

AMR CORP
Form 10-K
February 19, 2009

United States
Securities and Exchange Commission
Washington, D.C. 20549
Form 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2008

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 1-8400

AMR Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

75-1825172

(IRS Employer
Identification Number)

4333 Amon Carter Blvd.

Fort Worth, Texas 76155

(Address of principal executive offices, including zip code)

(817) 963-1234

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, \$1 par value per share	New York Stock Exchange
9.00% Debentures due 2016	New York Stock Exchange
7.875% Public Income Notes due 2039	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information

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statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “accelerated filer,” “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2008, was approximately \$1.3 billion. As of February 11, 2009, 279,005,677 shares of the registrant’s common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates by reference certain information from the Proxy Statement for the Annual Meeting of Stockholders to be held May 20, 2009.

PART I

ITEM 1. BUSINESS

AMR Corporation (AMR or the Company) was incorporated in October 1982. AMR's operations fall almost entirely in the airline industry. AMR's principal subsidiary, American Airlines, Inc. (American), was founded in 1934. At the end of 2008, American provided scheduled jet service to approximately 150 destinations throughout North America, the Caribbean, Latin America, Europe and Asia.

American, AMR Eagle Holding Corporation (AMR Eagle) and the AmericanConnection® airlines serve 250 cities in 40 countries with, on average, more than 3,400 daily flights. The combined network fleet numbers approximately 900 aircraft. American Airlines is also a founding member of oneworld® Alliance, which enables member airlines to offer their customers more services and benefits than any member airline can provide individually. These services include a broader route network, opportunities to earn and redeem frequent flyer miles across the combined oneworld network and more airport lounges. Together, oneworld members serve nearly 700 destinations in over 150 countries, with 8,500 daily departures. American is also one of the largest scheduled air freight carriers in the world, providing a wide range of freight and mail services to shippers throughout its system onboard American's passenger fleet.

AMR Eagle, a wholly-owned subsidiary of AMR, owns two regional airlines which do business as "American Eagle" – American Eagle Airlines, Inc. and Executive Airlines, Inc. (Executive) (collectively, the American Eagle carriers). American also contracts with two independently owned regional airlines, which do business as "AmericanConnection" (the AmericanConnection® carriers). The American Eagle carriers and the AmericanConnection® carriers provide connecting service from ten of American's high-traffic cities to smaller markets throughout the United States, Canada, Mexico and the Caribbean.

The AMR Eagle fleet is operated to feed passenger traffic to American pursuant to a capacity purchase agreement between American and AMR Eagle under which American receives all passenger revenue from flights and pays AMR Eagle a fee for each flight. The capacity purchase agreement reflects what the Company believes are current market rates received by other regional carriers for similar flying. Amounts paid to AMR Eagle under the capacity purchase agreement are for various operating expenses of AMR Eagle, such as crew expenses, maintenance and aircraft ownership, some of which are calculated based on specific operating statistics (e.g. block hours, departures) and others of which are fixed monthly amounts. This capacity purchase agreement was renewed in July 2008. As of December 31, 2008, AMR Eagle operated over 1,400 daily departures, offering scheduled passenger service to over 150 destinations in North America, Mexico and the Caribbean. On a separate company basis, AMR Eagle reported \$2.5 billion in revenue and \$30 million of income before income taxes in 2008. However, this historical financial information is not indicative of what AMR Eagle's future results of operations, financial position and cash flows might be if AMR Eagle was a stand-alone entity.

Recent Events

The Company recorded a net loss of \$2.1 billion in 2008 compared to net earnings of \$504 million in 2007. These results reflect a dramatic year-over-year increase in fuel prices from an average of \$2.13 per gallon in 2007 to an average of \$3.03 per gallon in 2008. Fuel expense was the Company's largest single expense category and the fuel price increase resulted in \$2.7 billion in incremental year-over-year fuel expense in 2008 (based on the year-over-year increase in the average price per gallon multiplied by gallons consumed). In addition, the Company paid 11.7 cents more per gallon in 2007 than in 2006, which drove a \$268 million negative impact to fuel expense in 2007. Although fuel prices have abated considerably from the record prices recorded in July 2008, fuel prices remain volatile. Fuel price volatility, additional increases in the price of fuel, and/or disruptions in the supply of fuel would further adversely affect the Company's financial condition and its results of operations.

The significant rise in fuel price was partially offset by higher unit revenues (passenger revenue per available seat mile). Mainline passenger unit revenues increased 7.3 percent in 2008 due to an 8.6 percent increase in passenger yield (passenger revenue per passenger mile) partially offset by a 0.9 point load factor decrease compared to 2007. Although passenger yield showed year-over-year improvement, passenger yield remains essentially flat with 2000 levels, despite cumulative inflation of approximately 25 percent over the same time frame.

In addition, the Company's 2008 operating results were impacted by three special items:

- In the second quarter, the Company announced capacity reductions due to unprecedented high fuel costs and the other challenges facing the industry. In connection with these capacity reductions, the Company concluded that a triggering event had occurred, requiring that fixed assets be tested for impairment. As a result of this test, the Company concluded the carrying values of its McDonnell Douglas MD-80 and the Embraer RJ-135 aircraft fleets were no longer recoverable. Consequently, the 2008 results include an impairment charge of \$1.1 billion to write these and certain related long-lived assets down to their estimated fair values. Also in connection with these capacity reductions, the Company recorded \$71 million in expense for employee severance costs and a \$33 million expense related to the grounding of leased Airbus A300 aircraft prior to lease expiration. These charges are described in Note 2 to the consolidated financial statements.
- The Company completed the sale of American Beacon Advisors (American Beacon) receiving total proceeds of \$442 million and realizing a net gain of \$432 million. This transaction is described in Note 14 to the consolidated financial statements.
- AMR recorded a settlement charge totaling \$103 million related to lump sum distributions from the Company's defined benefit pension plans to pilots who retired. Pilot retirements resulted in \$917 million in total lump sum payments to pilot retirees. The charge is further described in Note 10 to the consolidated financial statements.

In August 2008, AMR retired, by purchasing with cash, \$75 million of the \$300 million principal amount of the 4.25 percent senior convertible notes due 2023 (the 4.25 Notes). In September 2008, the remaining holders of the 4.25 Notes exercised their elective put rights and the Company purchased and retired these notes at a price equal to 100 percent of their principal amount, totaling \$225 million. Under the terms of the 4.25 Notes, the Company had the option to pay the purchase price with cash, stock, or a combination of cash and stock, and the Company elected to pay for the 4.25 Notes solely with cash.

AMR continues to take steps to strengthen its balance sheet, and in the third quarter of 2008 issued 27.1 million shares of common stock generating net proceeds of \$294 million. The Company reduced long-term debt and capital lease obligations (including current maturities) by \$185 million during the year and ended the year with \$3.1 billion in unrestricted cash and short-term investments and \$459 million in restricted cash and short-term investments. In 2008, American also raised approximately \$500 million under a loan secured by aircraft, due in installments through 2015, and raised approximately \$424 million utilizing various transactions including additional loans secured by aircraft and sale leasebacks of certain aircraft, including regional aircraft.

In 2008, American entered into a joint business agreement and related marketing arrangements with the UK carrier British Airways and the Spanish carrier Iberia, providing for commercial cooperation by the carriers on flights between North America (consisting of the United States, Canada and Mexico) and Europe (consisting of the European Union, Switzerland and Norway) and beyond. The agreement contemplates the pooling and sharing of certain revenues and costs on transatlantic flights, expanded codesharing on each other's flights, enhanced frequent flyer program reciprocity, and cooperation in the areas of planning, marketing and certain operations. The agreement was signed in connection with an application to the U.S. Department of Transportation by the carriers for antitrust immunity to permit global cooperation. The application also included the Finnish carrier, Finnair, and the Jordanian carrier, Royal Jordanian. If granted (which cannot be assured), antitrust immunity would permit the five carriers, all of whom are members of the oneworld airline alliance, to deepen cooperation on a bilateral and multilateral basis. Implementation of the joint business agreement and related arrangements is subject to conditions, including various U.S. and foreign regulatory approvals, successful negotiation of certain detailed financial and commercial arrangements, and other approvals. Agencies from which regulatory approvals must be obtained may impose requirements or limitations as a condition of granting such approvals, such as requiring divestiture of routes, gates,

slots or other assets.

The Company continued its fleet renewal strategy during 2008 as it entered into amendments to its 737-800 purchase agreement with the Boeing Company. Giving effect to the amendments and considering the impact of delays caused by the recent machinist strike at Boeing, the Company is now committed to take delivery of a total of 29 737-800 aircraft in 2009, 39 737-800 aircraft in 2010 and eight 737-800 aircraft in 2011. These orders are in addition to eleven 737-800 aircraft and seven Boeing 777 aircraft scheduled to be delivered in 2013 – 2016.

The Company also entered into a new purchase agreement with Boeing for the acquisition of 42 Boeing 787-9 aircraft. The Boeing 787-9 purchase agreement contains certain contingency provisions, including provisions which allow American to cancel the contract under certain circumstances, which are described in the Liquidity and Capital Resources subsection of Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations".

The Company's ability to return to profitability and its ability to continue to fund its obligations on an ongoing basis will depend on a number of factors, many of which are largely beyond the Company's control. Certain risk factors that affect the Company's business and financial results are discussed in the Risk Factors listed in Item 1A. In addition, most of the Company's largest domestic competitors and several smaller carriers have filed for bankruptcy in recent years and have used this process to significantly reduce contractual labor and other costs. In order to remain competitive and to improve its financial condition, the Company must continue to take steps to generate additional revenues and to reduce its costs. Although the Company has a number of initiatives underway to address its cost and revenue challenges, the ultimate success of these initiatives is not known at this time and cannot be assured. It will be very difficult for the Company to continue to fund its obligations on an ongoing basis and return to profitability, if the overall industry revenue environment does not improve substantially and if fuel prices were to increase and persist for an extended period at high levels.

Competition

Domestic Air Transportation The domestic airline industry is fiercely competitive. Currently, any U.S. air carrier deemed fit by the U.S. Department of Transportation (DOT) is free to operate scheduled passenger service between any two points within the U.S. and its possessions. Most major air carriers have developed hub-and-spoke systems and schedule patterns in an effort to maximize the revenue potential of their service. American operates five hubs: Dallas/Fort Worth (DFW), Chicago O'Hare, Miami, St. Louis and San Juan, Puerto Rico. United Air Lines (United) also has a hub operation at Chicago O'Hare.

The American Eagle® carriers increase the number of markets the Company serves by providing connections at American's hubs and certain other major airports – Boston, Los Angeles, Raleigh/Durham and New York's LaGuardia (LGA) and John F. Kennedy International (JFK) Airports. The AmericanConnection® carriers provide connecting service to American through St. Louis. American's competitors also own or have marketing agreements with regional carriers which provide similar services at their major hubs and other locations.

On most of its domestic non-stop routes, the Company faces competing service from at least one, and sometimes more than one, domestic airline including: AirTran Airways (Air Tran), Alaska Airlines (Alaska), Continental Airlines (Continental), Delta Air Lines (including Northwest Airlines) (Delta), Frontier Airlines, JetBlue Airways (JetBlue), Southwest Airlines (Southwest), United, US Airways, Virgin America Airlines and their affiliated regional carriers. Competition is even greater between cities that require a connection, where the major airlines compete via their respective hubs. In addition, the Company faces competition on some of its connecting routes from carriers operating point-to-point service on such routes. The Company also competes with all-cargo and charter carriers and, particularly on shorter segments, ground and rail transportation. On all of its routes, pricing decisions are affected, in large part, by the need to meet competition from other airlines.

Most of the Company's largest domestic competitors and several smaller carriers have reorganized under the protection of Chapter 11 of the U.S. Bankruptcy Code (Chapter 11) in recent years. It is possible that one or more of our competitors may seek to reorganize in or out of Chapter 11. Successful reorganizations present the Company with competitors with significantly lower operating costs derived from renegotiated labor, supply and financing contracts.

International Air Transportation In addition to its extensive domestic service, the Company provides international service to the Caribbean, Canada, Latin America, Europe and Asia. The Company's operating revenues from foreign operations were approximately 40 percent of the Company's total operating revenues in 2008, and 37 percent of the

Company's total operating revenues in both 2007 and 2006. Additional information about the Company's foreign operations is included in Note 14 to the consolidated financial statements.

In providing international air transportation, the Company competes with foreign investor-owned carriers, foreign state-owned carriers and U.S. airlines that have been granted authority to provide scheduled passenger and cargo service between the U.S. and various overseas locations. In general, carriers that have the greatest ability to seamlessly connect passengers to and from markets beyond the nonstop city pair have a competitive advantage. In some cases, however, foreign governments limit U.S. air carriers' rights to carry passengers beyond designated gateway cities in foreign countries. To improve access to each other's markets, various U.S. and foreign air carriers – including American – have established marketing relationships with other airlines and rail companies. American currently has marketing relationships with Air Pacific, Air Tahiti Nui, Alaska Airlines, British Airways, Brussels Airlines, Cathay Pacific, China Eastern Airlines, Dragonair, Deutsche Bahn German Rail, EL AL, EVA Air, Finnair, Gulf Air, Hawaiian Airlines, Iberia, Japan Airlines, Jet Airways, LAN (includes LAN Airlines, LAN Argentina, LAN Ecuador and LAN Peru), Malév Hungarian Airlines, Mexicana, Qantas Airways, Royal Jordanian, SNCF French Rail and Vietnam Airlines.

American is also a founding member of the oneworld alliance, which includes British Airways, Cathay Pacific, Finnair, Lan Airlines, Iberia, Qantas, Japan Airlines, Malév Hungarian, Dragonair, and Royal Jordanian. Mexicana Airlines has accepted an invitation to join oneworld and formal entry into the alliance is anticipated in 2009. The oneworld alliance links the networks of the member carriers to enhance customer service and smooth connections to the destinations served by the alliance, including linking the carriers' frequent flyer programs and access to the carriers' airport lounge facilities. Several of American's major competitors are members of marketing/operational alliances that enjoy antitrust immunity. American and British Airways, the largest members of the oneworld alliance, are restricted in their relationship because they lack antitrust immunity. They are, therefore, at a competitive disadvantage vis-à-vis other alliances that have antitrust immunity.

In 2008, American entered into a joint business agreement and related marketing arrangements with British Airways and Iberia providing for commercial cooperation by the carriers on flights between North America and Europe and beyond. The agreement was signed in connection with an application to the U.S. Department of Transportation by the three carriers, and Finnair and Royal Jordanian, for antitrust immunity to permit global cooperation. If granted (which cannot be assured), antitrust immunity will permit the five carriers, all of whom are members of the oneworld airline alliance, to deepen cooperation on a bilateral and multilateral basis.

Price Competition The airline industry is characterized by substantial and intense price competition. Fare discounting by competitors has historically had a negative effect on the Company's financial results because the Company is generally required to match competitors' fares, as failing to match would provide even less revenue due to customers' price sensitivity.

In recent years, a number of low-cost carriers (LCCs) have entered the domestic market. Several major airlines, including the Company, have implemented efforts to lower their costs since lower cost structures enable airlines to offer lower fares. In addition, several air carriers have recently reorganized under Chapter 11, including United, Delta and US Airways. These cost reduction efforts and bankruptcy reorganizations have allowed carriers to decrease operating costs. In the past, lower cost structures have generally resulted in fare reductions. If fare reductions are not offset by increases in passenger traffic, changes in the mix of traffic that improve yields (passenger revenue per passenger mile) and/or cost reductions, the Company's operating results will be negatively impacted.

Regulation

General The Airline Deregulation Act of 1978, as amended, eliminated most domestic economic regulation of passenger and freight transportation. However, the DOT and the Federal Aviation Administration (FAA) still exercise certain regulatory authority over air carriers. The DOT maintains jurisdiction over the approval of international codeshare agreements, international route authorities and certain consumer protection and competition matters, such

as advertising, denied boarding compensation and baggage liability.

The FAA regulates flying operations generally, including establishing standards for personnel, aircraft and certain security measures. As part of that oversight, the FAA has implemented a number of requirements that the Company has incorporated and is incorporating into its maintenance programs. The Company is progressing toward the completion of over 200 airworthiness directives including Boeing fuel tank safety directives, Boeing 757 and Boeing 767 pylon improvements, McDonnell Douglas MD-80 over-wing frame and aft pressure bulkhead improvements, Boeing 737 aft pressure bulkhead improvements and Airbus A300 fuselage structural improvements. Based on its current implementation schedule, the Company expects to be in compliance with the applicable requirements within the required time periods.

The Department of Justice (DOJ) has jurisdiction over airline antitrust matters. The U.S. Postal Service has jurisdiction over certain aspects of the transportation of mail and related services. Labor relations in the air transportation industry are regulated under the Railway Labor Act, which vests in the National Mediation Board certain functions with respect to disputes between airlines and labor unions relating to union representation and collective bargaining agreements.

On December 21, 2007, a New York federal judge dismissed the Air Transport Association's (ATA) challenge to a recently enacted New York law requiring airlines to provide certain services to onboard passengers whose flights are delayed on the ground prior to takeoff for more than three hours. The ATA appealed the dismissal of the challenge. The Second Circuit Court of Appeals reversed and ordered the District Court to enter judgment for the ATA on the grounds that the legislation was preempted by federal law. The law, which was briefly in effect, was declared invalid.

International International air transportation is subject to extensive government regulation. The Company's operating authority in international markets is subject to aviation agreements between the U.S. and the respective countries or governmental authorities (such as the European Union), and in some cases, fares and schedules require the approval of the DOT and/or the relevant foreign governments. Moreover, alliances with international carriers may be subject to the jurisdiction and regulations of various foreign agencies. Bilateral agreements between the U.S. and various foreign governments of countries served by the Company are periodically subject to renegotiation. Changes in U.S. or foreign government aviation policies could result in the alteration or termination of such agreements, diminish the value of route authorities, or otherwise adversely affect the Company's international operations. In addition, at some foreign airports, an air carrier needs slots (landing and take-off authorizations) before the air carrier can introduce new service or increase existing service. The availability of such slots is not assured and the inability of the Company to obtain and retain needed slots could therefore inhibit its efforts to compete in certain international markets.

In April 2007, the United States and the European Union (EU) approved an "open skies" air services agreement that provides airlines from the United States and EU member states open access to each other's markets, with freedom of pricing and unlimited rights to fly beyond the United States and any airport in the EU including London's Heathrow Airport. The provisions of the agreement took effect on March 30, 2008. Under the agreement, every U.S. and EU airline is authorized to operate between airports in the United States and Heathrow. Notwithstanding the open skies agreement, Heathrow is a slot-controlled airport. Only three airlines besides American were previously allowed to provide service to Heathrow. The agreement has resulted in the Company facing increased competition in serving Heathrow, where the Company has lost market share. In addition, the Company is facing additional competition in other European markets. See Item 1A, Risk Factors, and Note 11 to the consolidated financial statements for additional information.

Security In November 2001, the Aviation and Transportation Security Act (ATSA) was enacted in the United States. The ATSA created a new government agency, the Transportation Security Administration (TSA), which is part of the Department of Homeland Security and is responsible for aviation security. The ATSA mandates that the TSA provide for the screening of all passengers and property, including U.S. mail, cargo, carry-on and checked baggage, and other articles that will be carried aboard a passenger aircraft. The ATSA also provides for security in flight decks of aircraft and requires federal air marshals to be present on certain flights.

Effective February 1, 2002, the ATSA imposed a \$2.50 per enplanement security service fee, which is being collected by the air carriers and submitted to the government to pay for these enhanced security measures. Additionally, air carriers are annually required to submit to the government an amount equal to what the air carriers paid for screening passengers and property in 2000. In recent years, the government has sought to increase both of these fees under spending proposals for the Department of Homeland Security. American and other carriers have announced their opposition to these proposals as there is no assurance that any increase in fees could be passed on to customers.

Airline Fares Airlines are permitted to establish their own domestic fares without governmental regulation. The DOT maintains authority over certain international fares, rates and charges, but applies this authority on a limited basis. In addition, international fares and rates are sometimes subject to the jurisdiction of the governments of the foreign countries which the Company serves. While air carriers are required to file and adhere to international fare and rate tariffs, substantial commissions, fare overrides and discounts to travel agents, brokers and wholesalers characterize many international markets.

Airport Access Historically, the FAA designated JFK, LGA and Washington Reagan airports as high-density traffic airports. The high-density rule limited the number of Instrument Flight Rule operations - take-offs and landings - permitted per hour and required that a "take-off/landing slot right" support each operation. The high density rule was repealed for JFK and LGA; however both airports remain subject to operating restrictions.

In order to remedy congestion at LGA due to elimination of slot restrictions, the FAA, in 2007, placed caps on total operations and required carriers at LGA to hold operating authorizations. In January 2009, the FAA announced a voluntary program at LGA aimed at reducing hourly scheduled operations at LGA from 75 to 71, which is expected to help ease congestion and delay without materially affecting carrier operations.

In December 2007, the United States Department of Transportation reached an agreement with domestic airlines to ease congestion at JFK by shifting the timing of certain flights. Such re-timing has not had a significant impact on the Company's flights to or from JFK.

In late 2008, the FAA issued new rules for carriers operating at LGA, JFK and Newark that would fundamentally change the manner in which operating authorizations are held and distributed at those airports. Every departure and landing would require an authorization and existing carriers would be requested to reduce service to provide authorizations for auction to other carriers without increasing total airport operations. The Company, along with numerous other carriers and interested parties, opposed adoption of these rules. Immediately after the rules were issued, the ATA and others petitioned for judicial review in the United States Court of Appeals for the District of Columbia Circuit challenging the rules and seeking a stay (preliminary injunction) against their implementation. The court granted the stay motion, thus blocking the rules from taking effect, pending the court's ultimate decision on the merits. Following the change in Administrations on January 20, 2009, the ATA submitted a letter to the new Secretary of Transportation urging that the rules be withdrawn. If the DOT does not withdraw the rules, or if the court challenge is unsuccessful, the new rules could require the Company to alter the routes and services it currently operates at LGA, JFK and Newark with potentially material adverse effects.

In 2006, the FAA issued an order requiring that carriers hold arrival authorizations to land during certain hours at Chicago O'Hare. That order limits the purchase or sale of arrival authorizations. The Company has not experienced any significant adverse impact from this order. In addition, the DOT is considering imposing a schedule reduction order at Newark (separately from the FAA action above), which could include slot controls at that airport. The Company does not anticipate being materially affected if such an order is imposed.

The high-density rule remains in effect at Washington Reagan. Legislation has been introduced to abolish the perimeter rule at that airport, which (with exceptions) limits nonstop flights to a distance of 1,250 miles. Some foreign airports, including Heathrow, a major European destination for American, also require slot allocations.

Although the Company is constrained by slots, it currently has sufficient slot authorizations to operate its existing flights. However, there is no assurance that the Company will be able to retain or obtain slots in the future to expand its operations or change its schedules because, among other factors, slot allocations are subject to changes in government policies.

In 2006, the Wright Amendment Reform Act of 2006 (the Act) became law. The Act is based on an agreement by the cities of Dallas and Fort Worth, Texas, DFW International Airport, Southwest, and the Company to modify the Wright Amendment, which authorizes certain flight operations at Dallas Love Field within defined geographic areas. Among other things, the Act eventually eliminates domestic geographic restrictions on operations while limiting the maximum number of gates at Love Field. The Company believes the Act is a pragmatic resolution of the issues related to the Wright Amendment and the use of Love Field.

Environmental Matters The Company is subject to various laws and government regulations concerning environmental matters and employee safety and health in the U.S. and other countries. U.S. federal laws that have a particular impact on the Company include the Airport Noise and Capacity Act of 1990 (ANCA), the Clean Air Act, the Resource Conservation and Recovery Act, the Clean Water Act, the Safe Drinking Water Act, and the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA or the Superfund Act). Certain operations of the Company are also subject to the oversight of the Occupational Safety and Health Administration (OSHA) concerning employee safety and health matters. The U.S. Environmental Protection Agency (EPA), OSHA, and other federal agencies have been authorized to promulgate regulations that have an impact on the Company's operations. In addition to these federal activities, various states have been delegated certain authorities under the aforementioned federal statutes. Many state and local governments have adopted environmental and employee safety and health laws and regulations, some of which are similar to or stricter than federal requirements.

The ANCA recognizes the rights of airport operators with noise problems to implement local noise abatement programs so long as they do not interfere unreasonably with interstate or foreign commerce or the national air transportation system. Authorities in several cities have promulgated aircraft noise reduction programs, including the imposition of nighttime curfews. The ANCA generally requires FAA approval of local noise restrictions on aircraft. While the Company has had sufficient scheduling flexibility to accommodate local noise restrictions imposed to date, the Company's operations could be adversely affected if locally-imposed regulations become more restrictive or widespread.

Many aspects of the Company's operations are subject to increasingly stringent environmental regulations. Concerns about climate change and greenhouse gas emissions, in particular, may result in the imposition of additional legislation or regulation. For example, the EU recently approved measures that impose emissions limits on airlines with operations to, from or within the EU as part of an emissions trading system beginning in 2012. The Company is currently assessing the potential costs of the EU measures. Such legislative or regulatory action by the U.S. or foreign governments currently or in the future may adversely affect the Company's business and financial results.

The environmental laws to which the Company is subject include those related to responsibility for potential soil and groundwater contamination. The Company is conducting investigation and remediation activities to address soil and groundwater conditions at several sites, including airports and maintenance bases. The Company anticipates that the ongoing costs of such activities will be immaterial. The Company has also been named as a potentially responsible party (PRP) at certain Superfund sites. The Company's alleged volumetric contributions at such sites are small in comparison to total contributions of all PRPs and the Company expects that any future payments of its share of costs at such sites will be immaterial.

Labor

The airline business is labor intensive. Wages, salaries and benefits represented approximately 26 percent of the Company's consolidated operating expenses for the year ended December 31, 2008. The average full-time equivalent number of employees of the Company's subsidiaries for the year ended December 31, 2008 was 84,100.

The majority of these employees are represented by labor unions and covered by collective bargaining agreements. Relations with such labor organizations are governed by the Railway Labor Act (RLA). Under this act, the collective bargaining agreements among the Company's subsidiaries and these organizations generally do not expire but instead become amendable as of a stated date. If either party wishes to modify the terms of any such agreement, it must notify the other party in the manner agreed to by the parties. Under the RLA, after receipt of such notice, the parties must meet for direct negotiations, and if no agreement is reached, either party may request the National Mediation Board (NMB) to appoint a federal mediator. The RLA prescribes no set timetable for the direct negotiation and mediation process. It is not unusual for those processes to last for many months, and even for several years. If no agreement is reached in mediation, the NMB in its discretion may declare at some time that an impasse

exists, and if an impasse is declared, the NMB proffers binding arbitration to the parties. Either party may decline to submit to arbitration. If arbitration is rejected by either party, a 30-day “cooling off” period commences. During that period (or after), a Presidential Emergency Board (PEB) may be established, which examines the parties’ positions and recommends a solution. The PEB process lasts for 30 days and is followed by another “cooling off” period of 30 days. At the end of a “cooling off” period, unless an agreement is reached or action is taken by Congress, the labor organization may exercise “self-help,” such as a strike, and the airline may resort to its own “self-help,” including the imposition of any or all of its proposed amendments and the hiring of new employees to replace any striking workers.

In April 2003, American reached agreements (the Labor Agreements) with its three major unions - the Allied Pilots Association (the APA) which represents American's pilots, the Transport Workers Union of America (AFL-CIO) (the TWU), which represents seven different employee groups, and the Association of Professional Flight Attendants (the APFA), which represents American's flight attendants. The Labor Agreements substantially moderated the labor costs associated with the employees represented by the unions. In conjunction with the Labor Agreements, American also implemented various changes in the pay plans and benefits for non-unionized personnel, including officers and other management (the Management Reductions). The Labor Agreements became amendable in 2008 (although the parties agreed that they could begin the negotiations process as early as 2006). In 2006, American and the APA commenced negotiations under the RLA. In April of 2008, following a request by the APA, a mediator was appointed by the National Mediation Board. The parties have been in mediated negotiations since that time.

Also in 2006, American and the TWU commenced negotiations with respect only to dispatchers, one of the seven groups at American represented by the TWU. Subsequently, following a request by the parties, a mediator was appointed by the NMB for the dispatcher negotiations. Thereafter, in November 2007, American and the TWU commenced negotiations under the RLA with respect to the other employee groups represented by the TWU. Direct negotiations between American and the TWU employees with respect to those other groups continued until December 2008, at which time the parties jointly filed with the NMB for mediation with respect to the fleet service, stores, ground school instructors, and simulator technician groups of employees. The NMB appointed a mediator soon thereafter. Then in January, 2009, the TWU applied to the NMB for the appointment of a mediator with respect to the mechanics and the technical specialists. The NMB will appoint a mediator to assist those negotiations, as well.

American and the APFA commenced negotiations in the first half of 2008. Direct negotiations between the parties continued until December 2008, at which time the parties jointly filed an application to the NMB asking that a mediator be appointed. The NMB appointed a mediator soon thereafter.

The Air Line Pilots Association (ALPA), which represents American Eagle pilots, reached agreement with American Eagle effective September 1, 1997, to have all of the pilots of the American Eagle® carriers (currently American Eagle Airlines, Inc. and Executive Airlines, Inc.) covered by a single contract. This agreement lasts until January 1, 2013. The agreement provides to the parties the right to seek limited changes in 2000, 2004, 2008 and 2012. If the parties are unable to agree on the limited changes, the agreement provides that any issues would be resolved by interest arbitration, without the exercise of self-help (such as a strike). ALPA and American Eagle negotiated a tentative agreement in 2000, but that agreement failed in ratification. Thereafter, the parties participated in interest arbitration. The interest arbitration panel determined the limited changes that should be made and these changes were appropriately effected. In 2004 and in 2008, the parties successfully negotiated limited changes. The pilot agreement is amendable January 1, 2013; however, the parties have agreed that contract openers may be exchanged 120 days prior to that date.

The Association of Flight Attendants (AFA) represents the flight attendants of the American Eagle carriers. The current agreement between the American Eagle carriers and the AFA is amendable on October 27, 2009; however, the parties have agreed that contract openers may be exchanged 90 days prior to that date. The other union employees at the American Eagle carriers are covered by separate agreements with the TWU. The agreements between the American Eagle carriers and the TWU were amendable beginning on October 1, 2007, and the parties commenced negotiations. In January, 2009, an application for mediation was filed with the NMB. A mediator from the NMB will be assisting the parties.

Fuel

The Company's operations and financial results are significantly affected by the availability and price of jet fuel. The Company's fuel costs and consumption for the years 2006 through 2008 were:

Year	Gallons Consumed (in millions)	Total Cost (in millions)	Average Cost Per Gallon (in dollars)	Percent of AMR's Operating Expenses
2006	3,178	\$ 6,402	\$ 2.014	29.8%
2007	3,130	6,670	2.131	30.4
2008	2,971	9,014	3.034	35.1

The impact of fuel price changes on the Company and its competitors depends on various factors, including hedging strategies. The Company has a fuel hedging program in which it enters into jet fuel and heating oil hedging contracts to dampen the impact of the volatility of jet fuel prices. During 2008, 2007 and 2006, the Company's fuel hedging program reduced the Company's fuel expense by approximately \$380 million, \$239 million and \$97 million, respectively. As of January 2009, the Company had cash flow hedges, with option contracts, primarily heating oil collars and call options, covering approximately 35 percent of its estimated 2009 fuel requirements. The consumption hedged for 2009 by cash flow hedges is capped at an average price of approximately \$2.59 per gallon of jet fuel, and the Company's collars have an average floor price of approximately \$1.94 per gallon of jet fuel (both the capped and floor price exclude taxes and transportation costs). As a result of the rapid decline in energy prices in the second half of 2008 and certain other events, the Company estimates that during the next twelve months it will reclassify from Accumulated other comprehensive loss into earnings approximately \$711 million in net incremental expenses related to its fuel derivative hedges (based on prices as of December 31, 2008). A deterioration of the Company's financial position could negatively affect the Company's ability to hedge fuel in the future. See the Risk Factors under Item 1A for additional information regarding fuel.

Additional information regarding the Company's fuel program is also included in Item 7(A) "Quantitative and Qualitative Disclosures about Market Risk," Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 7 to the consolidated financial statements.

Frequent Flyer Program

American established the AAdvantage® frequent flyer program (AAdvantage) to develop passenger loyalty by offering awards to travelers for their continued patronage. The Company believes that the AAdvantage program is one of its competitive strengths. AAdvantage benefits from a growing base of approximately 62 million members with desirable demographics who have demonstrated a strong willingness to collect AAdvantage miles over other loyalty program incentives and are generally disposed to adjusting their purchasing behavior in order to earn additional AAdvantage miles. AAdvantage members earn mileage credits by flying on American, American Eagle, and the AmericanConnection® carriers or by using services of other participants in the AAdvantage program. Mileage credits can be redeemed for free, discounted or upgraded travel on American, American Eagle or other participating airlines, or for other awards. Once a member accrues sufficient mileage for an award, the member may book award travel. Most travel awards are subject to capacity controlled seating. A member's mileage credit does not expire as long as that member has any type of qualifying activity at least once every 18 months.

American sells mileage credits and related services to other participants in the AAdvantage program. There are over 1,000 program participants, including a leading credit card issuer, hotels, car rental companies and other products and services companies in the AAdvantage program. The Company believes that program participants benefit from the

sustained purchasing behavior of AAdvantage members, which translates into a recurring stream of revenues for AAdvantage. Under its agreements with AAdvantage members and program participants, the Company reserves the right to change the AAdvantage program at any time without notice, and may end the program with six months notice. As of December 31, 2008, AAdvantage had approximately 62 million total members, and 607 billion outstanding award miles. During 2008, AAdvantage issued approximately 196 billion miles, of which approximately one-half were sold to program participants. See “Critical Accounting Policies and Estimates” under Item 7 for more information on AAdvantage.

Other Matters

Seasonality and Other Factors The Company's results of operations for any interim period are not necessarily indicative of those for the entire year, since the air transportation business is subject to seasonal fluctuations. Higher demand for air travel has traditionally resulted in more favorable operating and financial results for the second and third quarters of the year than for the first and fourth quarters. Fears of terrorism or war, fare initiatives, fluctuations in fuel prices, labor actions, weather and other factors could impact this seasonal pattern. Unaudited quarterly financial data for the two-year period ended December 31, 2008 is included in Note 15 to the consolidated financial statements. In addition, the results of operations in the air transportation business have also significantly fluctuated in the past in response to general economic conditions.

Insurance The Company carries insurance for public liability, passenger liability, property damage and all-risk coverage for damage to its aircraft. As a result of the terrorist attacks of September 11, 2001 (the Terrorist Attacks), aviation insurers significantly reduced the amount of insurance coverage available to commercial air carriers for liability to persons other than employees or passengers for claims resulting from acts of terrorism, war or similar events (war-risk coverage). At the same time, these insurers significantly increased the premiums for aviation insurance in general.

The U.S. government has agreed to provide commercial war-risk insurance for U.S. based airlines until March 31, 2009, covering losses to employees, passengers, third parties and aircraft. Beyond that date, the Secretary of Transportation has the authority to provide commercial war-risk insurance until May 31, 2009. If the U.S. government does not extend the policy beyond March 31, 2009 (or beyond May 31, 2009 if the Secretary has exercised the authority to extend coverage to that date), or if the U.S. government at anytime thereafter ceases to provide such insurance, or reduces the coverage provided by such insurance, the Company will attempt to purchase similar coverage with narrower scope from commercial insurers at an additional cost. To the extent this coverage is not available at commercially reasonable rates, the Company would be adversely affected. While the price of commercial insurance has declined since the premium increases immediately after the Terrorist Attacks, in the event commercial insurance carriers further reduce the amount of insurance coverage available to the Company, or significantly increase its cost, the Company would be adversely affected.

Other Government Matters In time of war or during a national emergency or defense oriented situation, American and other air carriers can be required to provide airlift services to the Air Mobility Command under the Civil Reserve Air Fleet program. In the event the Company has to provide a substantial number of aircraft and crew to the Air Mobility Command, its operations could be adversely impacted.

Available Information The Company makes its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 available free of charge under the Investor Relations page on its website, www.aa.com, as soon as reasonably practicable after such reports are electronically filed with the Securities and Exchange Commission. In addition, the Company's code of ethics (called the Standards of Business Conduct), which applies to all employees of the Company, including the Company's Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Controller, is posted under the Investor Relations page on its website, www.aa.com. The Company intends to disclose any amendments to the code of ethics, or waivers of the code of ethics on behalf of the CEO, CFO or Controller, under the Investor Relations page on the Company's website, www.aa.com. The charters for the AMR Board of Directors' standing committees (the Audit, Compensation, Diversity and Nominating/Corporate Governance Committees), as well as the Board of Directors' Governance Policies (the Governance Policies), are likewise available on the Company's website, www.aa.com. Upon request, copies of the charters or the Governance Policies are available at no cost. Information on the Company's website is not incorporated into or otherwise made a part of this Report.

ITEM 1A. RISK FACTORS

Our ability to become profitable and our ability to continue to fund our obligations on an ongoing basis will depend on a number of risk factors, many of which are largely beyond our control. Some of the factors that may have a negative impact on us are described below:

As a result of significant losses in recent years, our financial condition has been materially weakened.

We incurred significant losses in 2001-2005, which materially weakened our financial condition. We lost \$857 million in 2005, \$751 million in 2004, \$1.2 billion in 2003, \$3.5 billion in 2002 and \$1.8 billion in 2001. Although we earned a profit of \$504 million in 2007 and \$231 million in 2006, we lost \$2.1 billion in 2008 (which included a \$1.1 billion impairment charge). Because of our weakened financial condition, we are vulnerable both to the impact of unexpected events (such as terrorist attacks or spikes in jet fuel prices) and to deterioration of the operating environment (such as a deepening of the current global recession or significant increased competition).

The severe global economic downturn has resulted in weaker demand for air travel and lower investment asset returns, which may have a significant negative impact on us.

We are experiencing significantly weaker demand for air travel driven by the severe downturn in the global economy. Many of the countries we serve are experiencing economic slowdowns or recessions. We began to experience weakening demand late in 2008, and this weakness has continued into 2009. We reduced capacity in 2008, and we recently announced further reductions to our 2009 capacity plan. If the global economic downturn persists or worsens, demand for air travel may continue to weaken. No assurance can be given that capacity reductions or other steps we may take will be adequate to offset the effects of reduced demand.

The economic downturn has resulted in broadly lower investment asset returns and values, and our pension assets suffered a material decrease in value in 2008 related to broader stock market declines, which will result in higher pension expense and potentially higher required contributions in future years. In addition, under these unfavorable economic conditions, we may also be required to maintain substantial cash reserves under our credit card processing agreements. These issues individually or collectively may have a material adverse impact on our liquidity. Also, disruptions in the capital markets and other sources of funding may make it impossible for us to obtain necessary additional funding or make the cost of that funding prohibitive.

We face numerous challenges as we seek to maintain sufficient liquidity, and we will need to raise substantial additional funds. We may not be able to raise those funds, or to do so on acceptable terms.

We have significant debt, lease and other obligations in the next several years, including significant pension funding obligations. For example, in 2009 we will be required to make approximately \$1.8 billion of principal payments on long-term debt and approximately \$110 million in principal payments on capital leases, and we expect to make approximately \$1.6 billion of capital expenditures. In addition, the global economic downturn, potential increases in the amount of required reserves under credit card processing agreements, and the obligation to post cash collateral on fuel hedging contracts have negatively impacted, or may in the future negatively impact, our liquidity. To meet our commitments and to maintain sufficient liquidity as we continue to implement our restructuring and cost reduction initiatives, we will need continued access to substantial additional funding. While we have arranged financing that, subject to certain terms and conditions, covers a majority of our 2009 aircraft deliveries and have arranged backstop financing which could be used for a significant portion of our remaining 2009 - 2011 Boeing 737-800 aircraft deliveries, we will also need to raise additional funds to meet our commitments to purchase aircraft and execute our fleet replacement plan.

Our ability to obtain future financing is limited by the value of our unencumbered assets. A very large majority of our aircraft assets (including most of our aircraft eligible for the benefits of Section 1110 of the U.S. Bankruptcy Code) are encumbered. Also, the market value of our aircraft assets has declined in recent years, and may continue to decline.

Since the Terrorist Attacks of September 2001, our credit ratings have been lowered to significantly below investment grade. These reductions have increased our borrowing costs and otherwise adversely affected borrowing terms, and limited borrowing options. Additional reductions in our credit ratings might have other effects on us, such as further increasing borrowing or other costs or further restricting our ability to raise funds.

A number of other factors, including our financial results in recent years, our substantial indebtedness, the difficult revenue environment we face, our reduced credit ratings, recent historically high fuel prices, and the financial difficulties experienced in the airline industry, adversely affect the availability and terms of funding for us. In addition, the global economic downturn and recent severe disruptions in the capital markets and other sources of funding have resulted in greater volatility, less liquidity, widening of credit spreads, and substantially more limited availability of funding. As a result of these factors, there can be no assurance that additional funding will be available to us on acceptable terms, if at all. An inability to obtain necessary additional funding on acceptable terms would have a material adverse impact on us and on our ability to sustain our operations.

Our initiatives to generate additional revenues and to reduce our costs may not be adequate or successful.

As we seek to improve our financial condition, we must continue to take steps to generate additional revenues and to reduce our costs. Although we have a number of initiatives underway to address our cost and revenue challenges, some of these initiatives involve changes to our business which we may be unable to implement. In addition, we expect that, as time goes on, it will be progressively more difficult to identify and implement significant revenue enhancement and cost savings initiatives. The adequacy and ultimate success of our initiatives to generate additional revenues and reduce our costs are not known at this time and cannot be assured. Moreover, whether our initiatives will be adequate or successful depends in large measure on factors beyond our control, notably the overall industry environment, including passenger demand, yield and industry capacity growth, and fuel prices. It will be very difficult for us to continue to fund our obligations on an ongoing basis, and to return to profitability, if the overall industry revenue environment does not improve substantially and if fuel prices were to increase and persist for an extended period at high levels.

We may be adversely affected by increases in fuel prices, and we would be adversely affected by disruptions in the supply of fuel.

Our results are very significantly affected by the volatile price and the availability of jet fuel, which are in turn affected by a number of factors beyond our control. Fuel prices have only recently declined from historic high levels.

Due to the competitive nature of the airline industry, we may not be able to pass on increased fuel prices to customers by increasing fares. Although we had some success in raising fares and imposing fuel surcharges in reaction to recent high fuel prices, these fare increases and surcharges did not keep pace with the extraordinary increases in the price of fuel that occurred in 2007 and 2008. Furthermore, even though fuel prices have declined significantly from their recent historic high levels, reduced demand or increased fare competition, or both, and resulting lower revenues may offset any potential benefit of these lower fuel prices.

While we do not currently anticipate a significant reduction in fuel availability, dependence on foreign imports of crude oil, limited refining capacity and the possibility of changes in government policy on jet fuel production, transportation and marketing make it impossible to predict the future availability of jet fuel. If there are additional outbreaks of hostilities or other conflicts in oil producing areas or elsewhere, or a reduction in refining capacity (due to weather events, for example), or governmental limits on the production or sale of jet fuel, there could be a reduction in the supply of jet fuel and significant increases in the cost of jet fuel. Major reductions in the availability of jet fuel or significant increases in its cost would have a material adverse impact on us.

We have a large number of older aircraft in our fleet, and these aircraft are not as fuel efficient as more recent models of aircraft. We believe it is imperative that we continue to execute our fleet renewal plans. However, due to the recent machinist strike at Boeing, deliveries of the Boeing 737-800 aircraft we currently have on order have been delayed. In addition, we expect delays in the deliveries of the Boeing 787-9 aircraft we currently have on order.

While we seek to manage the risk of fuel price increases by using derivative contracts, there can be no assurance that, at any given time, we will have derivatives in place to provide any particular level of protection against increased fuel costs. In addition, a deterioration of our financial position could negatively affect our ability to enter into derivative contracts in the future. Moreover, declines in fuel prices below the levels established in derivative contracts may require us to post cash collateral to secure the loss positions on such contracts, and if such contracts close when fuel prices are below the applicable levels, we would be required to make payments to close such contracts; these payments would be treated as additional fuel expense.

Our indebtedness and other obligations are substantial and could adversely affect our business and liquidity.

We have and will continue to have significant amounts of indebtedness, obligations to make future payments on aircraft equipment and property leases, and obligations under aircraft purchase agreements, as well as a high proportion of debt to equity capital. In 2009, we will be required to make approximately \$1.8 billion of principal payments on long-term debt. We expect to incur substantial additional debt (including secured debt) and lease obligations in the future. We also have substantial pension funding obligations. Our substantial indebtedness and other obligations have important consequences. For example, they:

- limit our ability to obtain additional funding for working capital, capital expenditures, acquisitions and general corporate purposes, and adversely affect the terms on which such funding can be obtained;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness and other obligations, thereby reducing the funds available for other purposes;
- make us more vulnerable to economic downturns; and
- limit our ability to withstand competitive pressures and reduce our flexibility in responding to changing business and economic conditions.

We may be unable to comply with our financial covenants.

As of December 31, 2008 American had a secured bank credit facility (the Credit Facility) consisting of a fully drawn \$255 million revolving credit facility with a final maturity on June 17, 2009, and a fully drawn \$436 million term loan facility with a final maturity on December 17, 2010. The Credit Facility contains a liquidity covenant and a covenant that requires AMR to maintain certain minimum ratios of cash flow to fixed charges (the EBITDAR covenant). We were in compliance with the liquidity covenant as of December 31, 2008. In May 2008, we entered into an amendment to the Credit Facility which waived compliance with the EBITDAR covenant for periods ending on any date from and including June 30, 2008 and through March 31, 2009, and which reduced the minimum ratios AMR is required to satisfy thereafter. Given fuel prices that have been very high by historical standards and the volatility of fuel prices and revenues, uncertainty in the capital markets and about other sources of funding, and other factors, it is difficult to assess whether we will be able to continue to comply with these covenants, and there are no assurances that we will be able to do so. Failure to comply with these covenants would result in a default under the Credit Facility which — if we did not take steps to obtain a waiver of, or otherwise mitigate, the default — could result in a default under a significant amount of our other debt and lease obligations, and otherwise have a material adverse impact on us.

Our business is affected by many changing economic and other conditions beyond our control, and our results of operations tend to be volatile and fluctuate due to seasonality.

Our business and our results of operations are affected by many changing economic and other conditions beyond our control, including, among others:

- actual or potential changes in international, national, regional and local economic, business and financial conditions, including recession, inflation, higher interest rates, wars, terrorist attacks or political instability;
- changes in consumer preferences, perceptions, spending patterns or demographic trends;
- changes in the competitive environment due to industry consolidation and other factors;

- actual or potential disruptions to the air traffic control systems;
- increases in costs of safety, security and environmental measures;
- outbreaks of diseases that affect travel behavior; and
- weather and natural disasters.

As a result, our results of operations tend to be volatile and subject to rapid and unexpected change. In addition, due to generally greater demand for air travel during the summer, our revenues in the second and third quarters of the year tend to be stronger than revenues in the first and fourth quarters of the year.

The airline industry is fiercely competitive and may undergo further consolidation or changes in industry alliances, and we are subject to increasing competition.

Service over almost all of our routes is highly competitive and fares remain at low levels by historical standards. We face vigorous, and, in some cases, increasing, competition from major domestic airlines, national, regional, all-cargo and charter carriers, foreign air carriers, low-cost carriers and, particularly on shorter segments, ground and rail transportation. We also face increasing and significant competition from marketing/operational alliances formed by our competitors. The percentage of routes on which we compete with carriers having substantially lower operating costs than ours has grown significantly over the past decade, and we now compete with low-cost carriers on a large majority of our domestic non-stop mainline network routes.

Certain airline alliances have been granted immunity from antitrust regulations by governmental authorities for specific areas of cooperation, such as joint pricing decisions. To the extent alliances formed by our competitors can undertake activities that are not available to us, our ability to effectively compete may be hindered.

Pricing decisions are significantly affected by competition from other airlines. Fare discounting by competitors historically has had a negative effect on our financial results because we must generally match competitors' fares, since failing to match would result in even less revenue. We have faced increased competition from carriers with simplified fare structures, which are generally preferred by travelers. Any fare reduction or fare simplification initiative may not be offset by increases in passenger traffic, reduction in cost or changes in the mix of traffic that would improve yields. Moreover, decisions by our competitors that increase or reduce overall industry capacity, or capacity dedicated to a particular domestic or foreign region, market or route, can have a material impact on related fare levels.

There have been numerous mergers and acquisitions within the airline industry and numerous changes in industry alliances. Recently, two of our largest competitors, Delta and Northwest Airlines, merged, and the combined entity became the largest scheduled passenger airline in the world in terms of available seat miles and revenue passenger miles. In addition, another two of our largest competitors, United and Continental, recently announced that they had entered into a framework agreement to cooperate extensively and under which Continental would join the global alliance of which United, Lufthansa and certain other airlines are members.

In the future, there may be additional mergers and acquisitions, and changes in airline alliances, including those that may be undertaken in response to the merger of Delta and Northwest or other developments in the airline industry. Any airline industry consolidation or changes in airline alliances could substantially alter the competitive landscape and result in changes in our corporate or business strategy. We regularly assess and explore the potential for consolidation in our industry and changes in airline alliances, our strategic position and ways to enhance our competitiveness, including the possibilities for our participation in merger activity. Consolidation involving other participants in our industry could result in the formation of one or more airlines with greater financial resources, more extensive networks, and/or lower cost structures than exist currently, which could have a material adverse effect on us. For similar reasons, changes in airline alliances could also adversely affect our competitive position.

We recently announced that we have entered into a joint business agreement and related marketing arrangements with British Airways and Iberia, which provide for commercial cooperation on flights between North America and most countries in Europe, pooling and sharing of certain revenues and costs, expanded codesharing, enhanced frequent flyer program reciprocity, and cooperation in other areas. Along with these carriers and certain other carriers, we have applied to the U.S. Department of Transportation for antitrust immunity for this planned cooperation. Implementation of this agreement and the related arrangements is subject to conditions, including various U.S. and foreign regulatory approvals, successful negotiation of certain detailed financial and commercial arrangements, and other approvals. Agencies from which such approvals must be obtained may impose requirements or limitations as a condition of granting any such approvals, such as requiring divestiture of routes, gates, slots or other assets. No assurances can be given as to any arrangements that may ultimately be implemented or any benefits that we may derive from such arrangements.

We compete with reorganized carriers, which results in competitive disadvantages for us.

We must compete with air carriers that have reorganized under the protection of Chapter 11 of the U.S. Bankruptcy Code in recent years, including United, Delta, Northwest and U.S. Airways. It is possible that other significant competitors may seek to reorganize in or out of Chapter 11.

Successful reorganizations by other carriers present us with competitors with significantly lower operating costs and stronger financial positions derived from renegotiated labor, supply, and financing contracts. These competitive pressures may limit our ability to adequately price our services, may require us to further reduce our operating costs, and could have a material adverse impact on us.

Fares are at low levels and our reduced pricing power adversely affects our ability to achieve adequate pricing, especially with respect to business travel.

While we have recently been able to implement some fare increases on certain domestic and international routes, our passenger yield is essentially the same as it was in 2000 despite cumulative inflation of approximately 25 percent since that time. We believe that this is due in large part to a corresponding decline in our pricing power. Our reduced pricing power is the product of several factors including: greater cost sensitivity on the part of travelers (particularly business travelers); pricing transparency resulting from the use of the Internet; greater competition from low-cost carriers and from carriers that have recently reorganized under the protection of Chapter 11; other carriers being well hedged against rising fuel costs and able to better absorb high jet fuel prices; and fare simplification efforts by certain carriers. We believe that our reduced pricing power could persist indefinitely.

Our corporate or business strategy may change.

In light of the rapid changes in the airline industry, we evaluate our assets on an ongoing basis with a view to maximizing their value to us and determining which are core to our operations. We also regularly evaluate our corporate and business strategies, and they are influenced by factors beyond our control, including changes in the competitive landscape we face. Our corporate and business strategies are, therefore, subject to change.

Beginning in late 2007 and continuing into 2008, we conducted a strategic value review involving, among other things, AMR Eagle, our regional airline, American Beacon Advisors, our investment advisory subsidiary and AAdvantage, our frequent flyer program. The purpose of the review was to determine whether there existed the potential for unlocking additional stockholder value with respect to one or more of these strategic assets through some type of separation transaction. As a result of this review, we announced in late 2007 that we planned to divest AMR Eagle; however, in mid-2008 we announced that, given the then-current industry environment, we had decided to place that planned divestiture on hold until industry conditions are more favorable and stable. Also pursuant to the review, we sold American Beacon Advisors to a third party in September 2008 (the Company maintained a minority equity stake).

In the future, we may consider and engage in discussions with third parties regarding the divestiture of AMR Eagle and other separation transactions, and we may decide to proceed with one or more such transactions. There can be no assurance that we will complete any separation transactions, that any announced plans or transactions will be consummated, or as to the impact of these transactions on stockholder value or on us.

Our business is subject to extensive government regulation, which can result in increases in our costs, disruptions to our operations, limits on our operating flexibility, reductions in the demand for air travel, and competitive disadvantages.

Airlines are subject to extensive domestic and international regulatory requirements. Many of these requirements result in significant costs. For example, the FAA from time to time issues directives and other regulations relating to the maintenance and operation of aircraft. Compliance with those requirements drives significant expenditures and has in the past, and may in the future, cause disruptions to our operations. In addition, the ability of U.S. carriers to operate international routes is subject to change because the applicable arrangements between the United States and foreign governments may be amended from time to time, or because appropriate slots or facilities are not made available.

Moreover, additional laws, regulations, taxes and airport rates and charges have been enacted from time to time that have significantly increased the costs of airline operations, reduced the demand for air travel or restricted the way we can conduct our business. For example, the Aviation and Transportation Security Act, which became law in 2001, mandated the federalization of certain airport security procedures and resulted in the imposition of additional security requirements on airlines. In addition, many aspects of our operations are subject to increasingly stringent environmental regulations, and concerns about climate change, in particular, may result in the imposition of additional regulation. For example, the EU has approved a proposal that will put a cap on carbon dioxide emissions for all flights into and out of the EU effective in 2012. Laws or regulations similar to those described above or other U.S. or foreign governmental actions in the future may adversely affect our business and financial results.

The results of our operations, demand for air travel, and the manner in which we conduct our business each may be affected by changes in law and future actions taken by governmental agencies, including:

- changes in law which affect the services that can be offered by airlines in particular markets and at particular airports;
- the granting and timing of certain governmental approvals (including foreign government approvals) needed for codesharing alliances and other arrangements with other airlines;
- restrictions on competitive practices (for example court orders, or agency regulations or orders, that would curtail an airline's ability to respond to a competitor);
- the adoption of regulations that impact customer service standards (for example new passenger security standards, passenger bill of rights);
- restrictions on airport operations, such as restrictions on the use of takeoff and landing slots at airports or the auction of slot rights currently or previously held by us; or
- the adoption of more restrictive locally imposed noise restrictions.

In addition, the air traffic control (ATC) system, which is operated by the FAA, is not successfully managing the growing demand for U.S. air travel. U.S. airlines carry about 740 million passengers a year and are forecasted to accommodate a billion passengers annually by 2015. Air-traffic controllers rely on outdated technologies that routinely overwhelm the system and compel airlines to fly inefficient, indirect routes. We support a common-sense approach to ATC modernization that would allocate cost to all ATC system users in proportion to the services they consume. The reauthorization by the U.S. Congress of legislation that funds the FAA, which includes proposals regarding upgrades to the ATC system, is pending, but it is uncertain when any such legislation will be enacted.

We could be adversely affected by conflicts overseas or terrorist attacks.

Actual or threatened U.S. military involvement in overseas operations has, on occasion, had an adverse impact on our business, financial position (including access to capital markets) and results of operations, and on the airline industry in general. The continuing conflicts in Iraq and Afghanistan, or other conflicts or events in the Middle East or elsewhere, may result in similar adverse impacts.

The Terrorist Attacks had a material adverse impact on us. The occurrence of another terrorist attack (whether domestic or international and whether against us or another entity) could again have a material adverse impact on us.

Our international operations could be adversely affected by numerous events, circumstances or government actions beyond our control.

Our current international activities and prospects could be adversely affected by factors such as reversals or delays in the opening of foreign markets, exchange controls, currency and political risks, environmental regulation, taxation and changes in international government regulation of our operations, including the inability to obtain or retain needed route authorities and/or slots.

For example, the "open skies" air services agreement between the United States and the EU which took effect in March 2008, provides airlines from the United States and EU member states open access to each other's markets, with freedom of pricing and unlimited rights to fly beyond the United States and any airport in the EU including London's Heathrow Airport. The agreement has resulted in American facing increased competition in these markets, including Heathrow, where we have lost market share.

We could be adversely affected by an outbreak of a disease that affects travel behavior.

In 2003, there was an outbreak of Severe Acute Respiratory Syndrome (SARS), which had an adverse impact primarily on our Asia operations. More recently, there have been concerns about a potential outbreak of avian flu. If there were another outbreak of a disease (such as SARS or avian flu) that affects travel behavior, it could have a material adverse impact on us.

Our labor costs are higher than those of our competitors.

Wages, salaries and benefits constitute a significant percentage of our total operating expenses. In 2008, they constituted approximately 26 percent of our total operating expenses. All of the major hub-and-spoke carriers with whom American competes have achieved significant labor cost savings through or outside of bankruptcy proceedings. We believe American's labor costs are higher than those of its primary competitors, and it is unclear how long this labor cost disadvantage may persist.

We could be adversely affected if we are unable to have satisfactory relations with any unionized or other employee work group.

Our operations could be adversely affected if we fail to have satisfactory relations with any labor union representing our employees. In addition, any significant dispute we have with, or any disruption by, an employee work group could adversely impact us. Moreover, one of the fundamental tenets of our strategic Turnaround Plan is increased union and employee involvement in our operations. To the extent that we are unable to have satisfactory relations with any unionized or other employee work group, our ability to execute our strategic plans could be adversely affected.

American is currently in mediated negotiations with each of its three major unions regarding amendments to their respective labor agreements. American Eagle is also in mediated negotiations with the TWU. The negotiations process in the airline industry typically is slow and sometimes contentious. The union that represents American's pilots has recently filed a number of grievances, lawsuits and complaints, most of which American believes are part of a corporate campaign related to the union's labor agreement negotiations with American. While American is vigorously defending these claims, unfavorable outcomes of one or more of them could require American to incur additional costs, change the way it conducts some parts of its business, or otherwise adversely affect us.

Our insurance costs have increased substantially and further increases in insurance costs or reductions in coverage could have an adverse impact on us.

We carry insurance for public liability, passenger liability, property damage and all-risk coverage for damage to our aircraft. As a result of the Terrorist Attacks, aviation insurers significantly reduced the amount of insurance coverage available to commercial air carriers for liability to persons other than employees or passengers for claims resulting from acts of terrorism, war or similar events (war-risk coverage). At the same time, these insurers significantly increased the premiums for aviation insurance in general.

The U.S. government has agreed to provide commercial war-risk insurance for U.S. based airlines through March 31, 2009, covering losses to employees, passengers, third parties and aircraft. Beyond that date, the Secretary of Transportation has the authority to provide commercial war-risk insurance until May 31, 2009. If the U.S. government does not extend the policy beyond March 31, 2009 (or beyond May 31, 2009 if the Secretary has exercised the authority to extend coverage to that date), or if the U.S. government at any time thereafter ceases to provide such insurance, or reduces the coverage provided by such insurance, we will attempt to purchase similar coverage with narrower scope from commercial insurers at an additional cost. To the extent this coverage is not available at commercially reasonable rates, we would be adversely affected.

While the price of commercial insurance had declined since the period immediately after the Terrorist Attacks, in the event commercial insurance carriers further reduce the amount of insurance coverage available to us, or significantly increase its cost, we would be adversely affected.

We may be unable to retain key management personnel.

Since the Terrorist Attacks, a number of our key management employees have elected to retire early or leave for more financially favorable opportunities at other companies, both within and outside of the airline industry. There can be no assurance that we will be able to retain our key management employees. Any inability to retain our key management employees, or attract and retain additional qualified management employees, could have a negative impact on us.

We could be adversely affected by a failure or disruption of our computer, communications or other technology systems.

We are heavily and increasingly dependent on technology to operate our business. The computer and communications systems on which we rely could be disrupted due to various events, some of which are beyond our control, including natural disasters, power failures, terrorist attacks, equipment failures, software failures and computer viruses and hackers. We have taken certain steps to help reduce the risk of some (but not all) of these potential disruptions. There can be no assurance, however, that the measures we have taken are adequate to prevent or remedy disruptions or failures of these systems. Any substantial or repeated failure of these systems could impact our operations and customer service, result in the loss of important data, loss of revenues, and increased costs, and generally harm our business. Moreover, a failure of certain of our vital systems could limit our ability to operate our flights for an extended period of time, which would have a material adverse impact on our operations and our business.

We are at risk of losses and adverse publicity which might result from an accident involving any of our aircraft.

If one of our aircraft were to be involved in an accident, we could be exposed to significant tort liability. The insurance we carry to cover damages arising from any future accidents may be inadequate. In the event that our insurance is not adequate, we may be forced to bear substantial losses from an accident. In addition, any accident involving an aircraft operated by us could adversely affect the public's perception of us.

ITEM 1B. UNRESOLVED STAFF COMMENTS

The Company had no unresolved Securities and Exchange Commission staff comments at December 31, 2008.

ITEM 2. PROPERTIES

Flight Equipment – Operating

Owned and leased aircraft operated by the Company at December 31, 2008 included:

Equipment Type	Average Seating Capacity	Owned	Capital Leased	Operating Leased	Total	Average Age (Years)
American Airlines Aircraft						
Airbus A300-600R	267	10	-	16	26	19
Boeing 737-800	148	62	-	15	77	9
Boeing 757-200	188	92	1	31	124	14
Boeing 767-200 Extended Range	167	3	11	1	15	22
Boeing 767-300 Extended Range	225	47	-	11	58	15
Boeing 777-200 Extended Range	247	47	-	-	47	8
McDonnell Douglas MD-80	140	108	64	107	279	19
Total		369	76	181	626	15
AMR Eagle Aircraft						
Bombardier CRJ-700	70	25	-	-	25	6
Embraer 135	37	33	-	-	33	9
Embraer 140	44	59	-	-	59	6
Embraer 145	50	110	-	-	110	6
Super ATR	64/66	-	-	39	39	14
Total		227	-	39	266	8

A very large majority of the Company's owned aircraft are encumbered by liens granted in connection with financing transactions entered into by the Company.

Of the operating aircraft listed above, one owned Airbus A300-600R aircraft was in temporary storage as of December 31, 2008.

In January 2009, the Company permanently retired seven McDonnell Douglas MD-80 aircraft and one Airbus A300 aircraft.

Flight Equipment – Non-Operating

Owned and leased aircraft not operated by the Company at December 31, 2008 included:

Equipment Type	Owned	Capital Leased	Operating Leased	Total
American Airlines Aircraft				
Airbus A300-600R	-	-	5	5
Fokker 100	-	-	4	4
McDonnell Douglas MD-80	18	14	6	38
Total	18	14	15	47
AMR Eagle Aircraft				
Embraer 135	6	-	-	6
Embraer 145	8	-	-	8
Saab 340B	46	-	-	46
Total	60	-	-	60

AMR Eagle has leased its eight owned Embraer 145 aircraft not operated by the Company to Trans States Airlines, Inc.

For information concerning the estimated useful lives and residual values for owned aircraft, lease terms for leased aircraft and amortization relating to aircraft under capital leases, see Notes 1 and 5 to the consolidated financial statements.

Flight Equipment – Leased

Lease expirations for the aircraft included in the table of capital and operating leased flight equipment operated by the Company as of December 31, 2008 are:

Equipment Type	2009	2010	2011	2012	2013	2014 and Thereafter
American Airlines Aircraft						
Airbus A300-600R	2	6	8	-	-	-
Boeing 737-800	-	-	-	-	8	7
Boeing 757-200	1	-	1	-	-	30
Boeing 767-200 Extended Range	1	1	2	2	6	-
Boeing 767-300 Extended Range	-	-	-	-	3	8
McDonnell Douglas MD-80	-	8	21	23	27	92
	4	15	32	25	44	137
AMR Eagle Aircraft						
Super ATR	-	-	-	1	12	26
	4	15	32	26	56	163

American leases all 39 Super ATR aircraft from a third party and in turn, subleases those aircraft to AMR Eagle for operation.

Substantially all of the Company's aircraft leases include an option to purchase the aircraft or to extend the lease term, or both, with the purchase price or renewal rental to be based essentially on the market value of the aircraft at the end of the term of the lease or at a predetermined fixed amount.

Ground Properties

The Company leases or has built as leasehold improvements on leased property: most of its airport and terminal facilities; its training facilities in Fort Worth, Texas; its principal overhaul and maintenance bases at Tulsa International Airport (Tulsa, Oklahoma), Kansas City International Airport (Kansas City, Missouri) and Alliance Airport (Fort Worth, Texas); its regional reservation offices; and local ticket and administration offices throughout the system. The Company owns its headquarters building in Fort Worth, Texas, on which a mortgage loan is payable. American has entered into agreements with the Tulsa Municipal Airport Trust; the Alliance Airport Authority, Fort Worth, Texas; the New York City Industrial Development Agency; and the Dallas/Fort Worth, Chicago O'Hare, Newark, San Juan, and Los Angeles airport authorities to provide funds for constructing, improving and modifying facilities and acquiring equipment which are or will be leased to the Company. The Company also uses public airports for its flight operations under lease or use arrangements with the municipalities or governmental agencies owning or controlling them and leases certain other ground equipment for use at its facilities.

For information concerning the estimated lives and residual values for owned ground properties, lease terms and amortization relating to ground properties under capital leases, and acquisitions of ground properties, see Notes 1 and 5 to the consolidated financial statements.

ITEM 3. LEGAL PROCEEDINGS

Between April 3, 2003 and June 5, 2003, three lawsuits were filed by travel agents, some of whom opted out of a prior class action (now dismissed) to pursue their claims individually against American, other airline defendants, and in one case, against certain airline defendants and Orbitz LLC. The cases, *Tam Travel et. al., v. Delta Air Lines et. al.*, in the United States District Court for the Northern District of California, San Francisco (51 individual agencies), *Paula Fausky d/b/a Timeless Travel v. American Airlines, et. al.*, in the United States District Court for the Northern District of Ohio, Eastern Division (29 agencies) and *Swope Travel et al. v. Orbitz et. al.* in the United States District Court for the Eastern District of Texas, Beaumont Division (71 agencies) were consolidated for pre-trial purposes in the United States District Court for the Northern District of Ohio, Eastern Division. Collectively, these lawsuits seek damages and injunctive relief alleging that the certain airline defendants and Orbitz LLC: (i) conspired to prevent travel agents from acting as effective competitors in the distribution of airline tickets to passengers in violation of Section 1 of the Sherman Act; (ii) conspired to monopolize the distribution of common carrier air travel between airports in the United States in violation of Section 2 of the Sherman Act; and that (iii) between 1995 and the present, the airline defendants conspired to reduce commissions paid to U.S.-based travel agents in violation of Section 1 of the Sherman Act. On September 23, 2005, the Fausky plaintiffs dismissed their claims with prejudice. On September 14, 2006, the court dismissed with prejudice 28 of the Swope plaintiffs. On October 29, 2007, the court dismissed all actions. The Tam plaintiffs have appealed the court's decision. The Swope plaintiffs have moved to have their case remanded to the Eastern District of Texas. American continues to vigorously defend these lawsuits. A final adverse court decision awarding substantial money damages or placing material restrictions on the Company's distribution practices would have a material adverse impact on the Company.

On July 12, 2004, a consolidated class action complaint that was subsequently amended on November 30, 2004, was filed against American and the Association of Professional Flight Attendants (APFA), the union which represents American's flight attendants (*Ann M. Marcoux, et al., v. American Airlines Inc., et al.* in the United States District Court for the Eastern District of New York). While a class has not yet been certified, the lawsuit seeks on behalf of all of American's flight attendants or various subclasses to set aside and to obtain damages allegedly resulting from the April 2003 Collective Bargaining Agreement referred to as the Restructuring Participation Agreement (RPA). The RPA was one of three labor agreements American successfully reached with its unions in order to avoid filing for bankruptcy in 2003. In a related case (*Sherry Cooper, et al. v. TWA Airlines, LLC, et al.*, also in the United States District Court for the Eastern District of New York), the court denied a preliminary injunction against implementation of the RPA on June 30, 2003. The Marcoux suit alleges various claims against the APFA and American relating to the RPA and the ratification vote on the RPA by individual APFA members, including: violation of the Labor Management Reporting and Disclosure Act (LMRDA) and the APFA's Constitution and By-laws, violation by the APFA of its duty of fair representation to its members, violation by American of provisions of the Railway Labor Act (RLA) through improper coercion of flight attendants into voting or changing their vote for ratification, and violations of the Racketeer Influenced and Corrupt Organizations Act of 1970 (RICO). On March 28, 2006, the district court dismissed all of various state law claims against American, all but one of the LMRDA claims against the APFA, and the claimed violations of RICO. On July 22, 2008, the district court granted summary judgment to American and APFA concerning the remaining claimed violations of the RLA and the duty of fair representation against American and the APFA (as well as one LMRDA claim and one claim against the APFA of a breach of its constitution). On August 20, 2008, a notice of appeal was filed on behalf of the purported class of flight attendants. Although the Company believes the case against it is without merit and both American and the APFA are vigorously defending the lawsuit, a final adverse court decision invalidating the RPA and awarding substantial money damages would have a material adverse impact on the Company.

On February 14, 2006, the Antitrust Division of the United States Department of Justice (the “DOJ”) served the Company with a grand jury subpoena as part of an ongoing investigation into possible criminal violations of the antitrust laws by certain domestic and foreign air cargo carriers. At this time, the Company does not believe it is a target of the DOJ investigation. The New Zealand Commerce Commission notified the Company on February 17, 2006 that it is also investigating whether the Company and certain other cargo carriers entered into agreements relating to fuel surcharges, security surcharges, war risk surcharges, and customs clearance surcharges. On February 22, 2006, the Company received a letter from the Swiss Competition Commission informing the Company that it too is investigating whether the Company and certain other cargo carriers entered into agreements relating to fuel surcharges, security surcharges, war risk surcharges, and customs clearance surcharges. On March 11, 2008, the Company received from the Swiss Competition Commission a request for information concerning, among other things, the scope and organization of the Company’s activities in Switzerland. On December 19, 2006 and June 12, 2007, the Company received requests for information from the European Commission seeking information regarding the Company's corporate structure, and revenue and pricing announcements for air cargo shipments to and from the European Union. On January 23, 2007, the Brazilian competition authorities, as part of an ongoing investigation, conducted an unannounced search of the Company’s cargo facilities in Sao Paulo, Brazil. On April 28, 2008, the Brazilian competition authorities preliminarily charged the Company with violating Brazilian competition laws. The authorities are investigating whether the Company and certain other foreign and domestic air carriers violated Brazilian competition laws by illegally conspiring to set fuel surcharges on cargo shipments. The Company is vigorously contesting the allegations and the preliminary findings of the Brazilian competition authorities. On June 27, 2007 and October 31, 2007, the Company received requests for information from the Australian Competition and Consumer Commission seeking information regarding fuel surcharges imposed by the Company on cargo shipments to and from Australia and regarding the structure of the Company's cargo operations. On September 1, 2008, the Company received a request from the Korea Fair Trade Commission seeking information regarding cargo rates and surcharges and the structure of the Company’s activities in Korea. On December 18, 2007, the European Commission issued a Statement of Objection (“SO”) against 26 airlines, including the Company. The SO alleges that these carriers participated in a conspiracy to set surcharges on cargo shipments in violation of EU law. The SO states that, in the event that the allegations in the SO are affirmed, the Commission will impose fines against the Company. The Company intends to vigorously contest the allegations and findings in the SO under EU laws, and it intends to cooperate fully with all other pending investigations. In the event that the SO is affirmed or other investigations uncover violations of the U.S. antitrust laws or the competition laws of some other jurisdiction, or if the Company were named and found liable in any litigation based on these allegations, such findings and related legal proceedings could have a material adverse impact on the Company.

Approximately 44 purported class action lawsuits have been filed in the U.S. against the Company and certain foreign and domestic air carriers alleging that the defendants violated U.S. antitrust laws by illegally conspiring to set prices and surcharges on cargo shipments. These cases, along with other purported class action lawsuits in which the Company was not named, were consolidated in the United States District Court for the Eastern District of New York as *In re Air Cargo Shipping Services Antitrust Litigation*, 06-MD-1775 on June 20, 2006. Plaintiffs are seeking trebled money damages and injunctive relief. The Company has not been named as a defendant in the consolidated complaint filed by the plaintiffs. However, the plaintiffs have not released any claims that they may have against the Company, and the Company may later be added as a defendant in the litigation. If the Company is sued on these claims, it will vigorously defend the suit, but any adverse judgment could have a material adverse impact on the Company. Also, on January 23, 2007, the Company was served with a purported class action complaint filed against the Company, American, and certain foreign and domestic air carriers in the Supreme Court of British Columbia in Canada (*McKay v. Ace Aviation Holdings, et al.*). The plaintiff alleges that the defendants violated Canadian competition laws by illegally conspiring to set prices and surcharges on cargo shipments. The complaint seeks compensatory and punitive damages under Canadian law. On June 22, 2007, the plaintiffs agreed to dismiss their claims against the Company. The dismissal is without prejudice and the Company could be brought back into the litigation at a future date. If litigation is recommenced against the Company in the Canadian courts, the Company will vigorously defend itself; however, any adverse judgment could have a material adverse impact on the Company.

On June 20, 2006, the DOJ served the Company with a grand jury subpoena as part of an ongoing investigation into possible criminal violations of the antitrust laws by certain domestic and foreign passenger carriers. At this time, the Company does not believe it is a target of the DOJ investigation. The Company intends to cooperate fully with this investigation. On September 4, 2007, the Attorney General of the State of Florida served the Company with a Civil Investigative Demand as part of its investigation of possible violations of federal and Florida antitrust laws regarding the pricing of air passenger transportation. In the event that this or other investigations uncover violations of the U.S. antitrust laws or the competition laws of some other jurisdiction, such findings and related legal proceedings could have a material adverse impact on the Company.

Approximately 52 purported class action lawsuits have been filed in the U.S. against the Company and certain foreign and domestic air carriers alleging that the defendants violated U.S. antitrust laws by illegally conspiring to set prices and surcharges for passenger transportation. On October 25, 2006, these cases, along with other purported class action lawsuits in which the Company was not named, were consolidated in the United States District Court for the Northern District of California as *In re International Air Transportation Surcharge Antitrust Litigation*, Civ. No. 06-1793 (the "Passenger MDL"). On July 9, 2007, the Company was named as a defendant in the Passenger MDL. On August 25, 2008, the plaintiffs dismissed their claims against the Company in this action. On March 13, 2008, and March 14, 2008, two additional purported class action complaints, *Turner v. American Airlines, et al.*, Civ. No. 08-1444 (N.D. Cal.), and *LaFlamme v. American Airlines, et al.*, Civ. No. 08-1079 (E.D.N.Y.), were filed against the Company, alleging that the Company violated U.S. antitrust laws by illegally conspiring to set prices and surcharges for passenger transportation in Japan and certain European countries, respectively. The Turner plaintiffs have failed to perfect service against the Company, and it is unclear whether they intend to pursue their claims. On February 17, 2009, the LaFlamme plaintiffs agreed to dismiss their claims against the Company without prejudice. In the event that the Turner plaintiffs pursue their claims or the LaFlamme plaintiffs re-file claims against the Company, the Company will vigorously defend these lawsuits, but any adverse judgment in these actions could have a material adverse impact on the Company.

On August 21, 2006, a patent infringement lawsuit was filed against American and American Beacon Advisors, Inc. (then a wholly-owned subsidiary of the Company) in the United States District Court for the Eastern District of Texas (*Ronald A. Katz Technology Licensing, L.P. v. American Airlines, Inc., et al.*). This case has been consolidated in the Central District of California for pre-trial purposes with numerous other cases brought by the plaintiff against other defendants. On December 1, 2008, the court dismissed with prejudice all claims against American Beacon. The plaintiff alleges that American infringes a number of the plaintiff's patents, each of which relates to automated telephone call processing systems. The plaintiff is seeking past and future royalties, injunctive relief, costs and attorneys' fees. Although the Company believes that the plaintiff's claims are without merit and is vigorously defending the lawsuit, a final adverse court decision awarding substantial money damages or placing material restrictions on existing automated telephone call system operations would have a material adverse impact on the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Company's security holders during the last quarter of its fiscal year ended December 31, 2008.

Executive Officers of the Registrant

The following information relates to the executive officers of AMR as of the filing of this Form 10-K.

Gerard J. Arpey Mr. Arpey was elected Chairman, President and Chief Executive Officer of AMR and American in May 2004. He was elected Chief Executive Officer of AMR and American in April 2003. He served as President and Chief Operating Officer of AMR and American from April 2002 to April 2003. He served as Executive Vice President – Operations of American from January 2000 to April 2002, Chief Financial Officer of AMR from 1995 through 2000 and Senior Vice President – Planning of American from 1992 to January 1995. Prior to that, he served in various management positions at American since 1982. Age 50.

Daniel P. Garton Mr. Garton was elected Executive Vice President – Marketing of American in September 2002. He is also an Executive Vice President of AMR. He served as Executive Vice President – Customer Services of American from January 2000 to September 2002 and Senior Vice President – Customer Services of American from 1998 to January 2000. Prior to that, he served as President of AMR Eagle from 1995 to 1998. Except for two years service as Senior Vice President and Chief Financial Officer of Continental between 1993 and 1995, he has been with the Company in various management positions since 1984. Age 51.

Thomas W. Horton Mr. Horton was elected Executive Vice President of Finance and Planning and Chief Financial Officer of AMR and American in March 2006 upon returning to American from AT&T Corp., a telecommunications company, where he had been Vice Chairman and Chief Financial Officer. Prior to leaving for AT&T Corp., Mr. Horton was Senior Vice President and Chief Financial Officer of AMR and American from January 2000 to 2002. From 1994 to January 2000 Mr. Horton served as a Vice President of American and has served in various management positions of American since 1985. Age 47.

Robert W. Reding Mr. Reding was elected Executive Vice President – Operations for American in September 2007. He is also an Executive Vice President of AMR. He served as Senior Vice President – Technical Operations for American from May 2003 to September 2007. He joined the Company in March 2000 and served as Chief Operations Officer of AMR Eagle through May 2003. Prior to joining the Company, Mr. Reding served as President and Chief Executive Officer of Reno Air from 1992 to 1998 and President and Chief Executive Officer of Canadian Regional

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Airlines from 1998 to March 2000. Age 59.

Gary F. Kennedy

Mr. Kennedy was elected Senior Vice President and General Counsel of AMR and American in January 2003. He is also the Company's Chief Compliance Officer. He served as Vice President – Corporate Real Estate of American from 1996 to January 2003. Prior to that, he served as an attorney and in various management positions at American since 1984. Age 53.

There are no family relationships among the executive officers of the Company named above.

There have been no events under any bankruptcy act, no criminal proceedings, and no judgments or injunctions material to the evaluation of the ability and integrity of any director or executive officer during the past five years.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's common stock is traded on the New York Stock Exchange (symbol AMR). The approximate number of record holders of the Company's common stock at February 11, 2009 was 15,802.

The range of closing market prices for AMR's common stock on the New York Stock Exchange was:

Quarter Ended	2008		2007	
	High	Low	High	Low
March 31	\$ 16.18	\$ 8.38	\$ 40.66	\$ 30.14
June 30	10.32	5.12	33.12	25.34
September 30	13.00	4.41	28.83	20.77
December 31	11.97	6.45	25.64	14.03

No cash dividends on common stock were declared for any period during 2008 or 2007, and the Company has no intention of paying dividends in the foreseeable future.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

(in millions, except per share amounts)

	2008 2,5	2007 4	2006 1	2005 1, 6	2004 1, 6
Total operating revenues	\$ 23,766	\$ 22,935	\$ 22,563	\$ 20,712	\$ 18,645
Operating income (loss)	(1,889)	965	1,060	(89)	(134)
Net income (loss)	(2,071)	504	231	(857)	(751)
Net income (loss) per share:					
Basic	(7.98)	2.06	1.13	(5.18)	(4.68)
Diluted	(7.98)	1.78	0.98	(5.18)	(4.68)
Total assets	25,175	28,571	29,145	29,495	28,773
Long-term debt, less current maturities	8,419	9,413	11,217	12,530	12,436
Obligations under capital leases, less current obligations	582	680	824	926	1,088
Obligation for pension and postretirement benefits	6,614	3,620	5,341	4,998	4,743
Stockholders' equity (deficit) 3	(2,935)	2,657	(606)	(1,430)	(537)

1 Includes the impact of adopting FSP AUG AIR-1 "Accounting for Planned Major Maintenance Activities".

2 Includes restructuring charges. In 2008, these restructuring charges consisted of \$1.2 billion primarily related to aircraft and employee charges due to announced capacity reductions (for further discussion of these items, see Note 2 to the consolidated financial statements).

3 Effective December 31, 2006, the Company adopted SFAS 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans". This adoption decreased Stockholders' equity by \$1.0 billion and increased the obligation for pension and other postretirement benefits by \$880 million. As a result of actuarial changes including the discount rate and the impact of legislation changing pilot retirement age to 65, the Company recorded a \$1.7 billion reduction in pension and retiree medical and other benefits and a corresponding increase in stockholders' equity in 2007. As a result of a significant decline in market value in 2008, the Company recorded a \$3.0 billion increase in pension and retiree medical and other benefits and a similar decrease in stockholders' equity in 2008. In 2008, the Company incurred \$103 million in expense due to a pension settlement (for further discussion, see Note 10 to the consolidated financial statements).

4 Includes the impact of the \$138 million gain on the sale of ARINC as described in Note 3 to the consolidated financial statements.

5 Includes the impact of the \$432 million gain on the sale of American Beacon Advisors as described in Note 14 to the consolidated financial statements.

6 Includes the impact of adopting Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment".

No cash dividends were declared on AMR's common shares during any of the periods above.

Information on the comparability of results is included in Item 7, "Management's Discussion and Analysis" and the notes to the consolidated financial statements.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Information

The discussions under Business, Risk Factors, Properties and Legal Proceedings, and the following discussions under “Management's Discussion and Analysis of Financial Condition and Results of Operations” and “Quantitative and Qualitative Disclosures about Market Risk” contain various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which represent the Company's expectations or beliefs concerning future events. When used in this document and in documents incorporated herein by reference, the words "expects," "plans," "anticipates," "indicates," "believes," "forecast," "guidance," "outlook," "may," "will," "should," "seeks," "targets" and similar expressions are intended to identify forward-looking statements. Forward-looking statements include, without limitation, the Company's expectations concerning operations and financial conditions, including changes in capacity, revenues, and costs, future financing plans and needs, overall economic and industry conditions, plans and objectives for future operations, regulatory approvals and actions, including the Company's application for antitrust immunity with other oneworld alliance members, and the impact on the Company of its results of operations in recent years and the sufficiency of its financial resources to absorb that impact. Other forward-looking statements include statements which do not relate solely to historical facts, such as, without limitation, statements which discuss the possible future effects of current known trends or uncertainties, or which indicate that the future effects of known trends or uncertainties cannot be predicted, guaranteed or assured. All forward-looking statements in this report are based upon information available to the Company on the date of this report. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise. Guidance given in this report regarding capacity, fuel consumption, fuel prices, fuel hedging, and unit costs, and statements regarding expectations of regulatory approval of the Company's application for antitrust immunity with other oneworld members are forward-looking statements. The Risk Factors listed in Item 1A, in addition to other possible factors not listed, could cause the Company's actual results to differ materially from historical results and from those expressed in forward-looking statements.

Overview

After earning a modest profit in 2006 and 2007, in 2008 the Company was severely challenged by the difficulties of very high fuel prices (oil prices reached a record price of \$147 per barrel in July 2008) and a rapidly deteriorating economy in the second half of the year. In reaction to these challenges, throughout 2008 the Company implemented several key actions designed to help it manage through these near-term challenges while continuing to position the Company for long-term success.

In response to soaring jet fuel prices, in May 2008 the Company announced capacity cuts to take effect during the last four months of 2008 as it attempted to create a more sustainable supply-demand balance in the market. At the same time, in an effort to generate more revenue, the Company introduced a range of new service charges, such as a service charge for a first checked bag, that were expected to generate incremental annual revenue of several hundred million dollars.

The Company also continued to focus on strengthening its balance sheet and executing on its fleet renewal and replacement plan, as further described below, and implemented a number of initiatives to improve its dependability and on-time performance. In addition, the Company continues to look for ways to strengthen its global network, and in August 2008 the Company, along with four fellow members of the oneworld global alliance, filed an application with the U.S. Department of Transportation for global antitrust immunity.

The Company recorded a net loss of \$2.1 billion in 2008 compared to net earnings of \$504 million in 2007. The Company's 2008 results include an impairment charge of \$1.1 billion to write the McDonnell Douglas MD-80 and Embraer RJ-135 fleets and certain related long-lived assets down to their estimated fair values, a \$71 million accrual for employee severance costs, and a \$33 million expense related to the grounding of leased Airbus A300 aircraft prior to lease expiration (all in connection with announced capacity reductions). Early pilot retirements resulted in \$917 million in total lump sum payments to 517 pilot retirees (approximately \$1.8 million per retiree consisting of payments from Company-funded defined benefit and defined contribution plan trusts) for which the Company incurred a \$103 million settlement charge. The capacity reduction and impairment charges are described in Note 2 and the pension settlement charge is described in Note 10 to the consolidated financial statements. In addition, the Company's 2008 results include the sale of American Beacon for a net gain of \$432 million described in Note 14 to the consolidated financial statements.

The Company's 2008 net operating loss also reflects a dramatic year-over-year increase in fuel prices from an average of \$2.13 per gallon in 2007 to an average of \$3.03 per gallon in 2008. Fuel expense has become the Company's largest single expense category and the price increase resulted in \$2.7 billion in incremental year-over-year fuel expense in 2008 (based on the year-over-year increase in the average price per gallon multiplied by gallons consumed, inclusive of the impact of fuel hedging). Although fuel prices have abated somewhat from the record prices recorded in July 2008, fuel prices are still extremely volatile by historical standards.

The significant rise in fuel price was partially offset by higher unit revenues (passenger revenue per available seat mile). Mainline passenger unit revenues increased 7.3 percent for the year due to an 8.6 percent increase in passenger yield (passenger revenue per passenger mile) partially offset by an approximately one point load factor decrease compared to 2007. Although passenger yield showed year-over-year improvement, passenger yield remains essentially flat with the levels set in 2000 despite cumulative inflation of approximately 25 percent over the same time frame. The Company believes this is the result of a fragmented industry with numerous competitors and excess capacity, increased low cost carrier competition, increased price competition due to the internet, and other factors. Since deregulation in 1978, the Company's passenger yield has increased 85 percent, while the Consumer Price Index (CPI), as measured by the US Department of Labor Bureau of Labor Statistics, has grown by 226 percent. The Company believes increases in passenger yield will continue to significantly lag CPI indefinitely.

The Company's efforts to drive continuous revenue and cost improvement under the Turnaround Plan are ongoing. This plan was established in 2003 and is the Company's strategic framework for achieving sustained profitability and has four tenets: (i) lower costs to compete, (ii) fly smart – give customers what they value, (iii) pull together, win together and (iv) build a financial foundation.

Although the Company's cost per available seat mile increased from 11.54 cents in 2002 to 14.57 cents in 2008, the fuel component of unit cost increased from 1.43 cents to 5.12 cents over the same period. All other components of unit cost decreased from 10.11 cents in 2002 to 9.45 cents in 2008, or 6.5 percent. However, the Company's 2008 unit costs excluding fuel were greater than in 2007, and are expected to increase in 2009 compared to 2008. Factors driving the 2009 increase include increased defined benefit pension expenses and retiree medical and other expenses (due to the stock market decline), and cost pressures associated with the Company's previously announced capacity reductions and dependability initiatives.

The Company has also implemented numerous efforts to find additional revenue sources and increase existing ones. In addition to improving core passenger and cargo revenues, these efforts have contributed to an increase in Other revenue from \$1.4 billion (as reclassified by change in presentation for certain passenger revenues – see Note 1 to the consolidated financial statements) in 2002 to \$2.2 billion in 2008. Examples of new revenue sources over this period include checked baggage service charges, flight change service charges, onboard food sales, single day passes for AAdmirals Club admission, reservations ticketing service charges, First Class upgrades on day of departure, and

numerous other initiatives.

Lastly, under the Turnaround Plan, the Company has worked to reduce debt, continued to make contributions to employee pension plans and improve financial flexibility for the future. Historically, airline industry earnings are highly cyclical with frequent and extended periods of significant losses, and an airline's liquidity and borrowing capacity can be critical to sustaining operations. The Company has reduced its balance sheet debt (Short-Term Debt plus Long-Term Debt) from \$13.2 billion at the end of 2002 to \$11.0 billion at year end 2008. Over the same period, Cash and Short-term investments (including restricted cash and short-term investments) have increased by \$900 million to \$3.6 billion. However, the Company's Cash and Short-term investments (including restricted cash and short-term investments) decreased in 2008 due primarily to debt repayments, increased fuel expense and fuel hedge collateral as discussed in the "Liquidity and Capital Resources" section of Item 7.

Although the ratio of the fair value of plan assets to the accumulated benefit obligations of the employee pension programs has decreased from 75 percent to 70 percent during this same period due to a significant decrease in the value of assets from the recent decline in the stock market, the Company has contributed \$2.1 billion to the employee pension plans from 2002 through the end of 2008.

The Company made several announcements during 2008. In August 2008, American entered into a joint business agreement and related marketing arrangements with UK carrier, British Airways, and Spanish carrier, Iberia, providing for commercial cooperation by the carriers on flights between North America (consisting of the United States, Canada and Mexico) and Europe (consisting of the European Union, Switzerland and Norway). The agreement contemplates the pooling and sharing of certain revenues and costs on transatlantic flights, expanded codesharing on each other's flights, enhanced frequent flyer program reciprocity, and cooperation in the areas of planning, marketing and certain operations. These agreements were signed in connection with an application to the U.S. Department of Transportation by the carriers for antitrust immunity to permit global cooperation. The application also included the Finnish carrier, Finnair, and the Jordanian carrier, Royal Jordanian. If granted (which cannot be assured), antitrust immunity will permit the five carriers, all of whom are members of the oneworld airline alliance, to deepen cooperation on a bilateral and multilateral basis.

Implementation of the joint business agreement and related arrangements is subject to conditions, including various U.S. and foreign regulatory approvals, successful negotiation of certain detailed financial and commercial arrangements, and other approvals. Agencies from which regulatory approvals must be obtained may impose requirements or limitations as a condition of granting such approvals, such as requiring divestiture of routes, gates, slots or other assets.

The Company also continued its fleet renewal strategy as it entered into various amendments to its 737-800 purchase agreement with the Boeing Company. Giving effect to the amendments and considering the impact of delays caused by Boeing's recent machinist strike, the Company is now committed to take delivery of a total of 29 737-800 aircraft in 2009, 39 737-800 aircraft in 2010 and eight 737-800 aircraft in 2011. In addition to these aircraft, the Company has firm commitments for eleven 737-800 aircraft and seven Boeing 777 aircraft scheduled to be delivered in 2013 - 2016.

In addition, the Company entered into a new purchase agreement with Boeing for the acquisition of 42 Boeing 787-9 aircraft. The Boeing 787-9 purchase agreement contains certain contingency provisions including provisions which allow American to cancel the contract under certain circumstances, which are described in the Liquidity and Capital Resources subsection of Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations". The agreement also includes purchase rights to acquire up to 58 additional Boeing 787 aircraft.

In 2007, the Company had announced the intended divestiture of AMR Eagle, its whol