

AMT/TAL-C-055 (Open)
Spec. Ref.: N/A



August 15, 2007

Mr. Antonio Perez
President and CEO
Talgo, Inc.
505 Fifth Ave South, Suite 180
Seattle, WA 98104

Subject: Cracked Carbody Structure
Acquisition and Management Services Contracts
Reference: AMT/TAL-C-015

Dear Mr. Perez:

While performing the required service and inspection of the Mt. Rainier on August 7, 2005, Talgo discovered carbody cracks, as documented by AMT/TAL-C-015. Talgo drilled holes in an effort to stop the cracks from spreading. On December 13, 2006, an inspection revealed that the cracks had continued beyond the drilled holes. As a result, Talgo implemented a fleet-wide modification pursuant to Article 41 of the Trainset Acquisition Contract, which was completed in May 2007. On August 2, 2007, cracks were discovered in the carbody structure of the Mt. Baker Trainset. Upon this discovery, Amtrak and Talgo performed a joint fleet-wide inspection of the Trainsets, and numerous similar cracks were found on every Trainset. By agreement of all parties, use of the Talgo Trainsets in the Cascades revenue service operation was stopped on August 3, 2007, due to the concern caused by the cracked carbody structures.

Amtrak appreciates Talgo's prompt and cooperative approach in dealing with this problem. However, Amtrak hereby puts Talgo on notice that the carbody cracking problem falls within the scope of Talgo's responsibilities under both the Trainset Acquisition Contract and the Management Services Contract. Pursuant to Article 2.07 of the Trainset Acquisition Contract and Article 117.2 of the Management Services Contract, nothing that Amtrak does or does not do as we address this situation is a waiver or limitation of any of Amtrak's rights or remedies under either agreement or otherwise.

Under the ten-year carbody warranty provided pursuant to Article 41 of the Trainset Acquisition Contract, Talgo is required (Article 41.01.4) to conduct a failure analysis to determine the cause and frequency of the carbody cracking. This report is to be submitted to Amtrak by September 1, 2007. Talgo's responsibility is not limited to repair or replacement of the carbody components that have already failed (Article 41.01.05). In accordance with Article 41.05, Talgo must promptly institute an Amtrak-approved "Modification Program" to ensure that all such carbody components on a fleet-wide basis are no longer defective or at risk of defect or failure, and are otherwise cured, at no additional cost to Amtrak.

Under the provisions of the Management Services Contract, Talgo is separately responsible for all maintenance and repair services. Among other things, that means that during the service and inspection work being performed on the Trainsets, Talgo should have uncovered the cracks, reported them to Amtrak and implemented repairs, modifications or replacements before the cracks affected such a large number of carbodies on every Trainset. Talgo failed to do so, and as a result of the carbody cracks, the Trainsets have failed to meet the performance standards specified in the Management Services Contract.

Amtrak accordingly reserves the right to assess against Talgo the liquidated damages provided for in the Management Services Contract.

Please contact the undersigned if you have any questions.

Sincerely,

A black rectangular redaction box covering the signature of Michael J. Rienzi.

Michael J. Rienzi
Vice President, Procurement and Materials Management

cc: William L. Crosbie
Vince A. Nesci
Kurt G. Laird
Eleanor D. Acheson