Testimony of David L. Gunn
November 15, 2005

Mr. Chairman, Members of the Committee,

My name is David L. Gunn, formerly President and CEO of Amtrak. I will make my remarks brief and I wish to make to make five points.

First. I am proud of the Amtrak's accomplishments over the last 3 1/2 years. The status of the company is detailed in the attached letter to Chairman Laney, dated November 9, 2005 entitled "Year in Review." Amtrak has a competent, loyal workforce that has produced sound results:

- The financial reporting of results is timely, accurate and public. Material weaknesses which existed in the system have been addressed—audit adjustments have fallen from $200 million in FY 01 to $7 million in FY 04.

- The operating loss or funding requirement has stabilized and actually declined over the last four years.

- The net loss, including depreciation has stabilized.

- The capital program is a well-defined group of multi-year projects designed to bring existing infrastructure and equipment to a state of good repair.

- The capital program is producing the intended results. Productivity is detailed in the attached letter. Actual cash outlays in FY 05 were 92% of budget—which means we have invested virtually all of the money we were given for the planned purposes.

- Ridership has grown steadily and was at a record level in FY 05 and is currently continuing to grow.

- Head count has fallen from 24,877 in FY 05 to 19,177 at the end of July 05,

Second. The nation's transportation systems—air, highway, waterways and rail are in trouble. Both freight and passenger mobility is deteriorating. Intercity passenger rail service in carefully selected urban corridors offers the potential of relief at the lowest total cost.

The current method of funding, regulating and governing passenger rail service will not permit intercity rail service to reach its full potential. The reforms necessary to achieve change were detailed in Amtrak's Strategic Reform Initiative issued in April of 2005. Those reforms were supported by management and by the Board. We were on track to implement the reforms that were within our control. No other reforms have been formally promulgated by the Board.

Third. The Amtrak Board can not unilaterally reform Amtrak. DOT cannot unilaterally reform intercity passenger rail service. Unlocking the potential intercity rail requires a collaborative effort between Amtrak management and employees, the Amtrak Board, DOT and Congress.

Fourth. The Board structure has generally worked well, despite the lack of a full Board for quite some time. With regards to the operating and capital needs of the railroad, the Board and Management have been in general agreement. On the issue of reform a milestone was reached when we prepared our "Strategic Reform Initiative" in April 2005.

I was surprised in late August when our General Counsel received a directive from the Board Chairman to create a N.E.C. subsidiary. At the September Board Meeting and I was told that this was a "fait accompli." This unilateral action ultimately resulted in my termination last Wednesday.

The current Board stands on contrast to the previous Board where all seats were filled and there was a true sense of collegiality and trust among the management and the Board. With the exception of the DOT representative, the Board followed an independent course.

Lastly, what is at stake today is the future of Amtrak and intercity passenger rail in the United States.

What is required is some idea of what end result we want and a thoughtful plan to get there.

The destruction of Amtrak will ultimately devastate our most precious asset—the human capital or knowledge base required to operate high speed passenger transportation and set back any plans for intercity rail.

I consider it an honor to have served as Amtrak's President and CEO. I am grateful for the support shown to be by my staff and our employees. I am grateful for the support of Congress and the friendships I have with many of you and your staffs here in this room.

Thank you and I look forward to any questions you may have.

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AMTRAK

David L. Gunn
President and Chief Executive Officer

November 9, 2005

Mr. David M. Laney
Chairman of the Board
Jackson Walker LLP
901 Main Street, Suite 6000
Dallas, TX 75202

Dear David:

Year in Review

I am pleased to report to you on the results of Amtrak for the Fiscal Year 2005. Hard work by our 19,177 employees, the loyal support of millions of riders and continued financial investment by the Federal Government combined to make FY05 a year of significant achievements – financially, operationally and structurally.

I have just completed a tour of our operations that has taken me from Washington to Boston, Chicago, the West Coast and to our Southern Division. While the purpose of the tour has been to personally thank and present awards to more than 100 employees for their extraordinary commitment and dedication to Amtrak, I have also used these occasions to assess the state of our railroad.

It is my personal judgment that our railroad has made significant progress toward a state-of-good-repair and that financially and operationally, we are in the best condition we have been in for several years. I don't need to remind you, this occurred in spite of some extraordinary challenges last year – natural disasters on the West Coast last winter and in the Gulf this fall, sharply escalating prices for diesel fuel and operating challenges associated with our *Acela Express* service for more than five months.

Attached to this letter are several charts that demonstrate our improvements over the past several years, but let me share with you some vital statistics for the year just ended, coupled with a preview of the year ahead.

Financial

It appears likely the company will have substantially outperformed expectations of a year ago when our Budget was prepared. We had expected our bottom-line, consolidated Amtrak Net Loss would be \$(1,329.2) million, including charges for depreciation and interest. In fact, our loss is expected to be about \$(1,206.4) million, or better than Budget by \$122.8 million. This positive result is in spite of several significant financial challenges confronted during the year.

Overall ticket revenues were down $66.0 million (5.0%) from Budget. Significantly, revenues from the combined *Acela/Metroliner* service were below Budget by $83.1 million, primarily due to the temporary withdrawal of our *Acela* equipment (discussed under Operations, below.) Fortunately, this shortfall was partially offset by strong growth in our corridor trains all across the country and, in particular, our Regional service in the northeast.

Fuel, power and utility expenses were $31.8 million (16.3%) worse than our Budget. The impact would have been more severe, but for aggressive efforts to reduce consumption, coupled with our program of hedging half our expected fuel requirements; fuel hedges paid us $7.5 million during the year and cost only $0.5 million.

The most significant offsets to the financial challenges of revenue shortfall and increased fuel expense were the savings to Budget realized in Salaries, Wages and Benefits. Combined, these cost categories were $136.6 million (8.5%) better than Budget. Our total year-end headcount was 19,177, a reduction of 819 employees (4.1%) from a year ago. In four years, headcount has been reduced 5,700 or 23%. Simply stated, we are delivering more service, and better service, with fewer employees. At the same time, we have undertaken the largest capital program in recent memory.

Another significant cost savings derived from our expense charge for injury claims related to employees (FELA), passengers and others. Our independent actuaries have just now completed their assessment of our claims reserve and recommend we recognize a one-time, non-cash credit of $49.1 million, based on Amtrak's most recent five year loss history and expected future settlements of incurred claims. This credit reflects our reduced levels of employment (down 23% in four years) as well as our loss experience (FELA reported claims down 43% in four years.) While such credits may not repeat in future years, we are pleased that this year's credit reflects the operation of a safer railroad for our employees and the public at large.

Our capital program, net of third party contributions, was budgeted to be $495.7 million (including $43.0 million of carry-over projects), funded with $368.6 million from our Federal Appropriation and $127.1 million from our carry-forward cash balance. Our actual outlays (again, net of third party contributions) were $454.7 million or 92% of Budget. We are proud that we were able to invest virtually all our capital grant – the highest level in our history – and we are confident these investments will pay dividends for years to come.

We had expected our year-end available operating cash to be $75.0 million (before deducting the float of outstanding checks.) For all the reasons discussed above, it was, in fact, $121.4 million. On a book basis, our consolidated year-end cash balance (including the addition of miscellaneous non-operating accounts and deducting the float of outstanding checks) was $91.5 million.

While our outside auditors have not yet completed their review of our financial results, we fully expect their audit will reconfirm the integrity of our accounting records and show continued progress in the areas of identified material weaknesses (none in FY04), reportable conditions (just one in FY04) and net audit adjustments ($7 million last year.)

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Operational

The operations of our railroad last year were good – especially considering the extraordinary operating challenges that we faced. Ridership reached a record 25.4 million (excluding NJT *Clocker* riders, it was 23.8 million) on 100,000 trains operated.

While ridership is principally a key indicator of customer demand, it is equally an indicator of the level of operations and service we are called upon to provide. Accordingly, I am pleased to report that our 2005 ridership of 25.4 million was a record – the third such record in as many years. A record number of customers requested our service and we are proud we were able to meet their needs. Furthermore, we met this increased demand while incurring 9% fewer customer complaints and 5% higher commendations than last year.

System-wide on-time performance (OTP) did not achieve our 2005 goal, set (aggressively!) at an overall 85%. Actual system result of 70% was about equal to last year's 71%. Of greatest significance, on the northeast corridor, where we are not dependent on freight railroad performance, the OTP for the *Acela Express* and *Metroliner* services combined was 78% or four percentage points better than last year. As we restored our *Acela Express* service over the past few months, we note, with cautious optimism, their OTP performance during September was 89%.

Last year, we undertook a major make-over of our popular *Empire Builder* service. A multi-discipline effort involving marketing, operations, mechanical, finance and others was focused to significantly upgrade the *Empire Builder* with improved equipment, amenities and services. The hope, of course, was to increase our ridership and revenue and thereby reduce our operating deficit. Although the service was not officially re-launched until August, the results were immediate and dramatic: *Empire Builder* ridership and revenue year-over-year had both been trending up by almost 10% for June through August, but in September grew by 13.8% and 22.4%, respectively.

Without doubt, the greatest operating challenge last year related to the *Acela Express*. On April 15, all twenty *Acela* trainsets, accounting for 25% of total passenger revenues, were removed from service indefinitely because of safety concerns related to brake disk failures. Within days, we quickly assembled a fleet of replacement *Metroliner* equipment to service most of the *Acela* timeslots while the brake disk failure was investigated and resolved. Limited *Acela Express* service was reintroduced in early July and full service resumed by the end of September.

During the year, we made further progress in meeting our goal of making Amtrak a safer business. For our employees, we improved on the FRA "reportable injuries per 200,000 man-hours worked" achieving a 10% improvement from last year. At the same time, Amtrak also reduced passenger injuries overall by 5%. Our commitment to environmental responsibility was evidenced by our ratings on environmental compliance audits and Facility Assessment Compliance Evaluations (FACE) assessments last year: We had only 0.6 Potential Violations (PVs per audit or assessment) compared with our Budget goal of 1.2. Finally, we note the progress of our Police and Security department. In addition to their focus on homeland security initiatives, their concentration on crimes analysis and directed patrols resulted in significant reductions in larcenies (21%) and vandalisms (52%).

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Capital Investment

FY05 was another year of significant reinvestment moving us closer to the goal of state-of-good-repair for our physical assets and management information systems. In total, we invested $454.7 million of Federal and Amtrak funds plus an additional $174.6 million of third party capital.

Investment in our railroad infrastructure continues to account for the largest portion of our capital dollars...$210 million of Federal and Amtrak funds and $165 million of third party capital. Forty percent of this combined investment was in track, ties, ballast and the like. Electric traction, bridges/culverts/tunnels and communication investments accounted for another 33%. The remaining investments were in programs such as fire and life safety.

The measurable physical results of our engineering capital investment program last year are impressive; almost 200,000 new ties (three-fourths of which were concrete); 75 miles of new rail; 74 miles of catenary hardware; 104 turnouts replaced; and 44 track miles of automatic block signals. Improvements were also made to 14 stations, 13 electric substations and 18 undergrade bridges. The Capital Production schedule attached to this letter states similar statistics for three earlier years and our Budget for next year.

Next to infrastructure, our next largest group of investments was earmarked for our fleet. $198 million of Federal and Amtrak funds were invested in improvements and overhauls of our passenger car and locomotive fleet.

The measurable physical results of our mechanical capital investments in the fleet were the remanufacture and/or heavy overhaul of passenger cars, including: 124 Amfleet, 28 Horizon and 11 Surfliner units. Additionally, within our Superliner fleet, 57 cars were remanufactured and/or heavy overhauled while 23 Superliner coach-bag cars were significantly modified. We completed the rebuild of three damaged units, reducing our backlog of repair work. The overhaul of 63 diesel and 9 electric locomotives was also accomplished last year along with the overhaul of maintenance-of-way equipment. Again, the Capital Production schedule attached to this letter states similar statistics for three earlier years and our Budget for next year.

Capital investments in our business other than infrastructure and mechanical were also targeted to improving our state of good repair. Amtrak continued to address historic environmental contamination issues and invested $4.8 million for remediation projects. Our pollution prevention program included $3.4 million in projects. And, our Police and Security capital plan provided numerous security upgrades.

Capital investment efforts to improve our management information systems also progressed this year. In September, we initiated the total replacement of our Human Resource/Payroll systems with new systems scheduled to be operational by December 2006. This effort will be followed by another capital program to upgrade and replace all our financial systems.

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Debt

We continued to operate our business last year without resorting to new debt facilities. Indeed, the company has undertaken no new debt facilities since the $100 million emergency loan from DOT on July 3, 2002.

Amtrak's consolidated debt outstanding was reduced $137.9 million (3.6%) last year, including a $17.1 million principal payment on the DOT loan of 2002.

The company continues to be in full compliance with all covenants on all its debt.

Amtrak Strategic Reform Initiatives

In April this year, the company presented to Congress a document setting forth Amtrak Strategic Reform Initiatives for the next five years. As you know, we embraced demanding and challenging reform initiatives that were structural, operational and legislative in nature. While it is too early to assess our progress on these initiatives, I can assure you that we have already begun to work on those initiatives that are wholly within our control.

We will begin to report our business results this year along the business lines detailed in our FY06 Grant Request – Infrastructure management, NEC operations, State corridor operations, National long distance, Ancillary business and Unallocated system support. While the current, outdated accounting and financial reporting systems are challenged by this requirement, we believe we can provide information that is timely, responsive and useful for business management, even while we build a more robust activity based accounting system.

Efforts to improve our financial performance are apparent from the discussions above and began to show first fruits in our approved Budget for FY06. Our approved Budget for federal operating support is $30 million less than our Budget for the year just ended. Much of this reduction is possible – in spite of cost increases – because of aggressive actions taken to increase revenues $100 million through innovative service, marketing and pricing strategies.

Customer satisfaction is being affirmatively addressed by the creation of a new Customer Services Department responsible for targeting improvements in the areas of customer interface such as food and beverage, on time performance and employee relations.

Many of the Strategic Reform Initiatives are longer-term and some will require legislative actions to accomplish. We await – as I am sure you do also – the presentation, debate and, hopefully, passage of a Congressional Reauthorization Bill for Amtrak.

AMTRAK

We all hope, as our performance is judged, we will be deemed good stewards of the public trust.

Sincerely,

David L. Gunn

David L. Gunn
President and Chief Executive Officer

Attachments

cc: Amtrak Board of Directors
Executive Committee
Sally Bellet
Al Broadbent
Roy Deitchman
Emmett Fremaux
David Hughes
Vince Nesci
Paul Nissenbaum
Bill Schulz
Ed Walker

Summary Operating Results
($ millions)

	FY02 Actual	FY03 Actual	FY04 Actual	FY05 Un-Audited Actual	Total FY06 Board Approved Budget
Ticket Revenue (Unadjusted)	$ 1,285.7	$ 1,213.9	$ 1,263.4	$ 1,248.8	$ 1,343.9
Food and Beverage	84.1	78.3	80.4	78.9	79.2
State Supported Train Revenue	128.5	136.0	137.4	140.9	146.7
Other / Adjustments to Passenger Related	(30.1)	(30.9)	(32.6)	(35.2)	(38.4)
Subtotal Passenger Related Revenue	1,468.2	1,397.3	1,448.6	1,433.3	1,531.4
State Capital Payments	16.4	18.6	21.8	28.7	30.2
Other Revenue	743.7	658.0	395.0	421.6	379.1
Total Operating Revenue	2,228.2	2,074.0	1,865.4	1,883.6	1,940.7
Salaries	158.2	153.4	156.8	167.6	188.1
Wages & Overtime	906.0	877.6	790.1	788.8	801.8
Benefits & Employee Related	553.2	525.7	505.5	520.6	581.2
Subtotal Salaries, Wages & Benefits	1,617.4	1,556.7	1,452.4	1,477.1	1,571.0
Fuel, Power, & Utilities	175.0	188.6	184.0	227.5	252.8
Other Operating Expenses	929.8	830.3	740.0	678.6	748.4
Depreciation	501.5	628.2	573.5	578.7	570.0
Interest, Net	136.5	144.6	129.6	125.0	122.7
Discontinued Operations	-		94.7	3.1	-
Undefined Budget Savings					(46.3)
Total Expenses	3,360.1	3,348.3	3,174.3	3,089.9	3,218.6
Amtrak Net Loss	1,131.9	1,274.3	1,308.9	1,206.3	1,278.0
Less Project Costs in Operating Budget	-	3.0	6.8	6.0	6.4
Loss before Adjustments	1,131.9	1,271.4	1,302.1	1,200.3	1,271.5
Net Interest (Funded separately)	136.5	144.6	137.8	125.0	122.7
Depreciation	501.5	628.2	573.5	578.7	570.0
Asset Impairment Charge	-		100.7	-	-
OPEB Liability Increase	16.1	21.0	39.8	50.1	69.0
State Capital Payments	(16.4)	(18.6)	(21.8)	(28.7)	(30.2)
Subtotal Adjustments	637.7	775.2	830.0	725.2	731.5
Operating Loss (Funding Requirement)	$ 494.2	$ 496.1	$ 472.1	$ 475.2	$ 540.0
Change from prior year	n/a	2.0	(24.0)	(3.2)	64.8

Discontinued Mail and Express Operations in FY04 are included in FY02 and FY03 revenue and expense

Capital Program
($ millions)

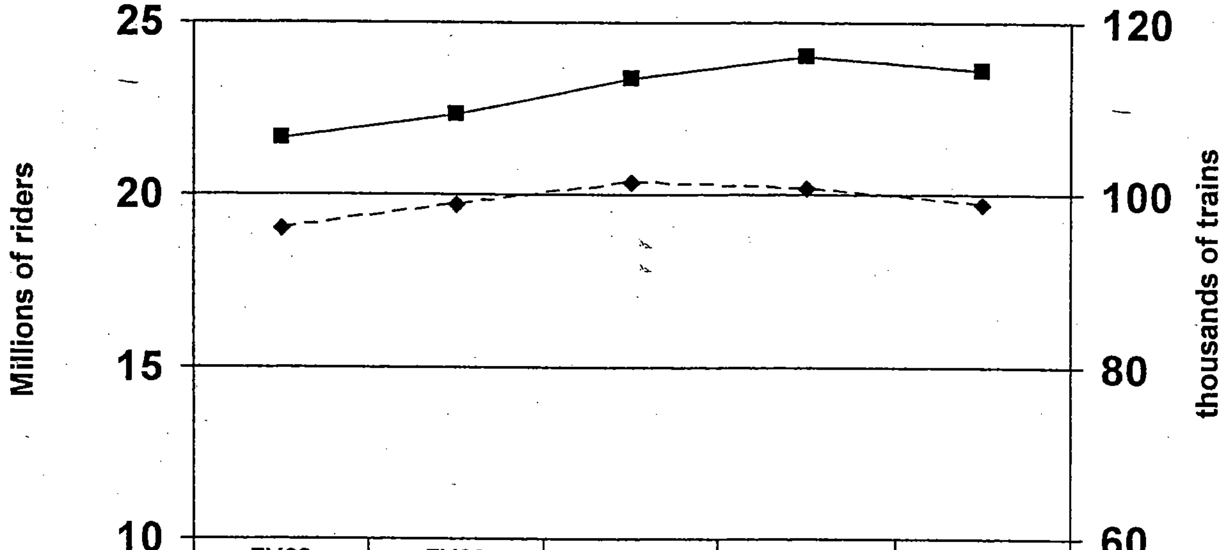
	FY05 Actual		
PROJECT	Federal and Internal	Third Party	All Funding Sources
Infrastructure	$210.1	$165.1	$375.2
Fleet	196.8		196.8
Amtrak Technologies	13.6		13.6
Law - Real Estate	5.2	8.2	13.4
Marketing	5.8		5.8
Procurement	6.9		6.9
Environmental	5.7		5.7
Transportation	2.4		2.4
Police & Security	1.8		1.8
Other	2.6		2.6
Project Related Costs	3.8	1.3	5.1
	$454.7	$174.6	$629.3
Budget	$495.7	$200.1	$695.8
% Spent	92%	87%	90%

Third party investments include state, local, and other federal grants.

"Other Projects" include Finance, Contract Administration, and other departments

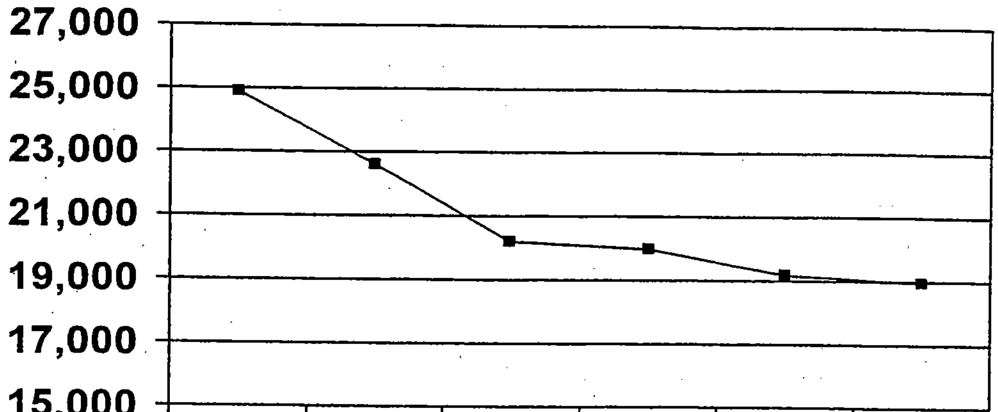
Annual Ridership vs. Intercity Trains Operated

(excludes Commuter trains, NJT portion of the Clockers and associated riders)



	FY02	FY03	FY04	FY05	FY06 Budget
Ridership	21.7	22.3	23.4	24.0	23.6
Trains Operated	96.1	98.9	101.4	100.7	98.9

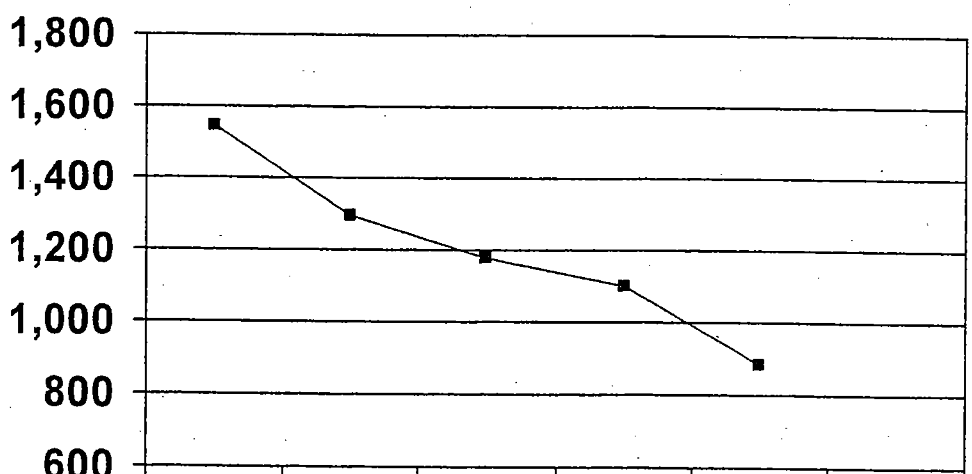
Actual Headcount



	9/30 FY01	9/30 FY02	9/30 FY03 (1)	9/30 FY04	7/31 FY05 (1)	9/30 FY06 Budget
Headcount	24,877	22,573	20,203	19,996	19,177	18,958
% Decrease from Prior Yr		9%	10%	1%	4%	1%

(1) 1,500 agreement employees transferred to MBTA in FY03 and 127 employees transferred to Metrolink as of June 30, 2005.
(2) FY06 Budget headcount authorized at 20,385 less current vacancy rate of 7%.

FELA Reported Claims



	FY01	FY02	FY03	FY04	FY05	FY06
No. Reported Claims	1,546	1,297	1,177	1,101	885	n/a
% Decrease from Prior Yr		16%	9%	6%	20%	

Capital Production

Engineering Production	FY 02 Actual	FY 03 Actual	FY 04 Actual	FY 05 Actual	FY 06 Budget
Concrete ties	0	104,000	152,000	159,657	116,688
Wood ties/Timbers	16,000	49,000	59,000	45,172	65,560
Fencing (feet)	3,000	3,000	17,000	10,000	9,500
Bridge ties replaced	1,500	1,184	1,571	3,919	4,224
Rail installed (rail miles)	8	26	240	75	78
Turnouts replaced	37	52	115	104	84
Catenary hardware (miles)	48	39	77	74	68
Automatic Block Signals (track miles)	4	0	63	44	72
Ballast renewed (track miles)	9	10	40	17	15
Substations Improved	2	15	22	13	14
Undergrade bridges improved	17	33	17	18	25
Copper signal cable (miles)	8	23	11	4	1
Interlocking improved	16	3	6	6	4
Stations improved	13	15	4	14	12
Mechanical Production					
Amfleet Cars Remanufactured / Heavy Overhauled	17	20	114	124	103
Diesel locomotive heavy overhauls	48	44	49	63	51
Superliner Cars Remanufactured / Heavy Overhauled	0	0	39	57	137
Superliner Coach Bag Modification	0	0	0	23	2
Baggage Car Heavy Overhauls	0	0	32	17	16
MOW Work Equipment Overhauls	0	0	31	34	40
Wrecks Rebuilt - Locomotives/ Cars	6	22	29	3	1
Electric Locomotives Overhauled	0	7	7	9	8
Horizon Cars Remanufactured / Heavy Overhauled	0	0	1	28	20
Surfliner Cars Remanufactured / Heavy Overhauled	0	0	0	11	0
Heritage Car Remanufacture / Heavy Overhauls	0	6	0	0	21
AEM-7 (electric engines) Remanufactured	13	0	0	0	0

Some FY02 data has been estimated where units were not available.