entitlements. The right to these resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances because of these audits become a liability of the Company. The Company does not believe that the liabilities that may result from such audits for periods through September 30, 2016, would have a material effect on its financial position or the results of operations.

Commitments

Amtrak has various purchase commitments related to capital improvements pertaining to the ordinary conduct of business. In addition, Amtrak has entered into various agreements with states, cities, and other local transportation authorities and private companies pursuant to which Amtrak is required to fund various railroad facility and infrastructure improvements, and to fund the remanufacture and supply of railroad passenger equipment. Such commitments are not in excess of expected requirements and are not reasonably likely to result in performance penalties or payments that would have a material adverse effect on the Company's liquidity.

On August 8, 2016, the Company entered into a Purchase Agreement with a contractor for the acquisition of 28 Trainsets, to replace the Company's current *Acela Express* equipment which runs on the NEC. The base price of the contract is $1.4 billion. Financing for the contract was obtained under the 2016 RRIF Loan (see Note 6). The Company issued a Notice to Proceed (NTP) to the contractor on August 16, 2016. The Company will make payments to the contractor pursuant to an approved payment schedule upon the contractor's successful completion of certain tasks (milestones) during the contract. As of September 30, 2016, Amtrak has received a letter of credit from the contractor representing 10% of the contract value for which Amtrak is the beneficiary. Additional letters of credit will be issued during the construction period. As of September 30, 2016, the Company has incurred $152.6 million in project related costs. Also on August 8, 2016, the Company entered into a technical support and spares supply agreement with the same contractor to provide technical support, spares and other related services for the fifteen year period commencing upon acceptance of the first Trainset, expected in 2021. The base price for the technical support and spares supply agreement is $637.6 million. As of September 30, 2016, the Company has incurred $4.3 million in cost related to this agreement.

On September 28, 2010, the Company entered into a six-year contract with a contractor to purchase 70 new electric locomotives and certain spare parts, all of which were delivered as of September 30, 2016. All obligations under the purchase agreement, with the exception of $23.4 million in retainage, which is not yet due, have been paid to the contractor as of September 30, 2016. On September 12, 2014, the Company entered into a 15-year contract with the same contractor to provide materials and engineering technical support for

10. Commitments and Contingencies (continued)

the new electric locomotives. The Company is paying the contractor $7.1 million per year plus a variable amount based on total mileage of the fleet each year.

On August 3, 2010, the Company entered into a four-year contract with a contractor to purchase 130 new long-distance single level cars. The Company issued an NTP to the contractor on September 7, 2010. As of September 30, 2016, the base price of the contract with change orders is $299.5 million. The Company makes payments to the contractor pursuant to an approved payment schedule upon the contractor's successful completion of certain tasks (milestones), e.g. design, fabrication, testing and manufacturing of the cars, during the contract. As of September 30, 2016, the Company has incurred $198.1 million in project-related costs. Deliveries of the cars started in December 2014. As of September 30, 2016, the Company has taken delivery of 70 cars. The contractor's most recent delivery schedule shows delivery of the final cars in September 2018.

Most of the rights-of-way over which Amtrak operates are owned by other railroads. Amtrak operates over such rights-of-way under agreements with these railroads. The terms of the agreements range up to twenty years, although they may remain in effect longer if neither party seeks to renegotiate. Payments to these railroads vary based on levels of usage and performance. The total amount incurred by Amtrak for operations over the right-of-way during FY2016 and FY2015 totaled $155.7 million and $106.6 million, respectively, and are included in "Train operations" in the Consolidated Statements of Operations.

Risk of Liability and Insurance

The Amtrak Reform and Accountability Act of 1997 limited the amount railroad passengers may recover from a single accident to an aggregate of $200.0 million. In December 2015, the FAST Act increased the limit to $295.0 million for the Train #188 Derailment (see below for additional disclosures on the derailment). The FAST Act also required the DOT Secretary to calculate a revised claim limit for all other railroad passenger claims from a single incident based on the consumer price index since December 2, 1997. On January 11, 2016, the DOT Secretary issued its calculation setting the new limit at $294.3 million effective February 11, 2016. The FAST Act requires this to be adjusted every five years after the date of the FAST Act's enactment, so this new claim limit will remain effective through 2020. As non-passenger liability is not limited and there is also a need to insure in the event of multiple occurrences per policy period, Amtrak purchases excess liability insurance limits beyond the statutory cap.

Amtrak operates a majority of its passenger rail service on tracks owned by freight railroads. Amtrak indemnifies these railroads for certain liabilities that arise as a result of its operations on freight tracks. Its indemnity generally applies to bodily injury and property damage claims made by its employees, passengers, and third parties struck by its trains, and for damage to its equipment. The freight railroads generally indemnify Amtrak for bodily injury and property damage claims made by freight railroad employees and third parties, and for damage to freight railroad equipment, lading, and property.

Amtrak maintains various insurance policies to cover its liability to employees and other parties for injury or damage resulting from accidents, to cover Amtrak's loss resulting from damage to Amtrak property and to insure against catastrophic events. Losses within the self-insured retentions and deductibles under these policies are self-insured by Amtrak.

10. Commitments and Contingencies (continued)

Super Storm Sandy

As of September 30, 2016, Amtrak has submitted insurance claims related to losses occasioned following Sandy totaling $1.1 billion, of which $125.0 million has been received by the Company to date. Of this amount, $95.0 million was received during FY2015 and $30 million was received prior to FY2015. Of the amount received, $34.7 million is recorded in "Other liabilities" on the Consolidated Balance Sheet as of September 30, 2016; and $11.8 million and $15.7 million was recognized in the Consolidated Statement of Operations in FY2016 and FY2015, respectively, as a reduction to "Other" expenses to offset expenditures incurred in those years. The remainder of the claim and all future claims will not be recognized by Amtrak until further confirmation of the assessed damages is agreed to by the insurers or additional cash is received.

On September 17, 2014, the Company filed a lawsuit in the United States District Court for the Southern District of New York regarding insurance claims for losses following Sandy. The complaint sought declaratory relief and alleged that in connection with outstanding claims for losses following Sandy the insurance carrier defendants breached more than 25 first-party all-risk property insurance policies that defendants sold to the Company in 2011. The lawsuit proceeded on an expedited schedule and the trial was scheduled to commence on July 14, 2015.

On June 24, 2015, the judge ruled in the insurers' favor on their pending summary judgment motions, finding that: (a) the inundation of property in the aftermath of Sandy falls within the definition of flood in the insurance policies; (b) no ensuing loss was suffered; and (c) Amtrak's losses arose from a single occurrence. The order then dismissed the excess liability insurers on the grounds that Amtrak's insurance claim would not allow recovery from excess liability insurers whose exposure is only to claims that exceed the $125 million sub-limit for flood set forth in the various policies.

On July 2, 2015, the judge dismissed the lawsuit based on a settlement reached between Amtrak and those insurers providing coverage for liability amounts of $125 million or less.

On July 23, 2015, Amtrak appealed the June 24, 2015 decision dismissing the excess liability insurers to the United States Court of Appeals for the Second Circuit.

Amtrak had appealed three aspects of the lower court's decision, arguing: (1) that the inundation of the tunnels was not a "flood" as that term is defined in the insurers' policies; (2) that the corrosion of the benchwalls and trackbed in Amtrak's tunnels was "ensuing loss" following the flood and thus fell under the policies' "ensuing loss" clause rather than the policies' $125 million flood sublimit; and (3) that the court had prematurely decided that the excess insurers could never be liable for further coverage if Amtrak became required to demolish and reconstruct undamaged portions of the benchwalls and trackbeds in order to be in full legal and regulatory compliance (for example with the Americans with Disabilities Act (ADA) or the fire code) and thereby wrongfully denied Amtrak an additional $125 million in coverage under the policies' "Demolition and Increased Cost of Construction" (DICC) clause.

On August 31, 2016, the United States Court of Appeals for the Second Circuit issued a decision that granted in part Amtrak's appeal from a judgment of the District Court for the Southern District of New York regarding insurance coverage for its losses following Sandy. The Court of Appeals had ruled that Amtrak's coverage was capped at a $125 million flood sublimit and remanded the case to the District Court for a determination of whether Amtrak is entitled to recover an additional $125 million based on the DICC clause.

10. Commitments and Contingencies (continued)

On November 30, 2016, the District Court judge stayed the lawsuit, requiring the parties to provide status updates every six months. In the event that Amtrak does not file a claim under the DICC clause before December 1, 2018, the lawsuit would be dismissed without prejudice.

Train #188 Derailment

On May 12, 2015, Amtrak Northeast Regional Train #188 from Washington, D.C. bound for New York City derailed on a 50 mph curve along the NEC in the Port Richmond neighborhood of Philadelphia, Pennsylvania. Eight people were killed and over 200 were injured.

The Company has no obligation for passenger claims beyond the $295.0 million limit contained within the FAST Act and the amount of passenger and employee liability claims in excess of its $20.0 million liability insurance self-insured retention amount are expected to be covered by insurance. As of September 30, 2016, the Company has accrued its best estimate of its liabilities. The liability recorded reflects the Company's analysis of the impact of a settlement program for passenger liability claims resulting from the Train #188 Derailment (the Program) announced by the United States District Court with jurisdiction over this matter. The Program provides for the establishment of a pool of $265 million less certain deductions to be determined by the court after consultation with Amtrak and the Plaintiff's Management Committee (PMC). The court, with the guidance of two independent Special Masters appointed by the court, will evaluate and determine the apportionment of total compensatory damages among the pool of participants in the Program, and the Company will not be involved in that process. The court order requires plaintiffs who have filed lawsuits to declare whether they intend to participate in the Program by a date certain or pursue their claim separately. As a result of the Program, the Company expects to fully resolve its obligations related to the Train #188 Derailment during its fiscal year ending September 30, 2017, and, accordingly, has recorded the entire estimated liability within "Accrued expenses and other current liabilities" on the Company's Consolidated Balance Sheet as of September 30, 2016. An insurance recovery receivable was recorded within "Other current assets" and represents the Company's best estimate of insurance proceeds it believes is highly probable of recovery.

In addition, Amtrak suffered property damage in the incident. The estimated replacement cost of property damaged is $57.6 million. In October 2016, the Company reached settlement with its property insurers for a total payment of $40.8 million ($50.8 million total agreed upon loss less $10.0 million self-insured retention amount). As of September 30, 2016, the Company had received insurance proceeds of $25.5 million, of which $15.5 million was received in FY2016 and $10.0 million was received in FY2015. The remaining proceeds were received subsequent to September 30, 2016. In FY2015, Amtrak recorded insurance recoveries of $18.7 million based on estimated losses recognized related to capitalized assets and expenses incurred in FY2015, of which $4.5 million was recorded as an increase in Accumulated Depreciation related to damaged assets and $14.2 million was recorded as a reduction of "Other" expenses related to losses recognized on leased assets and cost incurred. In FY2016, Amtrak recognized $6.8 million as a recovery of business interruption losses in "Other expenses" on the Consolidated Statement of Operations.

Labor Agreements

Excluding employees within Amtrak's OIG, approximately 85% of Amtrak's labor force is covered by labor agreements. Under the Railway Labor Act, labor contracts never expire but are instead opened periodically

10. Commitments and Contingencies (continued)

for renegotiation. Although there are no timeframes for negotiations to be completed, it is likely there could be retroactive wage increases in settlements, consistent with prior agreements. As of September 30, 2016, Amtrak was still negotiating labor contracts with all of its unionized workforce.

The Company has accrued $44.0 million and $5.1 million within "Accrued expenses and other current liabilities" in the Consolidated Balance Sheets as of September 30, 2016 and 2015, respectively, which represents its best estimate for retroactive wage increases resulting from settlements of such agreements for services through those dates.

Legal Proceedings

In May 2008, American Premier Underwriters, Inc. (APU), corporate successor to Penn Central and owner of 55.8% of Amtrak's common stock, filed a lawsuit in federal court in Cincinnati, Ohio, asserting that Amtrak "eroded" the value of its common stock. APU sought $52.0 million plus 40 years of interest. Under the Rail Passenger Service Act of 1970, APU was permitted to have Amtrak assume APU's responsibility to operate intercity passenger rail service in return for paying Amtrak one-half of APU's 1969 passenger service losses. APU took advantage of that opportunity, entered into a 1971 agreement with Amtrak, paid $52.0 million as required, and chose to receive Amtrak common stock at par value (rather than tax deductions of equal value). APU's claims were litigated in arbitration proceedings and before the federal court. In an order dated June 21, 2011, the federal court granted Amtrak's motion to dismiss APU's lawsuit. In a second order dated September 13, 2011, the court also denied APU's motion to alter the court's judgment for Amtrak. APU filed an appeal to the U.S. Court of Appeals for the Sixth Circuit. The Sixth Circuit affirmed the District Court's dismissal of APU's complaint except for one procedural due process claim that was remanded to the District Court. On remand, the District Court granted Amtrak's motion to dismiss the case, for a second time, and also dismissed APU's subsequent motion to reconsider or alter that decision. APU appealed the second dismissal on June 29, 2015. On October 5, 2016, the Sixth Circuit affirmed the lower court's decision dismissing all claims.

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

Americans with Disabilities Act Compliance

Under the ADA, stations in the intercity rail transportation system served by Amtrak were required to be readily accessible to and usable by individuals with disabilities no later than July 26, 2010, 42 U.S.C. §12162 (e). This requirement applies to all components of a station used by the general public, including passenger

10. Commitments and Contingencies (continued)

platforms, designated waiting areas, ticketing areas, restrooms, and in some cases, concession areas. The Company has developed a plan to bring the station components for which it is legally responsible into ADA compliance. This plan is regularly updated and adjusted based on new information and external factors, such as direction the Company receives from the FRA and other government agencies. On June 9, 2015, the Department of Justice (DOJ) provided Amtrak with a Letter of Findings and Conclusions regarding ADA compliance at Amtrak. DOJ has indicated, both in its Letter of Findings and in its communications with Amtrak's counsel, that DOJ intends to work cooperatively with Amtrak to negotiate a settlement or consent decree. Amtrak is working to obtain sufficient funding to achieve full ADA compliance of all station components for which it is responsible under the ADA. The extent of these estimated costs and effects of non-compliance on operations cannot be determined at this time. Further, the nature of all expenditures that will be incurred, and the effect on operating results, have not yet been fully analyzed. Accordingly, the accompanying financial statements do not reflect the costs of Amtrak becoming fully compliant with the ADA. As of September 30, 2016, Amtrak has spent a total of $380.5 million on ADA-related projects. Approximately $38.0 million and $31.6 million of the expenditures were incurred during FY2016 and FY2015, respectively.

Positive Train Control

In 2008, Congress enacted the Rail Safety Improvement Act. The legislation included a mandate that all Class I railroads and each railroad hosting intercity or commuter rail passenger service have Positive Train Control (PTC) systems installed and operating by December 31, 2015, provided, however, that a Class I railroad is only required to install PTC on routes where there are five million or more gross tons of railroad traffic per year and the presence of either passenger trains or poison by inhalation hazardous materials. The FRA rules for PTC provide for exceptions to these PTC requirements, which are subject to FRA approval, on rail lines hosting passenger trains on which freight traffic volumes, and the number of passenger trains operated, do not exceed limits specified in the rule. In October 2015, Congress passed the Surface Transportation Extension Act of 2015, which included a three-year extension of the PTC deadline. Amtrak is working with federal authorities and commuter and freight railroads to ensure Amtrak trains are compliant with PTC systems adopted for use by host railroads. Additional funding to fully comply with PTC requirements is necessary and will be requested. Compliance with PTC requirements on the host railroads outside of the NEC could result in significant costs to Amtrak. Amtrak's contribution to PTC installation and maintenance on host railroad property has not yet been defined. Accordingly, the accompanying financial statements do not reflect an estimated liability for the cost of Amtrak becoming fully compliant with PTC.

The NEC rail line owned or controlled by the Company between Boston and Washington was fully PTC compliant by the original December 31, 2015 deadline, except for a few miles where technical issues are being resolved. Although all other Amtrak owned and/or operated rail lines, and Amtrak owned and controlled locomotives, are expected to be in compliance with the PTC requirements by December 31, 2018, it is possible that Amtrak service could be disrupted in areas on host railroads where PTC has not yet been fully implemented by the deadline. However, the possible impact of any such disruption cannot be estimated at this time. There is a provision in the Surface Transportation Extension Act of 2015 allowing railroads making sufficient progress installing PTC to seek an additional extension to December 31, 2020. As of September 30, 2016, Amtrak has spent $179.8 million for PTC-related projects on Amtrak owned or controlled rail lines and

10. Commitments and Contingencies (continued)

equipment. Approximately $18.2 million and $28.9 million of the expenditures were incurred during FY2016 and FY2015, respectively.

Certain host railroads over which Amtrak operates its passenger trains have asserted material claims against Amtrak to recover costs of PTC installation and maintenance, and other host railroads may assert claims in the future. Amtrak is in the process of analyzing the documents provided to date by the host railroads and evaluating the likelihood that Amtrak would be responsible for certain of the costs incurred by the host railroads in connection with their implementation of PTC on host railroad owned property. Amtrak believes that it will not be responsible for all costs claimed to date by the host railroads, and is evaluating the claims to ensure that all exemptions have been obtained and that the claimed costs are required to be paid by Amtrak pursuant to the terms of the operating agreements in place between Amtrak and its host railroads, and by statute.

As of September 30, 2016, Amtrak has accrued its best estimate of the liability associated with PTC installation related to host railroad PTC implementation for the incurred amounts determined to be both probable and reasonably estimable. Amtrak anticipates that additional accruals, which may be material, could be recorded in the future once the Company completes its analysis of those claims and its negotiations with the hosts. Accordingly, Amtrak believes that it is reasonably possible that it may incur additional material liability in excess of the amount recognized to date but such amounts cannot be estimated at this time. Accruals for amounts to be paid to these railroads will be reflected in the periods in which such liability becomes probable and estimable. In addition, Amtrak believes that it may be eligible to recover some of the amounts to be paid to the host railroads from the state agencies for which Amtrak has agreements to provide service; however, Amtrak has not recorded any amounts related to this potential recovery.

11. Environmental Matters

The Company is subject to extensive and complex federal and state environmental laws and regulations that can give rise to environmental issues. As a result of its operations and acquired properties, Amtrak is from time to time involved in administrative and judicial proceedings and administrative inquiries related to environmental matters. Amtrak's policy is to accrue estimated liabilities and capitalize such remediation costs if they extend the life, increase the capacity or improve the safety or efficiency of the property; mitigate or prevent environmental contamination that has not occurred but may result from future operations; are incurred in preparing the property for sale; or are incurred on property acquired with existing environmental conditions, and to expense other remediation costs. 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. Some of the Company's real estate properties may have the presence of environmentally regulated wastes or materials. If these properties undergo excavations, major renovations or are demolished, certain environmental regulations that are in place may specify the manner in which the wastes or materials must be assessed, handled, and disposed. The Company has identified a number of locations for which excavations and major renovations are planned and liabilities have been recorded. In the future, the Company may plan other excavations, demolitions, major renovations or other construction activities that affect similar wastes or materials.

Although a potential liability exists for the removal or remediation of environmentally regulated materials, sufficient information is not available currently to estimate the liability, as the range of time over which the

11. Environmental Matters (continued)

Company may settle these obligations is unknown or cannot be reasonably estimated at this time. Although the Company believes it has appropriately recorded current and long-term reserves for known and estimable future environmental costs, it could incur significant costs that exceed reserves or require unanticipated cash expenditures as a result of any of the foregoing. Based upon information currently available, the Company believes its environmental reserves are adequate to fund remedial actions to comply with present laws and regulations, and that the ultimate liability for these matters, if any, will not materially affect its overall financial condition, results of operations, or liquidity. As of September 30, 2016 and 2015, the environmental reserve was $66.9 million and $57.6 million, respectively. These reserves for estimated future environmental costs are undiscounted and include future costs for remediation and restoration of sites as well as any significant ongoing monitoring costs. The current portion of the reserve was $24.3 million and $11.3 million as of September 30, 2016 and 2015, respectively, and is reported in "Accrued expenses and other current liabilities" in the Consolidated Balance Sheets. Of the reserve, $49.6 million and $40.8 million, included in "Right-of-way and other properties" in the Consolidated Balance Sheets as of September 30, 2016 and 2015, respectively, relates to estimated future capital expenditures for environmental remediation.

Amtrak has not recorded any receivables for recoveries from other parties or from insurance recoveries; the amounts included in "Environmental Reserve" in the Consolidated Balance Sheets reflect only Amtrak's estimate of its portion of the gross liability. In those instances where Amtrak has received a buyout of third-party liabilities, the amounts are recorded as credits against capital expenses, and therefore are not viewed as receivables. The ultimate liability for environmental 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 related to environmental matters.

In April 2016, the Company discovered polychlorinated biphenyl (PCB) contaminates in one of the railway stations it owns in areas not previously identified as having PCBs. The Company accrued $6.9 million as of September 30, 2015 as its best estimate of the costs to complete the first phase of the clean-up for Amtrak owned property. In addition, the Company had accrued $3.5 million as of September 30, 2015 for clean-up cost on property adjacent to Amtrak owned property. During FY2016, the Company accrued an additional $10.8 million upon further investigation to complete the first and second phases of the clean-up of Amtrak owned property as well as the property adjacent to Amtrak owned property. The Company incurred $5.0 million and $3.7 million in costs in FY2016 and FY2015, respectively. It is probable that there will be a third phase of the clean-up, but those costs cannot yet be estimated and accordingly have not been accrued. The Company will accrue such costs at the time they become estimable.

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

12. Postretirement Employee Benefits

Amtrak has a qualified non-contributory defined benefit retirement plan (the Retirement Income Plan) whose assets are held in trust covering certain nonunion employees and certain union employees who at one time held nonunion positions. Prior to FY2016, the Retirement Income Plan was closed to new entrants and frozen for future benefit accruals. Amtrak provides medical benefits to its qualifying retirees and life insurance to some retirees in limited circumstances under its postretirement benefits program.

On August 10, 2016, the Retirement Income Plan was amended to permit retirees with vested balances greater than $1,000 and who are not actively receiving benefits from the plan to receive a lump sum payment equal to the actuarial equivalent of the retiree's accrued benefit or an actuarial equivalent immediate annuity in the applicable normal annuity form under the plan. An eligible retiree could make the election between October 3 and November 18, 2016. In December 2016 and January 2017, the Company made settlement payments totaling $21.9 million. As a result of the settlement, in FY2017, the projected benefit obligation will be reduced by $22.7 million, and the Company will reclassify $5.4 million related net loss from "Accumulated other comprehensive loss" on its Consolidated Balance Sheet to " Salaries, wages and benefits" expense on the Consolidated Statement of Operations.

Obligations and Funded Status

The liability of the Company's pension benefits under its Retirement Income Plan, as well as other postretirement benefits plans, as of September 30, 2016 and 2015 was as follows (in thousands):

12. Postretirement Employee Benefits (continued)

	Pension Benefits		Other Benefits	
	2016	**2015**	**2016**	**2015**
Reconciliation of projected benefit obligation:				
Obligation at October 1	**$ 479,630**	$ 517,485	**$ 869,177**	$ 1,214,456
Service cost	**—**	13,849	**19,763**	30,455
Interest cost	**20,760**	21,702	**34,128**	45,882
Actuarial loss (gain)	**15,875**	9,948	**(74,127)**	30,475
Employee contributions	**—**	—	**2,641**	2,656
Benefit payments	**(20,476)**	(18,806)	**(56,834)**	(51,893)
Gain due to curtailment/plan amendment	**—**	(64,548)	**—**	(402,854)
Obligation at September 30	**$ 495,789**	$ 479,630	**$ 794,748**	$ 869,177
Reconciliation of fair value of plan assets:				
Plan assets at October 1	**$ 399,264**	$ 418,122	**$ —**	$ —
Actual gain (loss) on plan assets	**35,013**	(12,627)	**—**	—
Employer contributions	**14,000**	14,000	**54,192**	49,238
Participant contributions	**—**	—	**2,641**	2,656
Medicare Part D subsidy	**—**	—	**91**	825
Benefit payments, net	**(22,135)**	(20,231)	**(56,924)**	(52,719)
Plan assets at September 30	**$ 426,142**	$ 399,264	**$ —**	$ —
Funded status:				
Net liability recognized in Consolidated Balance Sheets	**$ (69,647)**	$ (80,366)	**$ (794,748)**	$ (869,177)
Accumulated benefit obligation at September 30	**$ (495,789)**	$ (479,630)	**$ (794,748)**	$ (869,177)

Pension and other postretirement benefit amounts recognized in the Consolidated Balance Sheets as of September 30, 2016 and 2015 are as follows (in thousands):

	Pension Benefits		Other Benefits	
	2016	**2015**	**2016**	**2015**
Current liabilities	**$ 23,558**	$ 22,263	**$ 59,764**	$ 63,463
Non-current liabilities	**46,089**	58,103	**734,984**	805,714
Net amount recognized	**$ 69,647**	$ 80,366	**$ 794,748**	$ 869,177

12. Postretirement Employee Benefits (continued)

Pension and other postretirement benefit amounts recognized in accumulated other comprehensive loss in FY2016 and FY2015 are as follows (in thousands):

	Pension Benefits		Other Benefits	
	2016	**2015**	**2016**	**2015**
Net loss	**$ 139,489**	$ 132,703	**$ 339,378**	$ 463,580
Prior service cost	**—**	—	**(335,912)**	(466,341)
Net amount recognized	**$ 139,489**	$ 132,703	**$ 3,466**	$ (2,761)

Components of Net Periodic Benefit Cost

The following table provides the components of net periodic benefit cost for the plans for FY2016 and FY2015 (in thousands):

	Pension Benefits		Other Benefits	
	2016	**2015**	**2016**	**2015**
Service cost	**$ 760**	$ 14,299	**$ 19,763**	$ 30,455
Interest cost	**20,760**	21,702	**34,128**	45,882
Expected return on plan assets	**(28,281)**	(30,343)	**—**	—
AOCI reclassification adjustment[1]:				
Amortization of prior service credit	**—**	—	**(130,429)**	(75,976)
Amortization of net loss	**3,255**	6,758	**50,076**	45,091
Net periodic benefit (income) cost	**$ (3,506)**	$ 12,416	**$ (26,462)**	$ 45,452

[1] Reclassifications from Accumulated Other Comprehensive Income (AOCI) were recorded within "Salaries, wages, and benefits" expense in the Consolidated Statements of Operations.

The estimated net loss for the Retirement Income Plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year is $3.6 million.

The estimated net loss and prior service cost for the other postretirement plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year are $36.9 million and a credit of $130.5 million, respectively.

12. Postretirement Employee Benefits (continued)

Plan Assets

The Company's pension plan asset allocation at September 30, 2016 and 2015, and initial target allocation for 2017, are as follows:

	Plan Assets		
	2017	2016	2015
Long-term fixed income securities	40.0 %	**36.5 %**	17.6 %
Domestic equity securities	33.0	**32.6**	31.1
Global asset allocation funds	21.0	**20.6**	32.9
Real estate investment trust	6.0	**6.6**	6.4
Money market funds	—	**4.2**	0.9
Derivatives	—	**0.2**	—
Common/collective trust	—	**—**	7.2
Other[1]	—	**(0.7)**	3.9
Total	100.0 %	**100.0 %**	100.0 %

[1] Other consisted of receivables and payables related to unsettled transactions as of September 30, 2016 and cash being held in a noninterest-bearing trustee account as of September 30, 2015.

The long-term objective for assets held by the Retirement Income Plan is to generate investment returns that, in combination with funding contributions from the Company, provide adequate assets to meet all current and future benefit obligations of the Retirement Income Plan. The investment objectives seek to reduce funded status volatility as the Retirement Income Plan's funded status increases and ultimately would position the Retirement Income Plan to be in a position to defease the pension liability. Over the long term, it is anticipated that asset-liability management strategy will be the key determinant of the returns generated by the pension assets and the associated volatility of returns and funded status. In particular, the level of the "return-seeking portfolio" (which includes domestic and international equity, global investment grade bonds, high yield bonds, bank loans, emerging market debt and real estate) and the structure of the long-term fixed income portfolio (primarily longer duration investment grade fixed income securities denominated in U.S dollars) are the key elements of the asset-liability strategy for the pension investment program. The Retirement Income Plan's strategic allocation policy is based on the Plan's current funded status. The Retirement Income Plan's return requirements and risk tolerance will change over time. As a result of the Retirement Income Plan's asset allocation strategies, there are no significant concentrations of risk within the portfolio of investments.

The accounting guidance on fair value measurements specifies a fair value hierarchy based on the ability to observe inputs used in valuation techniques (Level 1, 2 and 3 - see Note 8). The following is a description of the valuation methodologies used for the investments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy. The Company does not intend to sell any of its investments in funds at an amount different from net asset value (NAV) per share as of September 30, 2016, nor does the Company have any unfunded commitments related to these funds.

12. Postretirement Employee Benefits (continued)

Fixed Income Securities

This investment category consists of Agency backed bonds, U.S. government securities, Corporate bonds, Government bonds, Municipal bonds, Asset-backed securities and Mortgage-backed securities (government and corporate). These assets are valued based on a compilation of primarily observable market information or a broker quote in a non-active market. These assets are classified as Level 2 investments.

Domestic Equity Securities

This investment category consists of common stock issued by U.S. corporations and American Depository Receipts (ADRs) issued by U.S. banks. Common stock and ADRs are traded actively on exchanges and price quotes for these shares are readily available.

The Vanguard Total Stock Market Index fund (fair value of $138.6 million as of September 30, 2016) seeks to closely track the performance of the Center for Research and Security Prices US Total Market Index, which is considered a gauge of small-, mid-, and large-cap growth and value stocks regularly traded on the New York Stock Exchange and NASDAQ.

In FY2015, the category included the Vanguard Russell 1000 Growth Index fund and the Vanguard Russell 1000 Value Index fund. In FY2016, the two funds were liquidated and reinvested into the Vanguard Total Stock Market Index Fund.

The Vanguard Russell 1000 Growth Index fund (fair value of $48.3 million as of September 30, 2015) seeks to closely track the Russell 1000 Growth Index, which is considered a gauge of large-cap growth U.S. stock returns.

The Vanguard Russell 1000 Value Index fund (fair value of $47.4 million as of September 30, 2015) seeks to closely track the Russell 1000 Value Index, which is considered a gauge of large-cap value U.S. stock returns.

All investments in this category are classified as Level 1 investments.

Global Asset Allocation Funds

At September 30, 2016, investments in this category consisted of the PIMCO Diversified Income Fund (PIMCO DIF, which was acquired during FY2016) and the Vanguard FTSE All World ex-US Index fund (Vanguard INTL). In FY2015, this category consisted of the BlackRock Global Allocation fund (BlackRock), PIMCO All Asset Institutional fund (PIMCO), and Vanguard INTL. During FY2016, the assets of BlackRock and PIMCO were liquidated to fund other investments, including PIMCO DIF.

The Vanguard INTL investment (fair value of $67.8 million and $38.9 million as of September 30, 2016 and 2015, respectively) seeks to track the performance of a benchmark index that measures the investment return of stocks of companies located in developed and emerging markets around the world, excluding the United States.

The PIMCO DIF investment (fair value of $20.1 million as of September 30, 2016) actively manages a portfolio that invests across a broad universe of fixed income instruments in the global credit markets.

12. Postretirement Employee Benefits (continued)

The BlackRock investment (fair value of $48.9 million as of September 30, 2015) seeks to provide high total investment return. It invests in domestic and foreign equities, debt securities and money market instruments.

The PIMCO investment (fair value of $43.6 million as of September 30, 2015) seeks maximum real return, consistent with preservation of real capital and prudent investment management. It targets solid real (after inflation) returns from a global opportunity of traditional and alternative asset classes.

All funds in this category are actively traded; price quotes for these shares are readily available; and these assets are classified as Level 1 investments.

Real Estate Investment Trust

This category consists of an investment in the Morgan Stanley Prime Property fund. The fair value of the investments in the Prime Property Fund has been estimated using the NAV of the Plan's ownership interest (units) in the partner's capital. The investment in the Prime Property Fund can be redeemed on a quarterly basis but with no guarantee that cash will be available at any particular time to fund the redemption request. If the cash is not available, the redemption will be deferred at the discretion of the fund manager until sufficient cash is available. There were no unfunded withdrawal requests as of September 30, 2016 or September 30, 2015. Investments in real estate investment funds are classified as Level 2 assets.

Money Market Funds

Money market funds generally transact subscription and redemption activity at a $1.00 stable NAV. However, on a daily basis the fund's NAV is calculated using the amortized cost (not market value) of the securities held in the fund. Investments in the money market funds can be redeemed on a daily basis. There were no unfunded withdrawal requests as of September 30, 2016 or September 30, 2015. Investments in money market funds are classified as Level 2 assets. Amtrak's category of investments in money market funds consists of the JPMorgan 100% U.S. Treasury Securities Money Market Fund. Management obtained and reviewed JP Morgan's Money Market Funds Annual Report and reviewed the investment valuation for JPMorgan 100% U.S. Treasury Securities Money Market Fund in the significant accounting policies section of the report, which states that, "Each Fund has elected to use the amortized cost method of valuation pursuant to Rule 2a-7 under the 1940 Act provided that certain conditions are met, including that the Fund's Board of Trustees continues to believe that the amortized cost valuation method fairly reflects the market based NAV per share of the Fund."

Derivatives

This investment category consists of short U.S. treasury futures to shorten the duration of the underlying long-term fixed income portfolio. The investment fair value represents the value of the derivative exposure. The Company's derivative investment is a Level 2 investment.

Common/Collective Trust

In FY2015, this category consisted of an investment in the Loomis Sayles Multi Sector Credit Fund (the Loomis Sayles Fund) and the Eaton Vance Parametric Fund (the Eaton Vance Fund). During FY2016, this category was liquidated to fund other categories, including Fixed Income Securities and Derivatives.

12. Postretirement Employee Benefits (continued)

The Loomis Sayles Fund (fair value of $19.6 million as of September 30, 2015) seeks to generate solid long-term risk-adjusted investment performance with significant allocations to non-U.S. dollar and emerging market debt securities. Securities rated below BBB- are limited to 20-50% of the portfolio. The units are not traded on a recognized stock exchange and the value of the Loomis units is determined daily by calculating NAV. The investments in the Loomis Sayles Fund are redeemable any day the Loomis Sayles Fund is open for business.

The Eaton Vance Fund (fair value of $9.2 million as of September 30, 2015) seeks long-term capital appreciation and normally invests at least 80% of its net assets in equity securities of companies located in emerging market countries. It intends to invest primarily in securities of companies located in countries included in the MSCI Emerging Markets Index or the MSCI Frontier Markets Index. The units are not traded on a recognized stock exchange and the value of the Eaton units is determined daily by calculating NAV. The investments in the Eaton Vance Fund are redeemable any day the Eaton Vance Fund is open for business.

All investments in this category are classified as Level 2 investments.

The following table represents the fair values of the Company's pension assets by level within the fair value hierarchy as of September 30, 2016 and 2015 (in thousands):

	Total	Level 1	Level 2	Level 3
September 30, 2016				
U.S. government securities	$ 9,578	$ —	$ 9,578	$ —
Corporate bonds	127,083	—	127,083	—
Government bonds	6,644	—	6,644	—
Municipal bonds	12,032	—	12,032	—
Asset-backed securities	101	—	101	—
Total fixed income	155,438	—	155,438	—
Large cap	122,471	122,471	—	—
Mid cap	13,370	13,370	—	—
Small cap	2,795	2,795	—	—
Total equity securities	138,636	138,636	—	—
Money market funds	17,981	—	17,981	—
Real estate investment trust	28,067	—	28,067	—
Global asset allocation funds	87,938	87,938	—	—
Derivatives	974	—	974	—
Total fair value investments	429,034	$ 226,574	$ 202,460	$ —
Other[1]	(2,892)			
Total plan assets	$ 426,142			

[1] Other primarily consisted of receivables and payables related to unsettled transactions.

12. Postretirement Employee Benefits (continued)

	Total	Level 1	Level 2	Level 3
September 30, 2015				
Agency bonds	$ 127	$ —	$ 127	$ —
U.S. government securities	3,958	—	3,958	—
Corporate bonds	20,438	—	20,438	—
Government bonds	821	—	821	—
Municipal bonds	3,297	—	3,297	—
Asset-backed securities	12,862	—	12,862	—
Mortgage-backed securities (government)	21,314	—	21,314	—
Mortgage-backed securities (corporate)	7,519	—	7,519	—
Total fixed income	70,336	—	70,336	—
Large cap	104,054	104,054	—	—
Mid cap	19,072	19,072	—	—
Small cap	917	917	—	
Total equity securities	124,043	124,043	—	—
Money market funds	3,593	—	3,593	—
Real estate investment trust	25,525	—	25,525	—
Global asset allocation funds	131,467	131,467	—	—
Common/collective trust	28,776	—	28,776	—
Total fair value investments	383,740	$ 255,510	$ 128,230	$ —
Other[1]	15,498			
Total plan assets	$ 399,238			

[1] Other consisted of cash being held in a non-interest bearing trustee account.

Rate of Return

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

In the short term, there may be fluctuations of positive and negative yields year over year, but over the long term, the return is expected to be approximately 7.25%.

Estimated Future Benefit Payments

Based upon the assumptions used to measure the pension and other postretirement benefit obligations as of September 30, 2016, including pension and other postretirement benefits attributable to estimated future employee service, Amtrak expects that pension benefits and other postretirement benefits to be paid over the next ten years will be as follows (in thousands):

12. Postretirement Employee Benefits (continued)

	Pension Benefits	Other Benefits
Year ending September 30,		
2017	$ 23,558	$ 59,764
2018	24,757	61,432
2019	25,916	61,542
2020	27,036	62,171
2021	27,828	60,659
2022-2026	143,401	282,274

Contributions

In FY2017, Amtrak expects to contribute $14.0 million to the defined benefit plan and $59.8 million towards other postretirement benefits.

Assumptions

Weighted-average assumptions used to determine benefit obligations as of September 30, 2016 and 2015 are as follows:

	Pension Benefits		Other Benefits	
	2016	**2015**	**2016**	**2015**
Discount rate	**3.74 %**	4.43 %	**3.44-3.50 %**	3.99-4.17 %

Weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30, 2016 and 2015 are as follows:

	Pension Benefits		Other Benefits	
	2016	**2015**	**2016**	**2015**
Discount rate	**4.43 %**	4.08-4.57 %	**3.99-4.17 %**	4.24-4.57 %
Expected long-term return on assets	**7.25 %**	7.25 %	**N/A**	N/A
Rate of compensation increase	**N/A** [1]	4.20 %	**N/A**	N/A

[1] As a result of changes to the Retirement Income Plan in FY2015, no additional benefit is earned for services provided after FY2015. Accordingly, there is no longer the need to assume any future compensation increase.

Assumed health care cost trend rates are as follows:

	September 30,	
	2016	**2015**
Health care cost trend rate assumed for next year	**7.25-8.25 %**	7.50-8.50 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**5.00 %**	5.00 %
Year that the rate reaches the ultimate trend rate	**2030**	2029

12. Postretirement Employee Benefits (continued)

Assumed health care cost trend rates have a significant effect on the amounts reported for the other defined benefit post retirement plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects on the Other Benefits plans (in thousands):

	1% Increase	1% Decrease
Effect on total of service and interest cost component	$ 5,433	$ (4,790)
Effect on postretirement benefit obligation	46,193	(40,848)

Prescription Drug Benefits

On December 8, 2003, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the Medicare Act) was signed into law. The Medicare Act introduced a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Amtrak elected to record an estimate of the effects of the Medicare Act in accounting for its postretirement benefit plans and provide disclosures required by ASC Topic 715, *Compensation - Retirement Benefits*. Amtrak's accumulated pension benefit obligation for its other benefits is reduced by $2.0 million and $1.9 million for FY2016 and FY2015, respectively, for this prescription drug benefit.

401(k) Savings Plan

Amtrak provides a 401(k) savings plan for nonunion employees. Under the plan, Amtrak matches a portion of employee contributions up to seven percent of the participant's salary, subject to applicable limitations. Prior to July 1, 2015, the maximum employer contribution was five percent. Amtrak's expenses under this plan were $17.8 million and $13.8 million for FY2016 and FY2015, respectively.

Additionally, Amtrak provides a 401(k) saving plan for union employees. Amtrak does not match any portion of the employee contributions under this plan.

13. Subsequent Events

Retirement Income Plan Amendment

In December 2016 and January 2017, the Company made settlement payments to eligible retirees who elected to receive a lump sum payment equivalent to the retiree's accrued benefit under the Company's Retirement Income Plan (see Note 12).

Bonds Issuance

On December 6, 2016, the Company issued $365.0 million of 3.60% secured senior notes due November 15, 2033 and $135.0 million of 3.81% unsecured senior notes due November 15, 2031. The Company's obligations in connection with the secured senior notes are collateralized by 68 electric locomotives. Principal and interest on these senior notes are due semi-annually on May 15 and November 15 of each year beginning on May 15, 2017. The proceeds of the senior notes were first applied toward the repayment in full of the remaining obligations under the 2011 RRIF Loan, which permitted Amtrak to terminate the lease and purchase any or

13. Subsequent Events (continued)

all of the locomotives at any time during the lease term by paying the remaining obligation specified in the lease, and the remaining proceeds may be used for other eligible expenses.

Management's Evaluation

The Company has evaluated subsequent events through January 27, 2017, which is the date the financial statements were available to be issued. There were no other events that require adjustments to or disclosure in the Company's financial statements for FY2016.

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