10-Q 1 ar3q03e.txt AMR CORPORATION FORM 10-Q 1 UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549 FORM 10-Q [X]Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended September 30, 2003. [ ]Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Transition Period From to . Commission file number 1-8400. AMR Corporation (Exact name of registrant as specified in its charter) Delaware 75-1825172 (State or other (I.R.S. Employer jurisdiction Identification No.) of incorporation or organization) 4333 Amon Carter Blvd. Fort Worth, Texas 76155 (Address of principal (Zip Code) executive offices) Registrant's telephone number, (817) 963-1234 including area code Not Applicable (Former name, former address and former fiscal year , if changed since last report) 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 X No . Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes X No . Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common Stock, $1 par value- 159,347,481 shares as of October 21, 2003. 2 INDEX AMR CORPORATION PART I: FINANCIAL INFORMATION Item 1. Financial Statements Consolidated Statements of Operations -- Three and nine months ended September 30, 2003 and 2002 Condensed Consolidated Balance Sheets -- September 30, 2003 and December 31, 2002 Condensed Consolidated Statements of Cash Flows -- Nine months ended September 30, 2003 and 2002 Notes to Condensed Consolidated Financial Statements -- September 30, 2003 Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Item 3. Quantitative and Qualitative Disclosures about Market Risk Item 4. Controls and Procedures PART II: OTHER INFORMATION Item 1. Legal Proceedings Item 2. Changes in Securities and Use of Proceeds Item 4. Submission of Matters to a Vote of Security Holders Item 6. Exhibits and Reports on Form 8-K SIGNATURE 3 PART I: FINANCIAL INFORMATION Item 1. Financial Statements AMR CORPORATION CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited) (In millions, except per share amounts) Three Months Ended Nine Months Ended September 30, September 30, 2003 2002 2003 2002 ~~Revenues Passenger - American Airlines $3,805 $ 3,754 $10,743 $10,985 - Regional Affiliates 399 366 1,112 1,064 Cargo 135 139 409 415 Other revenues 266 265 785 731 Total operating revenues 4,605 4,524 13,049 13,195 Expenses Wages, salaries and benefits 1,693 2,121 5,660 6,327 Aircraft fuel 701 697 2,077 1,880 Depreciation and amortization 345 340 1,027 1,019 Other rentals and landing fees 302 313 891 908 Commissions, booking fees and credit card expense 281 268 796 912 Maintenance, materials and repairs 223 289 641 840 Aircraft rentals 165 210 532 650 Food service 160 189 460 539 Other operating expenses 594 710 1,863 2,063 Special charges (credits) (24) 718 77 718 U. S. government grant - (10) (358) (10) Total operating expenses 4,440 5,845 13,666 15,846 Operating Income (Loss) 165 (1,321) (617) (2,651) Other Income (Expense) Interest income 20 18 41 54 Interest expense (198) (171) (580) (501) Interest capitalized 17 23 54 67 Miscellaneous - net (3) 2 (15) (1) (164) (128) (500) (381) Income (Loss) Before Income Taxes and Cumulative Effect of Accounting Change 1 (1,449) (1,117) (3,032) Income tax benefit - (525) - (1,038) Income (Loss) Before Cumulative Effect of Accounting Change 1 (924) (1,117) (1,994) Cumulative Effect of Accounting Change, Net of Tax Benefit - - - (988) Net Earnings (Loss) $ 1 $ (924) $(1,117) $(2,982) Basic and Diluted Earnings (Loss) Per Share Before Cumulative Effect of Accounting Change $ 0.00 $ (5.93) $ (7.08) $(12.83) Cumulative Effect of Accounting Change - - - (6.36) Net Earnings (Loss) $ 0.00 $ (5.93) $ (7.08) $(19.19)~~

~~The accompanying notes are an integral part of these financial statements. -1- 4 AMR CORPORATION CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited) (In millions) September 30, December 31, 2003 2002 Assets Current Assets Cash $ 158 $ 104 Short-term investments 2,566 1,846 Restricted cash and short-term investments 540 783 Receivables, net 885 858 Income tax receivable 51 623 Inventories, net 527 627 Other current assets 349 96 Total current assets 5,076 4,937 Equipment and Property Flight equipment, net 15,594 15,041 Other equipment and property, net 2,407 2,450 Purchase deposits for flight equipment 362 767 18,363 18,258 Equipment and Property Under Capital Leases Flight equipment, net 1,314 1,346 Other equipment and property, net 88 90 1,402 1,436 Route acquisition costs and airport operating and gate lease rights, net 1,263 1,292 Other assets 3,839 4,344 $ 29,943 $30,267 Liabilities and Stockholders' Equity (Deficit) Current Liabilities Accounts payable $ 1,075 $ 1,198 Accrued liabilities 2,273 2,560 Air traffic liability 3,046 2,614 Current maturities of long-term debt 538 713 Current obligations under capital leases 200 155 Total current liabilities 7,132 7,240 Long-term debt, less current maturities 11,933 10,888 Obligations under capital leases, less current obligations 1,234 1,422 Postretirement benefits 2,763 2,654 Other liabilities, deferred gains and deferred credits 7,402 7,106 Stockholders' Equity (Deficit) Preferred stock - - Common stock 182 182 Additional paid-in capital 2,612 2,795 Treasury stock (1,414) (1,621) Accumulated other comprehensive loss (1,461) (1,076) Retained earnings (deficit) (440) 677 (521) 957 $ 29,943 $30,267~~

~~The accompanying notes are an integral part of these financial statements. -2- 5 AMR CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (In millions) Nine Months Ended September 30, 2003 2002 Net Cash Provided (Used) by Operating Activities $ 809 $ (513) Cash Flow from Investing Activities: Capital expenditures, including purchase deposits for flight equipment (491) (1,537) Net (increase) decrease in short-term investments (720) 395 Net decrease (increase) in restricted cash and short-term investments 243 (181) Proceeds from sale of equipment and property 50 193 Proceeds from sale of interest in Worldspan 180 - Compensation for costs associated with strengthening flight deck doors 23 - Lease prepayments through bond redemption, net of bond reserve fund (235) - Other 22 (91) Net cash used by investing activities (928) (1,221) Cash Flow from Financing Activities: Payments on long-term debt and capital lease obligations (596) (564) Redemption of bonds (86) - Proceeds from: Issuance of long-term debt 855 2,306 Exercise of stock options - 3 Net cash provided by financing activities 173 1,745 Net increase in cash 54 11 Cash at beginning of period 104 102 Cash at end of period $ 158 $ 113 Activities Not Affecting Cash Flight equipment acquired through seller financing $ 649 $ - Capital lease obligations incurred $ 131 $ - Reduction to capital lease obligations due to lease modifications $ (127) $ -~~

~~The accompanying notes are an integral part of these financial statements. -3- 6 AMR CORPORATION NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) 1.The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, these financial statements contain all adjustments, consisting of normal recurring accruals unless otherwise disclosed, necessary to present fairly the financial position, results of operations and cash flows for the periods indicated. Results of operations for the periods presented herein are not necessarily indicative of results of operations for the entire year. The condensed~~

consolidated financial statements include the accounts of AMR Corporation (AMR or the Company) and its wholly owned subsidiaries, including its principal subsidiary American Airlines, Inc. (American). For further information, refer to the consolidated financial statements and footnotes thereto included in the AMR Annual Report on Form 10-K for the year ended December 31, 2002 (2002 Form 10-K). Certain amounts have been reclassified to conform with the current 2003 presentation. The Company's Regional Affiliates include two wholly owned subsidiaries, American Eagle Airlines, Inc. (American Eagle) and Executive Airlines, Inc. (Executive) (collectively, AMR Eagle), and two independent carriers, Trans States Airlines, Inc. (Trans States) and Chautauqua Airlines, Inc. (Chautauqua). For the nine months ended September 30, 2002, American had a capacity purchase agreement with Chautauqua and revenue prorate agreements with AMR Eagle and Trans States. Effective January 1, 2003, American converted the AMR Eagle carriers from a revenue prorate agreement to a capacity purchase agreement. This change does not have any impact on the Company's consolidated financial statements, but has changed the results of the Company's wholly owned subsidiaries on an individual basis. For the nine months ended September 30, 2003, American also had capacity purchase agreements with Trans States and Chautauqua. 2.In February 2003, American asked its employees for approximately $1.8 billion in annual savings through a combination of changes in wages, benefits and work rules. The requested $1.8 billion in savings was divided by work group as follows: $660 million - pilots; $620 million - Transportation Workers Union represented employees; $340 million - flight attendants; $100 million - management and support staff; and $80 million - agents and representatives. References in this document to American's three major unions include: the Allied Pilots Association (the APA); the Transportation Workers Union (the TWU); and the Association of Professional Flight Attendants (the APFA). In April 2003, American reached agreements with its three major unions (the Labor Agreements) and implemented various changes in the pay plans and benefits for non-unionized personnel, including officers and other management (the Management Reductions). The anticipated cost savings arising from the Labor Agreements and the Management Reductions met the targeted annual savings of $1.8 billion. Of the approximately $1.8 billion in estimated annual savings, approximately $1.0 billion relate to wage and benefit reductions and $0.8 billion relate to changes in work rules, which have resulted in job reductions and will continue to result in additional job reductions through June 2004. As a result of work rule related job reductions, the Company incurred $60 million in severance charges in 2003 (see Note 5 for additional information). Wage reductions became effective on April 1, 2003 for officers and May 1, 2003 for all other employees. Reductions related to benefits and work rule changes will continue to be phased in over time. In connection with the changes in wages, benefits and work rules, the Company granted approximately 38 million shares of AMR stock to American's employees (excluding officers) in the form of stock options which will vest over a three year period with an exercise price of $5 per share (see Note 12 for additional information). -4- 7 AMR CORPORATION NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (Unaudited) In addition, the Company and American have reached concessionary agreements with certain vendors, lessors, lenders (see Notes 9 and 13 for additional information) and suppliers (collectively, the Vendors, and the agreements, the Vendor Agreements). Generally, under the terms of these Vendor Agreements the Company or American will receive the benefit of lower rates and charges for certain goods and services, and more favorable rent and financing terms with respect to certain of its aircraft. In return for these concessions, the Company issued approximately 2.5 million shares of AMR's common stock to Vendors. The Company's revenue environment improved during the second and third quarters of 2003 as reflected in improved unit revenues (revenue per available seat mile) in May through September 2003. Even with this improvement, however, the Company's revenues are still depressed relative to historical levels. Moreover, the Company's recent losses have adversely affected its financial condition. The Company therefore needs to see a combination of continued improvement in the revenue environment, cost reductions and productivity improvements before it can return to sustained profitability at acceptable levels. To maintain sufficient liquidity as the Company implements its plan to return to sustained profitability, the Company will need continued access to additional funding, most likely through a combination of financings and asset sales. In addition, the Company's ability to return to sustained profitability will depend on a number of risk factors, many of which are largely beyond the Company's control. Among other things, the following factors have had and/or may have a negative impact on the Company's business and financial results: the uncertain financial and business environment the Company faces; the struggling economy; high fuel prices and the availability of fuel; the residual effects of the war in Iraq; conflicts in the Middle East; historically low fare levels and the general competitive environment; the ability of the Company to implement its restructuring program and the effect of the program on operational performance and service levels; uncertainties with respect to the Company's international operations; changes in its business strategy; actions by U.S. or foreign government agencies; the possible occurrence of additional terrorist attacks; another outbreak of SARS; the inability of the Company to satisfy existing liquidity requirements or other covenants in certain of its credit arrangements (see Note 13 for additional information); and the availability of future financing. In particular, if the revenue environment deteriorates beyond normal seasonal trends, or the Company is unable to access the capital markets or sell assets, it may be unable to fund its obligations and sustain its operations. -5- 8 AMR CORPORATION NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (Unaudited) 3.The Company accounts for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations. Under APB 25, no compensation expense is recognized for stock option grants if the exercise price of the Company's stock option grants is at or above the fair market value of the underlying stock on the date of grant. The Company has adopted the pro forma disclosure features of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), as amended by Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure". The following table illustrates the effect on net earnings (loss) and earnings (loss) per share amounts if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation (in millions, except per share amounts): Three Months Ended Nine Months Ended September 30, September 30, 2003 2002 2003 2002 Net earnings (loss), as reported $ 1 $(924) $(1,117) $(2,982) Add: Stock-based employee compensation expense included in reported net loss, net of tax 7 (2) 11 1 Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of tax (26) (5) (60) (24) Pro forma net loss $ (18) $(931) $(1,166) $(3,005) Earnings (loss) per share: Basic and diluted - as reported $ 0.00 $(5.93) $ (7.08) $(19.19) Basic and diluted - pro forma $(0.11) $(5.98) $ (7.39) $(19.34) 4.In April 2003, the President signed the Emergency Wartime Supplemental Appropriations Act, 2003 (the Act), which includes aviation-related assistance provisions. The Act authorized payment of (i) $100 million to compensate air carriers for the direct costs associated with the strengthening of flight deck doors and locks and (ii) $2.3 billion to reimburse air carriers for increased security costs, which was distributed in proportion to the amounts each carrier had paid or collected in passenger security and air carrier security fees to the Transportation Security Administration as of the Act's enactment (the Security Fee Reimbursement). In addition, the Act suspended the collection of the passenger security fee from June 1, 2003 until

~~September 30, 2003 and authorized the extension of war-risk insurance through August 31, 2004 (and permits further extensions until December 31, 2004). The Act also limits the total cash compensation for the two most highly compensated named executive officers in 2002 for certain airlines, including the Company, during the period April 1, 2003 to April 1, 2004 to the amount of salary received by such officers, or their successors, in 2002. A violation of this executive compensation provision would require the carrier to repay the government for the amount of the Security Fee Reimbursement. The Company does not anticipate any difficulties in complying with this limitation on executive compensation and believes the likelihood of repaying the government for the amount of the Security Fee Reimbursement is remote. The Company's Security Fee Reimbursement was $358 million (net of payments to independent regional affiliates) and was recorded as a reduction to operating expenses during the second quarter of 2003. The Company's compensation for the direct costs associated with strengthening flight deck doors was $23 million and was recorded as a basis reduction to capitalized flight equipment in the third quarter of 2003. -6- 9 AMR CORPORATION NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (Unaudited) 5.During the last two years, as a result of the events of September 11, 2001 and the Company's continuing restructuring activities, the Company has recorded a number of special charges. Special charges (credits) for the three and nine months ended September 30, 2003 and 2002 included the following (in millions): Three Months Ended Nine Months Ended September 30, September 30, 2003 2002 2003 2002 Employee charges $ 4 $ 57 $ 76 $ 57 Facility exit costs 1 3 50 3 Aircraft charges 39 658 19 658 Other (68) - (68) - Total Special charges (credits) $(24) $ 718 $ 77 $ 718~~

~~Employee Charges 2003 In the first quarter of 2003, as a part of its 2002 restructuring initiatives discussed below, the Company incurred $25 million in severance charges which are included in Special charges in the consolidated statement of operations. The Company estimates that it will have reduced approximately 8,000 jobs by June 2004 in conjunction with the Management Reductions and the Labor Agreements discussed in Note 2. This reduction in workforce, which is in addition to the 2002 work force reductions discussed below, will affect all work groups (pilots, flight attendants, mechanics, fleet service clerks, agents, management and support staff personnel), and has been and will continue to be accomplished through various measures, including part-time work schedules, furloughs in accordance with collective bargaining agreements, and permanent layoffs. As a result of this reduction in workforce, during the second quarter of 2003, the Company recorded an employee charge of approximately $60 million, primarily for severance related costs, which is included in Special charges. Cash outlays for the $60 million employee charge will be incurred over a period of up to twelve months. The Company does not expect to incur additional severance charges related to this reduction in workforce. Also in conjunction with the Labor Agreements and the Management Reductions, during the second quarter of 2003, the Company reduced its vacation accrual by $85 million to reflect new lower pay scales and maximum vacation caps, which was recorded as a reduction to Special charges. In connection with the Labor Agreements, the Company agreed to forgive a $26 million receivable from one its three major unions. During the second quarter of 2003, the Company recorded a $26 million special charge to write-off the receivable. In addition, as discussed in Note 6, in the second quarter of 2003, the Company recognized a curtailment loss of $46 million related to its defined benefit pension plans. The Company incurred $4 million in miscellaneous other employee related special charges during the nine months ended September 30, 2003. -7- 10 AMR CORPORATION NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (Unaudited) 2002 In August 2002, the Company announced that it would reduce an estimated 7,000 jobs by March 2003 to realign its workforce with planned capacity reductions, fleet simplification, and hub restructurings. This reduction in workforce, which affected all work groups, was accomplished through various measures, including limited voluntary programs, leaves of absence, part-time work schedules, furloughs in accordance with collective bargaining agreements, and permanent layoffs. As a result of this reduction in workforce, during the third quarter of 2002, the Company recorded an employee charge of approximately $57 million primarily related to voluntary programs in accordance with collective bargaining agreements with its pilot and flight attendant work groups. Facility Exit Costs In the second quarter of 2003, the Company determined that certain excess airport space would not be used by the Company in the future. As a result, the Company recorded a $45 million charge, primarily related to the fair value of future lease commitments and the write-off of certain prepaid rental amounts. Cash outlays related to the accrual of future lease commitments will occur over the remaining lease term, which extends through 2017. The Company incurred $5 million in miscellaneous other facility exit costs during the nine months ended September 30, 2003. Aircraft Charges 2003 In the second quarter of 2003, the Company determined that certain accruals for future lease return and other costs, initially recorded as a component of Special charges in the consolidated statement of operations, were no longer necessary. In the second quarter of 2003, the Company recorded a $20 million reduction to Special charges to finalize these accruals. In addition, in the third quarter of 2003, the Company retired five operating leased Boeing 757 aircraft. As a result, in the third quarter of 2003, the Company recorded a charge of approximately $39 million related to future lease commitments and lease return condition costs on these aircraft. Cash outlays will occur over the remaining lease terms which extend through 2004. 2002 In the third quarter of 2002, in connection with a series of initiatives to reduce costs, reduce capacity, simplify the Company's aircraft fleet and enhance productivity, and related revisions to the Company's fleet plan to accelerate the retirement of its owned Fokker 100, Saab 340, and ATR 42 aircraft, the Company determined that these aircraft were impaired under Statement of Accounting Standards Board No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". As a result of this determination, the Company recorded an asset impairment charge of approximately $330 million reflecting the diminution in the fair value of these aircraft and related rotables; and a charge of approximately $40 million reflecting the write-down of certain related inventory to realizable value and the accrual of certain related costs. Furthermore, the Company accelerated the retirement of nine operating leased Boeing 767-300 aircraft to the fourth quarter of 2002, and its four operating leased Fokker 100 aircraft to 2004. As a result, during the third quarter of 2002, the Company recorded a charge of approximately $189 million related primarily to future lease commitments on these aircraft past the dates they will be removed from service, lease return costs, the write-down of excess Boeing 767-300 related inventory and rotables to realizable value, and the accrual of certain other costs. Cash outlays will occur over the remaining lease terms, which extend through 2014. -8- 11 AMR CORPORATION NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (Unaudited) In addition, in the third quarter of 2002, as a result of revisions to its fleet plan, the Company recorded a charge of approximately $99 million related primarily to contract cancellation costs and other costs related to discontinued aircraft modifications. Other As part of the Vendor Agreements discussed in Note 2, American sold 33 Fokker 100 aircraft (with a minimal net book value) in the third quarter of 2003. American also issued a $23 million non-interest- bearing note, payable in installments and maturing in December 2010, and entered into short-term leases on these aircraft. Furthermore, the Company issued shares of AMR common stock as discussed in Note 2. In exchange, approximately $130 million of debt related to certain of the Fokker 100 aircraft was restructured. However, the agreement contains provisions that would require American to repay additional amounts of the original debt if certain events occur prior~~

to December 31, 2005, including: (i) an event of default (which generally occurs only if a payment default occurs), (ii) an event of loss with respect to the related aircraft, (iii) rejection by the Company of the lease under the provisions of Chapter 11 of the U.S. Bankruptcy Code or (iv) the Company's filing for bankruptcy under Chapter 7 of the U.S. Bankruptcy Code. As a result of this transaction, including the sale of the 33 Fokker 100 aircraft, and the termination of the Company's interest rate swap agreements related to the debt that has been restructured, the Company recognized a gain of approximately $68 million in the third quarter of 2003. If the conditions described above do not occur, the Company expects to recognize an additional gain of approximately $37 million in December 2005. On July 16, 2003, the Company announced that it would reduce the size of its St. Louis hub, effective November 1, 2003. As a result of this action, the Company expects to record additional charges in the fourth quarter of 2003, as the reductions occur, primarily employee severance and benefits charges and facility exit costs. Furthermore, the Company expects to incur additional aircraft charges in the fourth quarter of 2003 related to the retirement of additional operating leased Boeing 757 aircraft. Summary The following table summarizes the components of these charges and the remaining accruals for future lease payments, aircraft lease return and other costs, facilities closure costs and employee severance and benefit costs (in millions): Aircraft Facility Employee Charges Exit Costs Charges Other Total Remaining accrual at December 31, 2002 $ 209 $ 17 $ 44 $ - $ 270 Special charges 39 50 76 (68) 97 Adjustments (20) - - - (20) Non-cash charges - (15) 22 68 75 Payments (50) (4) (109) - (163) Remaining accrual at September 30, 2003 $ 178 $ 48 $ 33 $ - $ 259

-9- 12 AMR CORPORATION NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (Unaudited) 6.In the second quarter of 2003, as a result of the Labor Agreements and Management Reductions discussed in Note 2, the Company remeasured its defined benefit pension plans. The significant actuarial assumptions used for the remeasurement were the same as those used as of December 31, 2002, except for the discount rate and salary scale, which were lowered to 6.50 percent, and 2.78 percent through 2008 and 3.78 thereafter, respectively. In addition, assumptions with respect to interest rates used to discount lump sum benefit payments available under certain plans were updated. In conjunction with the remeasurement, the Company recorded an increase in its minimum pension liability, primarily due to changes in discount rates, which resulted in an additional charge to stockholders' equity as a component of other comprehensive loss of $334 million. Furthermore, as a result of workforce reductions related to the Labor Agreements and Management Reductions, the Company recognized a curtailment loss of $46 million related to its defined benefit pension plans, in accordance with Statement of Financial Accounting Standards No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" (SFAS 88), which is included in Special charges in the consolidated statement of operations. The following table provides a statement of funded status as of April 22, 2003 and December 31, 2002 for the Company's defined benefit pension plans (in millions): April 22, December 31, 2003 2002 Funded status Accumulated benefit obligation (ABO) $ 7,800 $ 7,344 Projected benefit obligation (PBO) 8,345 8,757 Fair value of assets 5,369 5,323 Funded status (2,976) (3,434) Unrecognized loss 2,185 2,709 Unrecognized prior service cost 184 330 Unrecognized transition asset (4) (4) Net amount recognized $ (611) $ (399)

7.The Company has restricted cash and short-term investments related to projected workers' compensation obligations and various other obligations. As of September 30, 2003, projected workers' compensation obligations were secured by restricted cash and short- term investments of $398 million and various other obligations were secured by restricted cash and short-term investments of $142 million. In the first quarter of 2003, the Company redeemed $339 million of tax-exempt bonds that were backed by standby letters of credit secured by restricted cash and short-term investments resulting in a reduction in restricted cash and short-term investments. Of the $339 million of tax-exempt bonds that were redeemed, $253 million were accounted for as operating leases. Payments to redeem these tax-exempt special facility revenue bonds are generally considered prepaid facility rentals and reduce future operating lease commitments. The remaining $86 million of tax- exempt bonds that were redeemed were accounted for as debt and had original maturities in 2014 through 2024. As of September 30, 2003 the Company had approximately $241 million in fuel prepayments and credit card holdback deposits classified as Other current assets and Other assets in the condensed consolidated balance sheet. In June 2003, the Company sold its interest in Worldspan, a computer reservations company, for $180 million in cash and a $39 million promissory note, resulting in a gain of $17 million which is included in Other income (loss) in the consolidated statement of operations. -10- 13 AMR CORPORATION NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (Unaudited) 8.As of September 30, 2003, the Company had commitments to acquire the following aircraft: six Embraer regional jets and five Bombardier CRJ-700s in 2003; an aggregate of 74 Embraer regional jets and six Bombardier CRJ-700s in 2004 through 2006; and an aggregate of 47 Boeing 737-800s and nine Boeing 777-200ERs in 2006 through 2010. Future payments for all aircraft, including the estimated amounts for price escalation, will approximate $217 million during the remainder of 2003, $755 million in 2004, $699 million in 2005 and an aggregate of approximately $2.7 billion in 2006 through 2010. The Company has pre-arranged financing or backstop financing for all of its aircraft deliveries through June 2005. Boeing Capital provided backstop financing for all Boeing aircraft deliveries in 2003. In return, American granted Boeing a security interest in certain advance payments previously made and in certain rights under the aircraft purchase agreement between American and Boeing. As discussed in the notes to the consolidated financial statements included in the Company's 2002 Form 10-K, Miami-Dade County is currently investigating and remediating various environmental conditions at the Miami International Airport (MIA) and funding the remediation costs through landing fees and various cost recovery methods. American and AMR Eagle have been named as potentially responsible parties (PRPs) for the contamination at MIA. During the second quarter of 2001, the County filed a lawsuit against 17 defendants, including American, in an attempt to recover its past and future cleanup costs (Miami-Dade County, Florida v. Advance Cargo Services, Inc., et al. in the Florida Circuit Court). In addition to the 17 defendants named in the lawsuit, 243 other agencies and companies were also named as PRPs and contributors to the contamination. American's and AMR Eagle's portion of the cleanup costs cannot be reasonably estimated due to various factors, including the unknown extent of the remedial actions that may be required, the proportion of the cost that will ultimately be recovered from the responsible parties, and uncertainties regarding the environmental agencies that will ultimately supervise the remedial activities and the nature of that supervision. In addition, the Company is subject to environmental issues at various other airport and non-airport locations for which it has accrued $85 million at September 30, 2003. Management believes, after considering a number of factors, that the ultimate disposition of these environmental issues is not expected to materially affect the Company's consolidated financial position, results of operations or cash flows. Amounts recorded for environmental issues are based on the Company's current assessments of the ultimate outcome and, accordingly, could increase or decrease as these assessments change. 9.As discussed in Note 2, the Company reached concessionary agreements with certain lessors. The Vendor Agreements with these lessors affected the payments, lease term, and other conditions of certain leases. As a result of these changes to the payment and lease terms, 30 leases which were previously accounted for as operating leases were converted to capital leases, and one lease which was previously accounted for as a capital lease was converted to an operating lease. The remaining leases did not change from their original classification. The Company recorded the new capital leases at the fair value of the respective assets being leased. These changes did not have a significant effect on the Company's condensed consolidated balance sheet. In addition, certain of the Vendor Agreements provide that the Company's obligations under the related lease revert to the original terms if certain events occur prior to December 31, 2005, including: (i) an event of default under the related lease (which generally occurs only if a payment default occurs), (ii) an event of loss with respect to the related aircraft, (iii) rejection by the Company of the lease under the provisions of Chapter 11 of the U.S. Bankruptcy Code or (iv) the Company's filing for bankruptcy under Chapter 7 of the U.S. Bankruptcy Code. If any one of these events were to occur, the Company would be responsible for approximately $17 million in additional operating lease payments and $6 million in additional payments related to capital leases as of September 30, 2003. This amount will increase to approximately $119 million in operating lease payments and $111 million in payments related to capital leases prior to the expiration of the provision on December 31, 2005. Such amounts are being treated as contingent rentals and will only be recognized if they become due. -11- 14 AMR CORPORATION NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (Unaudited) The future minimum lease payments required under capital leases, together with the present value of such payments, and future minimum lease payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of September 30, 2003 were as follows (these amounts reflect concessions as a result of the Vendor Agreements and exclude contingent rentals): Capital Operating Year Ending December 31, Leases Leases 2003 (as of September 30, 2003) $ 45 $ 466 2004 321 1,086 2005 252 1,029 2006 252 963 2007 187 941 2008 and subsequent 1,329 9,272 2,386 $13,757 (1) Less amount representing interest 952 Obligations under capital leases $1,434

(1) As of September 30, 2003, included in Accrued liabilities and Other liabilities and deferred credits on the accompanying condensed consolidated balance sheets is approximately $1.4 billion relating to rent expense recorded in advance of future operating lease payments. The aircraft leases can generally be renewed at rates based on fair market value at the end of the lease term for one to five years. Some aircraft leases have purchase options at or near the end of the lease term at fair market value, but generally not to exceed a stated percentage of the defined lessor's cost of the aircraft or at a predetermined fixed amount. 10.Accumulated depreciation of owned equipment and property at September 30, 2003 and December 31, 2002 was $9.0 billion and $8.4 billion, respectively. Accumulated amortization of equipment and property under capital leases at September 30, 2003 and December 31, 2002 was $1.1 billion and $974 million, respectively. 11.The Company has experienced significant cumulative losses and as a result generated net operating losses available to offset future taxes payable. As a result of the cumulative operating losses, a valuation allowance was established against the full amount of the Company's net deferred tax asset as of December 31, 2002. The Company provides a valuation allowance for deferred tax assets when it is more likely than not that some portion or all of its deferred tax assets will not be realized. During 2003, the Company continued to record a valuation allowance against its net deferred tax assets, which results in no tax benefit being recorded for the pretax losses and the charge to Accumulated other comprehensive loss resulting from the minimum pension liability adjustment discussed in Note 6. The Company's deferred tax asset valuation allowance increased $533 million in 2003, to $903 million as of September 30, 2003. -12- 15 AMR CORPORATION NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (Unaudited) 12.In March 2003, the Board of Directors of AMR approved the issuance of additional shares of AMR common stock to employees and Vendors in connection with ongoing negotiations concerning concessions. The maximum number of shares authorized for issuance was 30 percent of the number of shares of the Company's common stock outstanding on March 24, 2003 (156,359,955) or approximately 46.9 million shares. From the foregoing authorization, the Company issued approximately 2.5 million shares to Vendors, from treasury stock, at an average price of $4.81 on the date of grant resulting in a re-allocation from Treasury stock to Additional paid-in capital of $142 million. Also in March 2003, the AMR Board of Directors adopted the 2003 Employee Stock Incentive Plan (2003 Plan) to provide equity awards to employees in connection with wage, benefit and work rule concessions. Under the 2003 Plan, all American employees are eligible to receive stock awards which may include stock options, restricted stock and deferred stock. In April 2003, the Company reached final agreements with the unions representing American employees (the Labor Agreements, see Note 2). In connection with the changes in wages, benefits and work rules, the Labor Agreements provide for the issuance of up to 37.9 million shares of AMR stock in the form of stock options. Approximately 37.9 million stock options were granted to employees (excluding officers) at an exercise price of $5.00 per share, which is equal to the closing price of AMR's common stock (NYSE) on April 17, 2003. These stock options will vest over a three-year period and will expire on April 17, 2013. These options were granted to members of the APA, the TWU, the APFA, agents, other non-management personnel and certain management employees (excluding officers). 13.During the nine-month period ended September 30, 2003, American and AMR Eagle borrowed approximately $852 million under various debt agreements related to the purchase of aircraft, including certain seller financed agreements. These debt agreements are secured by the related aircraft and have effective interest rates which are fixed or variable based on London Interbank Offered Rate (LIBOR) plus a spread and mature over various periods of time through 2019. As of September 30, 2003, the effective interest rate on these agreements ranged up to 9.12 percent. In addition, in July 2003, American issued $255 million of enhanced equipment trust certificates, secured by aircraft, which bear interest at 3.86 percent and are repayable in semi-annual installments beginning in 2004, with a final maturity in 2010. These obligations are insured by a third party. In September 2003, the Company issued $300 million principal amount of its 4.25 percent senior convertible notes due 2023 in a private placement. Each note is convertible into AMR common stock at a conversion rate of 57.61 shares per $1,000 principal amount of notes (which represents an equivalent conversion price of $17.36 per share), subject to adjustment in certain circumstances. These notes are guaranteed by American. The notes are convertible under certain circumstances, including if (i) the closing sale price of the Company's common stock reaches a certain level for a specified period of time, (ii) the trading price of the notes as a percentage of the closing sale price of the Company's common stock falls below a certain level for a specified period of time, (iii) the Company calls the notes for redemption, or (iv) certain corporate transactions occur. Holders of the notes may require the Company to repurchase all or any portion of the notes on September 23, 2008, 2013 and 2018 at a purchase price equal to the principal amount of the notes being purchased plus accrued and unpaid interest to the date of purchase. The Company may pay the purchase price in cash, common stock or a combination of cash and common stock. After September 23, 2008, the Company may redeem all or any portion of the notes for cash at a price equal to the principal amount of the notes being redeemed plus accrued and unpaid interest as of the redemption date. -13- 16 AMR CORPORATION NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (Unaudited) Also in September 2003, American transferred its two headquarters buildings located in Fort Worth, Texas to AA Real Estate Holding L.P., a wholly owned consolidated subsidiary of American. AA Real Estate Holding L.P. leased the buildings back to

American pursuant to a triple-net lease, and used the buildings and the lease as security for a loan consisting of four notes, in the aggregate principal amount of $100.6 million, which is reflected as debt in the condensed consolidated balance sheet of the Company. Each note corresponds to a separate class of AA/Ft. Worth HQ Finance Trust Lease Revenue Commercial Mortgage-Backed Pass-Through Certificates, Series 2003 (the Certificates) issued by the AA/Ft. Worth HQ Finance Trust, which is not a subsidiary of American, in a private placement pursuant to Rule 144A under the Securities Act of 1933. The Certificates and corresponding notes have an average effective interest rate of 7.2 percent and a final maturity in 2010. American has a fully drawn $834 million credit facility that expires December 15, 2005. On March 31, 2003, American and certain lenders in such facility entered into a waiver and amendment that (i) waived, until May 15, 2003, the requirement that American pledge additional collateral to the extent the value of the existing collateral was insufficient under the terms of the facility, (ii) waived American's liquidity covenant for the quarter ended March 31, 2003, (iii) modified the financial covenants applicable to subsequent periods, and (iv) increased the applicable margin for advances under the facility. On May 15, 2003, American pledged an additional 30 (non-Section 1110 eligible) aircraft having an aggregate net book value as of April 30, 2003 of approximately $450 million. Pursuant to the modified financial covenants, American is required to maintain at least $1.0 billion of liquidity, consisting of unencumbered cash and short-term investments, for the second quarter 2003 and beyond. While the Company was in compliance with the covenant at September 30, 2003, if the Company is adversely affected by the risk factors discussed in Note 2, it is uncertain whether the Company will be able to satisfy this liquidity requirement through the expiration of the facility at the end of 2005. Any failure to satisfy this requirement, if not waived, would result in a default under this facility and could trigger defaults under other debt arrangements. In addition, as part of the modification of financial covenants, the required ratio of EBITDAR to fixed charges under the facility was reduced until the measurement period ending December 31, 2004, and the next test of such cash flow coverage ratio was postponed until March 31, 2004. The effective interest rate on the facility as of September 30, 2003 is 4.68 percent and will be reset on March 17, 2004. At American's option, interest on the facility can be calculated on one of several different bases. In most instances, American would anticipate choosing a floating rate based upon LIBOR. As of September 30, 2003, AMR has issued guarantees covering approximately $935 million of American's tax-exempt bond debt and American has issued guarantees covering approximately $936 million of AMR's unsecured debt, including the 4.25 percent senior convertible notes discussed above. In addition, as of September 30, 2003, AMR and American have issued guarantees covering approximately $503 million of AMR Eagle's secured debt, and AMR has issued guarantees covering an additional $1.7 billion of AMR Eagle's secured debt. 14.Financial Accounting Standards Board Interpretation No. 46, "onsolidation of Variable Interest Entities"(Interpretation 46), requires the primary beneficiary of a variable interest entity (VIE) to include the assets, liabilities, and results of the activities of the VIE in its consolidated financial statements, as well as disclosure of information about the assets and liabilities, and the nature, purpose and activities of consolidated variable interest entities. In addition, Interpretation 46 requires disclosure of information about the nature, purpose and activities of unconsolidated VIEs in which the Company holds a significant variable interest. The provisions of Interpretation 46 were effective immediately for any interests in VIEs acquired after January 31, 2003. In October 2003, the Financial Standards Accounting Board deferred the effective date of Interpretation 46 to the fourth quarter of 2003 for variable interests acquired before February 1, 2003. -14- 17 AMR CORPORATION NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (Unaudited) The Company has completed its preliminary evaluation of certain of its interests in VIEs, including (i) special facility revenue bonds, (ii) certain aircraft operating leases with fixed price purchase options, (iii) American's capacity purchase agreements with its Regional Affiliates, (iv) certain fuel consortia arrangements, and (v) a hedge fund investment. The Company has determined that it holds a significant variable interest in, but is not the primary beneficiary of, certain entities established by municipalities for the purpose of issuing special facility revenue bonds and certain trusts that are the lessor under certain of its aircraft operating leases (discussed below). Furthermore, the Company has determined that it is neither the primary beneficiary of, nor holds a significant variable interest in, any entities related to the items listed in (iii) through (v) above. As a result, Interpretation 46 is expected to have no impact on the Company's statement of operations or consolidated balance sheet. Special facility revenue bonds have been issued by certain municipalities, or entities established by the municipalities for the purpose of issuing the special facility revenue bonds, primarily to purchase equipment and improve airport facilities that are leased by American and accounted for as operating leases. Approximately $2.1 billion of these bonds, with total future payments of approximately $5.2 billion as of September 30, 2003, are guaranteed by American, AMR, or both. These guarantees are not collateralized and can only be invoked in the event American defaults on the lease obligation. The leases do not include residual value guarantees or fixed price purchase options. Of these special facility revenue bonds, $1.9 billion, with total future payments of approximately $4.7 billion, were issued by entities established by municipalities for the purpose of issuing the bonds. Although municipalities are not considered VIEs under Interpretation 46, the Company believes that entities established by municipalities for the purpose of issuing bonds do qualify as VIEs. American has 88 operating leases where the lessor is a variable interest entity - a trust - and the lease contains a fixed price purchase option which allows American to purchase the aircraft at a predetermined price on a specified date. However, American does not guarantee the residual value of the aircraft. As of September 30, 2003, future lease payments required under these leases totaled $3.2 billion. Financial Accounting Standards Board Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (Interpretation 45), requires disclosures in interim and annual financial statements about obligations under certain guarantees issued by the Company. Furthermore, it requires recognition at the beginning of a guarantee of a liability for the fair value of the obligation undertaken in issuing the guarantee, with limited exceptions including: 1) a parent's guarantee of a subsidiary's debt to a third party, and 2) a subsidiary's guarantee of the debt owed to a third party by either its parent or another subsidiary of that parent. The disclosures required by Interpretation 45 have been included in Notes 6, 7 and 8 to the consolidated financial statements in the 2002 Form 10-K. The initial recognition and initial measurement provisions are only applicable on a prospective basis for guarantees issued or modified after December 31, 2002. This interpretation has had no impact on the Company's consolidated statement of operations or condensed consolidated balance sheets. 15.Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 142 requires the Company to test goodwill and indefinite-lived intangible assets (for AMR, route acquisition costs) for impairment rather than amortize them. In 2002, the Company completed an impairment analysis for route acquisition costs in accordance with SFAS 142. The analysis did not result in an impairment charge. In addition, the Company completed an impairment analysis related to its $1.4 billion of goodwill and determined the Company's entire goodwill balance was impaired. In arriving at this conclusion, the Company's net book value was determined to be in excess of the Company's fair value at January 1, 2002, using AMR as the reporting unit for purposes of the fair value determination. The Company determined its fair value as of January 1, 2002 using various valuation methods, ultimately utilizing market capitalization as the primary indicator of fair value. As a result, the Company recorded a one-time, non-cash charge, effective January 1, 2002, of $988 million ($6.36 per share, net of a tax benefit of $363 million) to write-off all of AMR's goodwill. This charge is nonoperational in nature and is reflected as a cumulative effect of accounting change in the consolidated statements of operations. -15- 18 AMR CORPORATION NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (Unaudited) 16.The Company includes changes in minimum pension liabilities, changes in the fair value of certain derivative financial instruments that qualify for hedge accounting and unrealized gains and losses on available-for-sale securities in comprehensive loss. For the three months ended September 30, 2003 and 2002, comprehensive loss was $(22) million and $(897) million, respectively. In addition, for the nine months ended September 30, 2003 and 2002, comprehensive loss was $(1,502) million and $(2,881) million, respectively. The difference between net loss and comprehensive loss is due primarily to the adjustment to the Company's minimum pension liability, as discussed in Note 6, and the accounting for the Company's derivative financial instruments under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended (SFAS 133). American enters into jet fuel, heating oil and crude swap and option contracts to dampen the volatility in jet fuel prices. Beginning in March 2003, the Company revised its hedging strategy and, in June 2003, terminated substantially all of its contracts with maturities beyond March 2004. During the second quarter of 2003, the termination of these contracts resulted in the collection of approximately $41 million in settlement of the contracts. The gain on these contracts will continue to be deferred in Accumulated other comprehensive loss until the time the original underlying jet fuel hedged is used. Commencing in October 2003, the Company began to enter into new fuel hedging contracts with maturities beyond March 2004 for a portion of its future fuel requirements. At September 30, 2003, American had fuel hedging agreements with broker-dealers on approximately 466 million gallons of fuel products. The fair value of the Company's fuel hedging agreements at September 30, 2003, representing the amount the Company would receive to terminate the agreements, totaled $62 million, compared to $212 million at December 31, 2002, and is included in Other current assets. -16- 19 AMR CORPORATION NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (Unaudited) 17.The following table sets forth the computations of basic and diluted earnings (loss) per share before cumulative effect of accounting change (in millions, except per share data): Three Months Ended Nine Months Ended September 30, September 30, 2003 2002 2003 2002 Numerator: Net income (loss) before cumulative effect of accounting change - numerator for basic and diluted earnings (loss) per share $ 1 $(924) $(1,117) $(1,994) Denominator: Denominator for basic earnings (loss) per share before cumulative effect of accounting change - weighted-average shares 159 156 158 155 Effect of dilutive securities: Employee options and shares 45 - - - Assumed treasury shares purchased (23) - - - Dilutive potential common shares 22 - - - Denominator for diluted earnings (loss) per share before cumulative effect of accounting change - adjusted weighted- average shares 181 156 158 155 Basic and diluted earnings (loss) per share before cumulative effect of accounting change $ .00 $(5.93) $(7.08) $(12.83)

For the nine months ended September 30, 2003 approximately ten million potential dilutive shares were not added to the denominator, because inclusion of such shares would be antidilutive, as compared to approximately two million and five million shares, respectively, for the three and nine months ended September 30, 2002. In addition, for the three and nine months ended September 30, 2003, approximately 17 million shares issuable upon conversion of the Company's 4.25 percent convertible notes discussed in Note 13 were not added to the denominator because the inclusion of such shares would be antidilutive. -17- 20 Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations RESULTS OF OPERATIONS For the Three Months Ended September 30, 2003 and 2002 Summary AMR Corporation's (AMR or the Company) net earnings during the third quarter of 2003 were $1 million, or $0.00 per share, as compared to a net loss of $924 million, or $5.93 per share for the same period in 2002. AMR's operating earnings of $165 million increased $1.5 billion compared to the same period in 2002. The Company's third quarter 2003 results include net special credits of $24 million. Comparatively, the Company's third quarter 2002 results include $718 million in special charges related to the initiatives announced in August 2002 to reduce its costs, reduce capacity, simplify its aircraft fleet and enhance productivity. See Note 5 to the condensed consolidated financial statements for additional information. AMR's principal subsidiary is American Airlines, Inc. (American). The Company's third quarter 2003 revenues increased slightly year-over- year while capacity decreased, resulting in some unit revenue (passenger revenue per available seat mile) improvement. Overall, the Company's revenues increased approximately $81 million, or 1.8 percent, to $4.6 billion in the third quarter of 2003 from the same period last year. However, even with recent improvements, the Company's revenues are still depressed relative to historical levels. American's passenger revenues increased by 1.4 percent, or $51 million, in the third quarter of 2003 as compared to the same period in 2002. American's third quarter domestic passenger revenue per available seat mile (RASM) increased 11.6 percent, to 8.69 cents, on a capacity decrease of 8.9 percent, to 30.0 billion available seat miles (ASMs). International RASM increased to 9.19 cents, or 0.4 percent, on a capacity increase of 0.4 percent. The increase in international RASM was due to a 0.9 percent increase in Pacific and Latin American RASM, offset by a 0.2 percent decrease in European RASM. The increase in international capacity was driven by a 2.5 percent increase in European ASMs, offset by a 7.4 percent and 0.2 percent reduction in Pacific and Latin American ASMs, respectively. The Company's Regional Affiliates include two wholly owned subsidiaries, American Eagle Airlines, Inc. (American Eagle) and Executive Airlines, Inc. (Executive) (collectively, AMR Eagle), and two independent carriers, Trans States Airlines, Inc. (Trans States) and Chautauqua Airlines, Inc. (Chautauqua). In 2002, American had a capacity purchase agreement with Chautauqua, and revenue prorate agreements with AMR Eagle and Trans States. In 2003, American has capacity purchase agreements with all three carriers. Regional Affiliates' traffic increased 24.4 percent while capacity increased 20.5 percent, to approximately 2.2 billion ASMs. The Company's operating expenses decreased 24.0 percent, or $1.4 billion. Wages, salaries and benefits decreased 20.2 percent, or $428 million, primarily due to the Labor Agreements and Management Reductions discussed in Note 2 to the condensed consolidated financial statements. Maintenance, materials and repairs decreased 22.8 percent, or $66 million, due primarily to a decrease in airframe and engine volumes at the Company's maintenance bases resulting from a variety of factors, including the retirement of aircraft, the timing of sending engines to repair vendors and a decrease in the number of flights. The Company expects maintenance, materials and repairs costs to increase as aircraft utilization increases and the benefit from retiring aircraft subsides. Aircraft rentals decreased $45 million, or 21.4 percent, due primarily to concessionary agreements with certain lessors and the removal of leased aircraft from service in prior periods. Food service decreased 15.3 percent, or $29 million, due primarily to a decrease in the number of departures and passengers boarded and simplification of catering services. Other operating expenses decreased 16.3 percent, or $116 million, due to decreases in data processing expenses, travel and incidental costs, insurance costs, contract maintenance work that American performs for other airlines, advertising and promotion costs and security costs. Special charges (credits) for the third quarter of 2003 include (i) a $68 million gain resulting from a transaction involving 33 of the Company's Fokker 100 aircraft and related debt and (ii) $39 million related to

~~aircraft charges. Comparatively, Special charges for the third quarter of 2002 included approximately (i) $658 million related to aircraft charges and (ii) $57 million in employee charges. See Note 5 to the condensed consolidated financial statements for additional information regarding Special charges (credits). U.S. government grant includes a $10 million benefit recognized for the reimbursement from the U.S. government under the Air Transportation Safety and System Stabilization Act in 2002. -18- 21 Other income (expense), historically a net expense, increased $36 million due to the following: Interest expense increased $27 million, or 15.8 percent, resulting primarily from the increase in the Company's long-term debt. The Company has experienced significant cumulative losses and as a result generated net operating losses available to offset future taxes payable. As a result of the cumulative operating losses, a valuation allowance was established against the full amount of the Company's net deferred tax asset as of December 31, 2002. The Company provides a valuation allowance for deferred tax assets when it is more likely than not that some portion or all of its deferred tax assets will not be realized. During 2003, the Company continued to record a valuation allowance against its net deferred tax assets, which results in no tax benefit being recorded for the pretax losses or tax provision being recorded for pretax earnings. The Company's deferred tax asset valuation allowance remained at $903 million as of September 30, 2003. OPERATING STATISTICS Three Months Ended September 30, 2003 2002 American Airlines, Inc. Mainline Jet Operations Revenue passenger miles (millions) 32,718 33,080 Available seat miles (millions) 43,021 45,920 Cargo ton miles (millions) 485 498 Passenger load factor 76.0% 72.0% Passenger revenue yield per passenger mile cents) 11.63 11.35 Passenger revenue per available seat mile (cents) 8.84 8.18 Cargo revenue yield per ton mile (cents) 27.68 27.58 Operating expenses per available seat mile, excluding Regional Affiliates (cents) (*) 9.43 11.70 Fuel consumption (gallons, in millions) 772 839 Fuel price per gallon (cents) 85.0 78.0 Operating aircraft at period-end 799 826 Regional Affiliates Revenue passenger miles (millions) 1,463 1,176 Available seat miles (millions) 2,190 1,817 Passenger load factor 66.8% 64.7%~~

~~(*) The Company believes that excluding costs related to Regional Affiliates provides a measure which is more comparable to American's historical operating expenses per ASM. Following is a reconciliation of total operating expenses to operating expenses excluding Regional Affiliates (in millions, except as noted): Three Months Ended September 30, 2003 2002 American Airlines, Inc. Total operating expenses (GAAP) $4,500 $5,409 Less:Operating expenses incurred related to Regional Affiliates 441 33 Operating expenses excluding expenses incurred related to Regional Affiliates $4,059 $5,376 American mainline jet operations available seat miles 43,021 45,920 Operating expenses per available seat mile, excluding Regional Affiliates (cents) 9.43 11.70 Note 1:Certain amounts have been reclassified to conform with the 2003 presentation. Note 2:American Airlines, Inc. 2003 operating expenses include expenses incurred related to capacity purchase agreements with Regional Affiliates - American Eagle, Executive, Trans States and Chautauqua, whereas 2002 operating expenses include expenses incurred related to a capacity purchase agreement with Regional Affiliate - Chautauqua. -19- 22 Operating aircraft at September 30, 2003, included: American Airlines Aircraft AMR Eagle Aircraft Airbus A300-600R 34 ATR 42 15 Boeing 737-800 77 Bombardier CRJ-700 14 Boeing 757-200 146 Embraer 135 39 Boeing 767-200 9 Embraer 140 59 Boeing 767-200 Extended Range 20 Embraer 145 46 Boeing 767-300 Extended Range 58 Super ATR 42 Boeing 777-200 Extended Range 45 Saab 340B 26 Fokker 100 48 Saab 340B Plus 25 McDonnell Douglas MD-80 362 Total 266 Total 799~~

~~The average aircraft age for American's aircraft is 11.2 years and AMR Eagle's aircraft is 6.1 years. Of the operating aircraft listed above, one Airbus A300-600R, eight Boeing 767-200s, five Boeing 767-200 ERs and 25 McDonnell Douglas MD- 80 aircraft were in temporary storage as of September 30, 2003. In addition, the following owned and leased aircraft were not operated by the Company as of September 30, 2003: five operating leased Boeing 757-200s, three operating leased McDonnell Douglas DC-9s, three operating leased McDonnell Douglas MD-80s, 18 owned Fokker 100s, ten owned Embraer 145s and 38 capital leased and five owned Saab 340Bs. In 2003, AMR Eagle agreed to sell 19 ATR 42 aircraft to Federal Express, Inc., with deliveries beginning in June 2003 and ending in December 2004 and American agreed to sell 14 Fokker 100 aircraft to a buyer, with deliveries beginning in September 2003 and ending in August 2004. As of September 30, 2003, four ATR 42 and two Fokker 100 aircraft have been delivered. For the Nine Months Ended September 30, 2003 and 2002 Summary The Company's net loss for the nine months ended September 30, 2003 was $1.1 billion, or $7.08 per share, as compared to a net loss of $3.0 billion, or $19.19 per share for the same period in 2002. The Company's 2003 results include (i) $358 million in security cost reimbursements received under the Emergency Wartime Supplemental Appropriations Act, 2003 (the Act) (see Note 4 to the condensed consolidated financial statements for additional information) and $77 million in special charges. The Company's 2002 results include (i) a one-time, non-cash charge to record the cumulative effect of a change in accounting, effective January 1, 2002, of $988 million, or $6.36 per share, to write-off all of AMR's goodwill upon the adoption of Statement of Financial Accounting Standards Board No. 142 "Goodwill and Other Intangible Assets" (see Note 15 to the condensed consolidated financial statements) and (ii) $718 million in special charges related to the initiatives announced in August 2002 to reduce its costs, reduce capacity, simplify its aircraft fleet and enhance productivity. See Note 5 to the condensed consolidated financial statements for additional information. AMR's operating loss of $617 million decreased $2.0 billion compared to the same period in 2002. -20- 23 The Company's 2003 revenues decreased year-over-year, but at a slower rate than its capacity. The Company's revenues through April continued to be negatively impacted by the economic slowdown, the war in Iraq and the outbreak of SARS. These trends however, began to reverse in May and continued to show improvement through September, and while capacity decreased year-over-year, the Company showed some unit revenue improvement. Overall, the Company's revenues decreased approximately $146 million, or 1.1 percent, to $13.0 billion in 2003 from the same period in 2002. American's passenger revenues decreased by 2.2 percent, or $242 million, in 2003 from the same period in 2002. American's domestic revenue per available seat mile (RASM) for the nine months ended September 30, however, increased 4.1 percent, to 8.64 cents, on a capacity decrease of 6.9 percent, to 87.7 billion available seat miles (ASMs). International RASM decreased to 8.75 cents, or 1.1 percent, on a capacity increase of 1.2 percent. The decrease in international RASM was due to a 14.5 percent and 0.2 percent decrease in Pacific and Latin American RASM slightly offset by a 0.7 percent increase in European RASM. The increase in international capacity was driven by a 7.1 percent and 2.9 percent increase in Pacific and European ASMs, respectively, slightly offset by a 1.2 percent reduction in Latin American ASMs. In 2002, American had a capacity purchase agreement with Chautauqua, and revenue prorate agreements with AMR Eagle and Trans States. In 2003, American has capacity purchase agreements with all three carriers. Regional Affiliates' traffic increased 19.0 percent in 2003 while capacity increased 18.6 percent, to approximately 6.3 billion ASMs. Other revenues increased 7.4 percent, or $54 million, due primarily to increases in ticket change fees coupled with changes to the Company's change fee arrangements with travel agencies, increases in airfreight service fees due primarily to fuel surcharges, increases in AAdvantage fees and increases in employee travel service charges, somewhat offset by decreases in contract maintenance work that American performs for other airlines. The Company's operating expenses decreased 13.8 percent, or $2.2 billion.~~

Wages, salaries and benefits decreased 10.5 percent, or $667 million, primarily due to the Labor Agreements and Management Reductions discussed in Note 2 to the condensed consolidated financial statements. Aircraft fuel expense increased 10.5 percent, or $197 million, due primarily to an 18.3 percent increase in American's average price per gallon of fuel but was somewhat offset by a 7.0 percent decrease in American's fuel consumption. Commissions, booking fees and credit card expense decreased 12.7 percent, or $116 million, due primarily to the benefit from the changes in the commission structure implemented in March 2002 and a 1.6 percent decrease in passenger revenues. Maintenance, materials and repairs decreased 23.7 percent, or $199 million, due primarily to a decrease in airframe and engine volumes at the Company's maintenance bases resulting from a variety of factors, including the retirement of aircraft, the timing of sending engines to repair vendors and a decrease in the number of flights; and the receipt of certain vendor credits. The Company expects maintenance, materials and repairs costs to increase as aircraft utilization increases and the benefit from retiring aircraft subsides. Aircraft rentals decreased $118 million, or 18.2 percent, due primarily to concessionary agreements with certain lessors and the removal of leased aircraft from service in prior periods. Food service decreased 14.7 percent, or $79 million, due primarily to a decrease in the number of departures and passengers boarded and simplification of catering services. Other operating expenses decreased 9.7 percent or $200 million due to decreases in data processing expenses, travel and incidental costs, insurance costs, contract maintenance work that American performs for other airlines, advertising and promotion costs and security costs. Special charges for the nine months ended September 30 include (i) a $68 million gain resulting from a transaction involving 33 of the Company's Fokker 100 aircraft and related debt, (ii) $76 million in employee charges, (iii) $50 million in facility exit costs and (iv) $39 million related to aircraft charges offset by a $20 million aircraft related credit to finalize prior accruals. Comparatively, Special charges in 2002 included approximately (i) $658 million related to aircraft charges and (ii) $57 million in employee charges. See Note 5 to the condensed consolidated financial statements for additional information regarding Special charges. U.S. government grant includes a $358 million benefit recognized for the reimbursement of security service fees from the U.S. government under the Act in 2003 and a $10 million benefit recognized for the reimbursement from the U.S. government under the Air Transportation Safety and System Stabilization Act in 2002. Other income (expense), historically a net expense, increased $119 million due to the following: Interest income decreased 24.1 percent, or $13 million, due primarily to lower short-term investment balances and a decrease in interest rates. Interest expense increased $79 million, or 15.8 percent, resulting primarily from the increase in the Company's long-term debt. Miscellaneous-net decreased $14 million, primarily due to the write-down of certain investments held by the Company during the first quarter of 2003. -21- 24 As discussed above, due to the Company's cumulative operating losses, a valuation allowance was established against the full amount of the Company's net deferred tax asset as of December 31, 2002. During 2003, the Company continued to record a valuation allowance against its net deferred tax assets, which results in no tax benefit being recorded for the pretax losses and the charge to Accumulated other comprehensive loss resulting from the minimum pension liability adjustment discussed in Note 6 to the condensed consolidated financial statements. The Company's deferred tax asset valuation allowance increased $533 million in 2003, to $903 million as of September 30, 2003. The effective tax rate for the nine months ended September 30, 2002 was impacted by a $57 million charge resulting from a provision in Congress' economic stimulus package that changed the period for carrybacks of net operating losses (NOLs). OPERATING STATISTICS Nine Months Ended September 30, 2003 2002 American Airlines, Inc. Mainline Jet Operations Revenue passenger miles (millions) 90,736 92,276 Available seat miles (millions) 123,861 129,968 Cargo ton miles (millions) 1,468 1,478 Passenger load factor 73.3% 71.0% Passenger revenue yield per passenger mile (cents) 11.84 11.90 Passenger revenue per available seat mile (cents) 8.67 8.45 Cargo revenue yield per ton mile (cents) 27.86 27.82 Operating expenses per available seat mile, excluding Regional Affiliates (cents) (*) 10.12 11.27 Fuel consumption (gallons, in millions) 2,224 2,392 Fuel price per gallon (cents) 87.3 73.8 Regional Affiliates Revenue passenger miles (millions) 4,017 3,375 Available seat miles (millions) 6,286 5,301 Passenger load factor 63.9% 63.7%

(*) The Company believes that excluding costs related to Regional Affiliates provides a measure which is more comparable to American's historical operating expenses per ASM. Following is a reconciliation of total operating expenses to operating expenses excluding Regional Affiliates (in millions, except as noted): Nine Months Ended September 30, 2003 2002 American Airlines, Inc. Total operating expenses (GAAP) $13,843 $14,736 Less: Operating expenses incurred related to Regional Affiliates 1,306 92 Operating expenses excluding expenses incurred related to Regional Affiliates $12,537 $14,644 American mainline jet operations available seat miles 123,861 129,968 Operating expenses per available seat mile, excluding Regional Affiliates (cents) 10.12 11.27

Note 1: Certain amounts have been reclassified to conform with the 2003 presentation. Note 2: American Airlines, Inc. 2003 operating expenses include expenses incurred related to capacity purchase agreements with Regional Affiliates - American Eagle, Executive, Trans States and Chautauqua, whereas 2002 operating expenses include expenses incurred related to a capacity purchase agreement with Regional Affiliate - Chautauqua. -22- 25 LIQUIDITY AND CAPITAL RESOURCES In February 2003, American asked its employees for approximately $1.8 billion in annual savings through a combination of changes in wages, benefits and work rules. The requested $1.8 billion in savings was divided by work group as follows: $660 million - pilots; $620 million - Transportation Workers Union represented employees; $340 million - flight attendants; $100 million - management and support staff; and $80 million - agents and representatives. References in this document to American's three major unions include: the Allied Pilots Association (the APA); the Transportation Workers Union (the TWU); and the Association of Professional Flight Attendants (the APFA). In April 2003, American reached agreements with its three major unions (the Labor Agreements) and implemented various changes in the pay plans and benefits for non-unionized personnel, including officers and other management (the Management Reductions). The anticipated cost savings arising from the Labor Agreements and the Management Reductions met the targeted annual savings of $1.8 billion. Of the approximately $1.8 billion in estimated annual savings, approximately $1.0 billion relate to wage and benefit reductions and $0.8 billion relate to changes in work rules, which have resulted in job reductions and will continue to result in additional job reductions through June 2004. As a result of work rule related job reductions, the Company incurred $60 million in severance charges in 2003 (see Note 5 to the condensed consolidated financial statements for additional information). Wage reductions became effective on April 1, 2003 for officers and May 1, 2003 for all other employees. Reductions related to benefits and work rule changes will continue to be phased in over time. In connection with the changes in wages, benefits and work rules, the Company granted approximately 38 million shares of AMR stock to American's employees (excluding officers) in the form of stock options which will vest over a three year period with an exercise price of $5 per share (see Note 12 to the condensed consolidated financial statements for additional information). In addition, the Company and American have reached concessionary agreements with certain vendors, lessors, lenders and suppliers (collectively, the Vendors, and the agreements, the Vendor Agreements). Generally, under the terms of these Vendor Agreements the Company or American will receive the benefit of lower rates and charges for certain goods and services, and more favorable rent and financing terms with respect to certain of its aircraft. In return for these concessions, the Company issued approximately 2.5 million shares of AMR's common stock to Vendors. As of September 30, 2003, the annual cost savings from the Vendors are estimated to be over $200 million. The Company's revenue environment improved during the second and third quarters of 2003 as reflected in improved unit revenues (revenue per available seat mile) in May through September 2003. Even with this improvement, however, the Company's revenues are still depressed relative to historical levels. Moreover, the Company's recent losses have adversely affected its financial condition. The Company therefore needs to see a combination of continued improvement in the revenue environment, cost reductions and productivity improvements before it can return to sustained profitability at acceptable levels. To maintain sufficient liquidity as the Company implements its plan to return to sustained profitability, the Company will need continued access to additional funding, most likely through a combination of financings and asset sales. In addition, the Company's ability to return to sustained profitability will depend on a number of risk factors, many of which are largely beyond the Company's control. Among other things, the following factors have had and/or may have a negative impact on the Company's business and financial results: the uncertain financial and business environment the Company faces; the struggling economy; high fuel prices and the availability of fuel; the residual effects of the war in Iraq; conflicts in the Middle East; historically low fare levels and the general competitive environment; the ability of the Company to implement its restructuring program and the effect of the program on operational performance and service levels; uncertainties with respect to the Company's international operations; changes in its business strategy; actions by U.S. or foreign government agencies; the possible occurrence of additional terrorist attacks; another outbreak of SARS; the inability of the Company to satisfy existing liquidity requirements or other covenants in certain of its credit arrangements; and the availability of future financing. In particular, if the revenue environment deteriorates beyond normal seasonal trends, or the Company is unable to access the capital markets or sell assets, it may be unable to fund its obligations and sustain its operations. -23- 26 During 2001 and 2002, the Company raised approximately $8.3 billion of funding to finance capital commitments and to fund operating losses. The Company expects that it will need to continue to raise capital until such time as the Company has achieved acceptable levels of sustained profitability over a significant period of time. The Company had approximately $2.7 billion in unrestricted cash and short-term investments as of September 30, 2003. The Company's possible future financing sources include: (i) a limited amount of additional secured aircraft debt (virtually all of the Company's Section 1110-eligible aircraft are encumbered), (ii) securitization of future operating receipts, (iii) debt secured by other assets, (iv) sale-leaseback transactions of owned aircraft, (v) the potential sale of certain non- core assets, (vi) unsecured debt and (vii) equity. However, the availability and level of these financing sources cannot be assured, particularly in light of the fact that the Company has fewer unencumbered assets available than it had in the past. To the extent that the Company's revenues deteriorate beyond normal seasonal trends or it is unable to access capital markets and raise additional capital, the Company may be unable to fund its obligations and sustain its operations. The Company reported in its Annual Report on Form 10-K for the year ended December 31, 2002 that it was actively pursuing a possible sale of AMR Investment Services, Inc. The Company has decided not to pursue a sale at this time. In September 2003, the Company reached an agreement to sell its interest in Hotwire (Hotwire.com), a discount travel website company, pending regulatory approval. The Company expects to receive regulatory approval in the fourth quarter of 2003. If the sale becomes final, the Company expects to receive approximately $80 million in proceeds, the majority of which would be recognized as a gain. In July 2003, American issued $255 million of enhanced equipment trust certificates, secured by aircraft, which bear interest at 3.86 percent and are repayable in semi-annual installments beginning in 2004, with a final maturity in 2010. These obligations are insured by a third party. In September 2003, the Company issued $300 million principal amount of its 4.25 percent senior convertible notes due 2023 in a private placement. Each note is convertible into AMR common stock at a conversion rate of 57.61 shares per $1,000 principal amount of notes (which represents an equivalent conversion price of $17.36 per share), subject to adjustment in certain circumstances. These notes are guaranteed by American. The notes are convertible under certain circumstances, including if (i) the closing sale price of the Company's common stock reaches a certain level for a specified period of time, (ii) the trading price of the notes as a percentage of the closing sale price of the Company's common stock falls below a certain level for a specified period of time, (iii) the Company calls the notes for redemption, or (iv) certain corporate transactions occur. Holders of the notes may require the Company to repurchase all or any portion of the notes on September 23, 2008, 2013 and 2018 at a purchase price equal to the principal amount of the notes being purchased plus accrued and unpaid interest to the date of purchase. The Company may pay the purchase price in cash, common stock or a combination of cash and common stock. After September 23, 2008, the Company may redeem all or any portion of the notes for cash at a price equal to the principal amount of the notes being redeemed plus accrued and unpaid interest as of the redemption date. Also in September 2003, American transferred its two headquarters buildings located in Fort Worth, Texas to AA Real Estate Holding L.P., a wholly owned consolidated subsidiary of American. AA Real Estate Holding L.P. leased the buildings back to American pursuant to a triple-net lease, and used the buildings and the lease as security for a loan consisting of four notes, in the aggregate principal amount of $100.6 million, which is reflected as debt in the condensed consolidated balance sheet of the Company. Each note corresponds to a separate class of AA/Ft. Worth HQ Finance Trust Lease Revenue Commercial Mortgage-Backed Pass-Through Certificates, Series 2003 (the Certificates) issued by the AA/Ft. Worth HQ Finance Trust, which is not a subsidiary of American, in a private placement pursuant to Rule 144A under the Securities Act of 1933. The Certificates and corresponding notes have an average effective interest rate of 7.2 percent and a final maturity in 2010. During the nine-month period ended September 30, 2003, American and AMR Eagle borrowed approximately $852 million under various debt agreements related to the purchase of aircraft, including certain seller financed agreements. These debt agreements are secured by the related aircraft and have effective interest rates which are fixed or variable based on London Interbank Offered Rate (LIBOR) plus a spread and mature over various periods of time through 2019. As of September 30, 2003, the effective interest rate on these agreements ranged up to 9.12 percent. -24- 27 The Company's significant indebtedness could have important consequences, such as (i) limiting the Company's ability to obtain additional financing for working capital, capital expenditures, acquisitions and general purposes, (ii) requiring the Company to dedicate a substantial portion of its cash flow from operations to payments on its indebtedness, (iii) making the Company more vulnerable to economic downturns, limiting its ability to withstand competitive pressures and reducing its flexibility in responding to changing business and economic conditions, and (iv) limiting the Company's flexibility in planning for, or reacting to, changes in its business and the industry in which it operates. AMR and American's credit ratings are significantly below investment grade. In February 2003, Moody's downgraded the senior implied rating for AMR, the senior unsecured ratings of both AMR and American and the ratings of most of American's secured debt. Also in February 2003, Standard & Poor's lowered its long-term corporate credit ratings for both AMR and American, lowered the senior secured and unsecured debt ratings of AMR, and lowered the secured debt rating of American. American's short-term rating was withdrawn. Ratings on most of American's non-enhanced equipment trust certificates were also lowered. In March 2003, Standard & Poor's further lowered its long- term corporate credit ratings for both AMR and American, lowered the senior secured and unsecured debt ratings of AMR, and lowered the secured debt rating of American. Ratings on most of American's non- enhanced equipment trust certificates were also lowered. These previous reductions have increased the Company's borrowing costs. On June 9, 2003, Moody's affirmed the ratings of AMR and American, removed the ratings from review for possible downgrade, and gave the ratings a negative outlook. On June 20, 2003, Standard & Poor's raised its ratings of AMR and American and removed the ratings from CreditWatch. On September 4, 2003, Standard & Poor's lowered its credit ratings on some of American's enhanced equipment trust certificates as part of an industry wide downgrade of selected aircraft-backed debt collateralized wholly or partially by Boeing or McDonnell Douglas aircraft introduced into service during the 1980s, including Boeing 757-200 and McDonnell Douglas MD-80 aircraft. On October 22, 2003, Standard & Poor's revised the outlook on its long- term ratings on AMR and American to stable. Additional significant reductions in AMR's or American's credit ratings would further increase its borrowing or other costs and further restrict the availability of future financing. In March 2003, Standard & Poor's removed AMR's common stock from the S&P 500 index. American has a fully drawn $834 million credit facility that expires December 15, 2005. On March 31, 2003, American and certain lenders in such facility entered into a waiver and amendment that (i) waived, until May 15, 2003, the requirement that American pledge additional collateral to the extent the value of the existing collateral was insufficient under the terms of the facility, (ii) waived American's liquidity covenant for the quarter ended March 31, 2003, (iii) modified the financial covenants applicable to subsequent periods, and (iv) increased the applicable margin for advances under the facility. On May 15, 2003, American pledged an additional 30 (non-Section 1110 eligible) aircraft having an aggregate net book value as of April 30, 2003 of approximately $450 million. Pursuant to the modified financial covenants, American is required to maintain at least $1.0 billion of liquidity, consisting of unencumbered cash and short-term investments, for the second quarter 2003 and beyond. While the Company was in compliance with the covenant at September 30, 2003, if the Company is adversely affected by the risk factors discussed in Note 2 to the condensed consolidated financial statements or elsewhere in this Report, it is uncertain whether the Company will be able to satisfy this liquidity requirement through the expiration of the facility at the end of 2005. Any failure to satisfy this requirement, if not waived, would result in a default under this facility and could trigger defaults under other debt arrangements. In addition, as part of the modification of financial covenants, the required ratio of EBITDAR to fixed charges under the facility was reduced until the measurement period ending December 31, 2004, and the next test of such cash flow coverage ratio was postponed until March 31, 2004. The effective interest rate on the facility as of September 30, 2003 is 4.68 percent and will be reset on March 17, 2004. At American's option, interest on the facility can be calculated on one of several different bases. In most instances, American would anticipate choosing a floating rate based upon LIBOR. -25- 28 In April 2003, the President signed the Emergency Wartime Supplemental Appropriations Act, 2003 (the Act), which includes aviation-related assistance provisions. The Act authorized payment of (i) $100 million to compensate air carriers for the direct costs associated with the strengthening of flight deck doors and locks and (ii) $2.3 billion to reimburse air carriers for increased security costs, which was distributed in proportion to the amounts each carrier had paid or collected in passenger security and air carrier security fees to the Transportation Security Administration as of the Act's enactment (the Security Fee Reimbursement). In addition, the Act suspended the collection of the passenger security fee from June 1, 2003 until September 30, 2003 and authorized the extension of war-risk insurance through August 31, 2004 (and permits further extensions until December 31, 2004). The Act also limits the total cash compensation for the two most highly compensated named executive officers in 2002 for certain airlines, including the Company, during the period April 1, 2003 to April 1, 2004 to the amount of salary received by such officers, or their successors, in 2002. A violation of this executive compensation provision would require the carrier to repay the government for the amount of the Security Fee Reimbursement. The Company does not anticipate any difficulties in complying with this limitation on executive compensation and believes the likelihood of repaying the government for the amount of the Security Fee Reimbursement is remote. The Company's Security Fee Reimbursement was $358 million (net of payments to independent regional affiliates) and was recorded as a reduction to operating expenses during the second quarter of 2003. The Company's compensation for the direct costs associated with strengthening flight deck doors was $23 million and was recorded as a basis reduction to capitalized flight equipment in the third quarter of 2003. The Company has restricted cash and short-term investments related to projected workers' compensation obligations and various other obligations of $540 million as of September 30, 2003. In the first quarter of 2003, the Company redeemed $339 million of tax-exempt bonds that were backed by standby letters of credit secured by restricted cash and short-term investments resulting in a reduction in restricted cash and short-term investments. Of the $339 million of tax-exempt bonds that were redeemed, $253 million were accounted for as operating leases. Payments to redeem these tax-exempt special facility revenue bonds are generally considered prepaid facility rentals and reduce future operating lease commitments. The remaining $86 million of tax-exempt bonds that were redeemed were accounted for as debt and had original maturities in 2014 through 2024. As of September 30, 2003, the Company has approximately $241 million in fuel prepayments and credit card holdback deposits classified as Other current assets and Other assets in the condensed consolidated balance sheet. As discussed in Note 9 to the condensed consolidated financial statements, the Company reached concessionary agreements with certain lessors. The Vendor Agreements with these lessors affected the payments, lease term, and other conditions of certain leases. As a result of these changes to the payment and lease terms, 30 leases which were previously accounted for as operating leases were converted to capital leases, and one lease which was previously accounted for as a capital lease was converted to an operating lease. The remaining leases did not change from their original classification. The Company recorded the new capital leases at the fair value of the respective assets being leased. These changes did not have a significant effect on the Company's condensed consolidated balance sheet. In addition, certain of the Vendor Agreements provide that the Company's obligations under the related lease revert to the original terms if certain events occur prior to December 31, 2005, including: (i) an event of default under the related lease (which generally occurs only if a payment default occurs), (ii) an event of loss with respect to the related aircraft, (iii) rejection by the Company of the lease under the provisions of Chapter 11 of the U.S. Bankruptcy Code or (iv) the Company's filing for bankruptcy under Chapter 7 of the U.S. Bankruptcy Code. If any one of these events were to occur, the Company would be responsible for approximately $17 million in additional operating lease payments and $6 million in additional payments related to capital leases as of September 30, 2003. This amount will increase to approximately $119 million in operating lease payments and $111 million in payments related to capital leases prior to the expiration of the provision on December 31, 2005. Such amounts are being treated as contingent rentals and will only be recognized if they become due. -26- 29 As part of the Vendor Agreements discussed in Note 2 to the condensed consolidated financial statements, American sold 33 Fokker 100 aircraft (with a minimal net book value) in the third quarter of 2003. American also issued a $23 million non-interest-bearing note, payable in installments and maturing in December 2010, and entered into short- term leases on these aircraft. Furthermore, the Company issued shares of AMR common stock as discussed in Note 2 to the condensed consolidated financial statements. In exchange, approximately $130 million of debt related to certain of the Fokker 100 aircraft was restructured. However, the agreement contains provisions that would require American to repay additional amounts of the original debt if certain events occur prior to December 31, 2005, including: (i) an event of default (which generally occurs only if a payment default occurs), (ii) an event of loss with respect to the related aircraft, (iii) rejection by the Company of the lease under the provisions of Chapter 11 of the U.S. Bankruptcy Code or (iv) the Company's filing for bankruptcy under Chapter 7 of the U.S. Bankruptcy Code. As a result of this transaction, including the sale of the 33 Fokker 100 aircraft, and the termination of the Company's interest rate swap agreements related to the debt that has been restructured, the Company recognized a gain of approximately $68 million in the third quarter of 2003. If the conditions described above do not occur, the Company expects to recognize an additional gain of approximately $37 million in December 2005. Net cash provided by operating activities in the nine-month period ended September 30, 2003 was $809 million, an increase of $1.3 billion over the same period in 2002. Included in net cash provided by operating activities the first nine months of 2003 was the receipt of a $572 million federal tax refund and the receipt of $358 million from the government under the Act. Included in net cash used by operating activities for the first nine months of 2002 was approximately $658 million received by the Company as a result of the utilization of its 2001 NOLs. Capital expenditures for the first nine months of 2003 were $1.1 billion, $649 million of which was seller financed, and included the acquisition of nine Boeing 767-300ERs, two Boeing 777-200 ERs, 16 Embraer 140s and six Bombardier CRJ-700 aircraft. In June 2003, the Company sold its interest in Worldspan, a computer reservations company, for $180 million in cash and a $39 million promissory note, resulting in a gain of $17 million which is included in Other income (loss) in the consolidated statement of operations. As of September 30, 2003, the Company had commitments to acquire the following aircraft: six Embraer regional jets and five Bombardier CRJ- 700s in 2003; an aggregate of 74 Embraer regional jets and six Bombardier CRJ-700s in 2004 through 2006; and an aggregate of 47 Boeing 737-800s and nine Boeing 777-200ERs in 2006 through 2010. Future payments for all aircraft, including the estimated amounts for price escalation, will approximate $217 million during the remainder of 2003, $755 million in 2004, $699 million in 2005 and an aggregate of approximately $2.7 billion in 2006 through 2010. The Company has pre-arranged financing or backstop financing for all of its aircraft deliveries through June 2005. Boeing Capital provided backstop financing for all Boeing aircraft deliveries in 2003. In return, American granted Boeing a security interest in certain advance payments previously made and in certain rights under the aircraft purchase agreement between American and Boeing. On July 16, 2003, the Company announced that it would reduce the size of its St. Louis hub, effective November 1, 2003. As a result of this action, the Company expects to record additional charges in the fourth quarter of 2003, as the reductions occur, primarily employee severance and benefits charges and facility exit costs. Furthermore, the Company expects to incur additional aircraft charges in the fourth quarter of 2003 related to the retirement of additional operating leased Boeing 757 aircraft. -27- 30 Special facility revenue bonds have been issued by certain municipalities, or entities established by the municipalities for the purpose of issuing the special facility revenue bonds, primarily to purchase equipment and improve airport facilities that are leased by American and accounted for as operating leases. Approximately $2.1 billion of these bonds (with total future payments of approximately $5.2 billion as of September 30, 2003) are guaranteed by American, AMR, or both. Approximately $730 million of these special facility revenue bonds contain mandatory tender provisions that require American to repurchase the bonds at various times through 2008. Although American has the right to remarket the bonds there can be no assurance that these bonds will be successfully remarketed. Any payments to redeem or purchase bonds that are not remarketed would generally be considered prepaid facility rentals and would reduce future operating lease commitments. Special facility revenue bonds with a principal balance of $198 million have mandatory tender provisions that will be triggered in November 2003. The Company anticipates that these bonds will not be remarketed at this time, but may be remarketed or refunded if market conditions become more favorable. The following table summarizes the Company's obligations and commitments as of September 30, 2003, to be paid in 2003 through 2007 (in millions): Nature of commitment 2003(6) 2004 2005 2006 2007 Operating lease payments for aircraft and facility obligations (1) $466 $1,086 $1,029 $963 $941 Firm aircraft commitments (2) 217 755 699 698 730 Fee per block hour commitments (3) 41 164 166 167 168 Long-term debt (4) 154 594 1,379 1,155 1,102 Capital lease obligations 45 321 252 252 187 Other commitments (5) - 158 158 158 158 Total obligations and commitments $923 $3,078 $3,683 $3,393 $3,286

(1) Certain special facility revenue bonds issued by municipalities - which are supported by operating leases executed by American - are guaranteed by AMR and American. (2) Substantially all of the 2003 and 2004 commitment is supported by committed financing. (3) Includes expected payments based on projected volumes rather than minimum required payments. (4) Excludes related interest amounts. (5) Includes noncancelable commitments to purchase goods or services, primarily information technology support. Other commitments for the remainder of 2003 are not significant. (6) Amounts are as of September 30, 2003. In addition to the commitments summarized above, the Company is required to make contributions to its defined benefit pension plans. These contributions are required under the minimum funding requirements of the Employee Retirement Pension Plan Income Security Act (ERISA). The Company's 2003 minimum required contributions to its defined benefit pension plans were approximately $186 million (all of which had been contributed by September 15, 2003) and the Company's estimated 2004 minimum required contributions to its defined benefit pension plans are between $550 and $650 million. In addition, in 2003, the Company has contributed $145 million to its defined contribution pension plans. Due to uncertainties regarding significant assumptions involved in estimating future required contributions to its defined benefit pension plans, such as pension plan benefit levels, interest rate levels and the amount and timing of asset returns, the Company is not able to reasonably estimate the amount of future required contributions to its defined benefit pension plans beyond 2004. However, based on the current regulatory environment and market conditions, the Company expects that its 2005 minimum required contributions to its defined benefit pension plans will significantly exceed its 2004 minimum required contributions. -28- 31 OTHER INFORMATION A provision in the scope clause of American's prior contract with the Allied Pilots Associations (APA) limited the number of available seat miles (ASMs) and block hours that could be flown under American's marketing code (AA) by American's regional carrier partners when American pilots are on furlough (the so-called ASM cap). To ensure that American remained in compliance with the ASM cap, American and AMR Eagle took several steps in 2002 to reduce the number of ASMs flown by American's wholly-owned commuter air carriers. As one of those measures, AMR Eagle signed a letter of intent to sell Executive Airlines, its San Juan-based subsidiary. Another provision in the prior APA contract limited to 67 the total number of regional jets with more than 44 seats that could be flown under the AA code by American's regional carrier partners. As AMR Eagle continued to accept previously-ordered Bombardier and Embraer regional jets this cap would have been reached in early 2003. To ensure that American remained in compliance with the 67-aircraft cap, AMR Eagle reached an agreement to dispose of 14 Embraer ERJ-145 aircraft from its fleet. Trans States Airlines, an AmericanConnection carrier, agreed to acquire these aircraft. Under

the prior contract between AA and the APA, Trans States would have had to operate these aircraft under its AX code, rather than the AA* code, at its St. Louis hub. The Labor Agreement with the APA (one of the Labor Agreements), ratified in April 2003, modified the provisions in the APA contract described in the immediately preceding two paragraphs to give the Company more flexibility with its American Eagle operations. The limitations on the use of regional jets were substantially reduced and are now tied to 110 percent of the size of American's narrowbody aircraft fleet. As a consequence of these modifications, it is no longer necessary to use Trans States' AX marketing code on flights operated by Trans States as AmericanConnection, and AMR Eagle has discontinued its plans to sell Executive Airlines. In addition, AMR Eagle has revised its agreement to dispose of 14 Embraer ERJ-145 aircraft to include ten rather than 14 aircraft. 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 September 11, 2001 events, aviation insurers have 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, they have significantly increased the premiums for such coverage as well as for aviation insurance in general. The U.S. government has provided commercial war-risk insurance for U.S. based airlines until December 10, 2003 covering losses to employees, passengers, third parties and aircraft. The Company believes this insurance coverage will be extended beyond December 10, 2003 because the Act provides for the insurance to remain in place until August 31, 2004, and the Department of Transportation has stated its intent to do so. In addition, the Secretary of Transportation may extend the policy until December 31, 2004, at his discretion. However, there is no assurance that it will be extended. In the event the commercial insurance carriers further reduce the amount of insurance coverage available to the Company or significantly increase the cost of aviation insurance, or if the Government fails to renew the war-risk insurance that it provides, the Company's operations and/or financial position and results of operations would be materially adversely affected. -29- 32 FORWARD-LOOKING INFORMATION Statements in this report 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," "believes," 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, expectations as to future financing needs, overall economic conditions and plans and objectives for future operations, the impact on the Company of the events of September 11, 2001 and of its results of operations for the past two 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. Forward-looking statements are subject to a number of risk factors that could cause actual results to differ materially from our expectations. The following factors, in addition to other possible factors not listed, could cause the Company's actual results to differ materially from those expressed in forward- looking statements: the uncertain financial and business environment the Company faces; the struggling economy; high fuel prices and the availability of fuel; the residual effects of the war in Iraq; conflicts in the Middle East; historically low fare levels and the general competitive environment; the ability of the Company to implement its restructuring program and the effect of the program on operational performance and service levels; uncertainties with respect to the Company's international operations; changes in its business strategy; actions by U.S. or foreign government agencies; the possible occurrence of additional terrorist attacks; another outbreak of SARS; the inability of the Company to satisfy existing liquidity requirements or other covenants in certain of its credit agreements; and the availability of future financing. Additional information concerning these and other factors is contained in the Company's Securities and Exchange Commission filings, including but not limited to the Form 10-K for the year ended December 31, 2002 and the Form 10-Qs for the quarters ended March 31, 2003 and June 30, 2003. Item 3. Quantitative and Qualitative Disclosures about Market Risk Market Risk Sensitive Instruments and Positions Except as discussed below, there have been no material changes in market risk from the information provided in Item 7A. Quantitative and Qualitative Disclosures About Market Risk of the Company's 2002 Form 10-K. The risk inherent in the Company's fuel related market risk sensitive instruments and positions is the potential loss arising from adverse changes in the price of fuel. The sensitivity analysis presented does not consider the effects that such adverse changes may have on overall economic activity, nor does it consider additional actions management may take to mitigate the Company's exposure to such changes. Actual results may differ. Aircraft Fuel The Company's earnings are affected by changes in the price and availability of aircraft fuel. In order to provide a measure of control over price and supply, the Company trades and ships fuel and maintains fuel storage facilities to support its flight operations. The Company also manages the price risk of fuel costs primarily by using jet fuel, heating oil, and crude swap and option contracts. As of September 30, 2003, the Company had hedged approximately 28 percent of its expected fuel needs for the remainder of 2003, approximately 20 percent of its expected first quarter 2004 fuel needs and an insignificant percentage of its expected fuel needs beyond the first quarter of 2004, compared to approximately 32 percent of its estimated 2003 fuel requirements, 15 percent of its estimated 2004 fuel requirements, and approximately four percent of its estimated 2005 fuel requirements hedged at December 31, 2002. Beginning in March 2003, the Company revised its hedging strategy and, in June 2003, terminated substantially all of its contracts with maturities beyond March 2004. Commencing in October 2003, the Company began to enter into new fuel hedging contracts with maturities beyond March 2004 for a portion of its future fuel requirements. The Company's reduced credit rating has limited its ability to enter into certain types of fuel hedge contracts. A further deterioration of its credit rating or liquidity position may negatively affect the Company's ability to hedge fuel in the future. For additional information see Note 16 to the condensed consolidated financial statements. -30- 33 Item 4. Controls and Procedures An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the Company's disclosure controls as of September 30, 2003. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls. -31- 34 PART II: OTHER INFORMATION Item 1. Legal Proceedings On July 26, 1999, a class action lawsuit was filed, and in November 1999 an amended complaint was filed, against AMR Corporation, American Airlines, Inc., AMR Eagle Holding Corporation, Airlines Reporting Corporation, and the Sabre Group Holdings, Inc. in the United States District Court for the Central District of California, Western Division (Westways World

Travel, Inc. v. AMR Corp., et al.). The lawsuit alleges that requiring travel agencies to pay debit memos to American for violations of American's fare rules (by customers of the agencies): (1) breaches the Agent Reporting Agreement between American and AMR Eagle and the plaintiffs; (2) constitutes unjust enrichment; and (3) violates the Racketeer Influenced and Corrupt Organizations Act of 1970 (RICO). The certified class includes all travel agencies who have been or will be required to pay money to American for debit memos for fare rules violations from July 26, 1995 to the present. The plaintiffs seek to enjoin American from enforcing the pricing rules in question and to recover the amounts paid for debit memos, plus treble damages, attorneys' fees, and costs. The Company intends to vigorously defend the lawsuit. Although the Company believes that the litigation is without merit, a final adverse court decision could impose restrictions on the Company's relationships with travel agencies which could have an adverse impact on the Company. On May 13, 1999, the United States (through the Antitrust Division of the Department of Justice) sued AMR Corporation, American Airlines, Inc., and AMR Eagle Holding Corporation in federal court in Wichita, Kansas (United States v. AMR Corporation, et al, No. 99-1180-JTM, United States District Court for the District of Kansas). The lawsuit alleges that American unlawfully monopolized or attempted to monopolize airline passenger service to and from Dallas/Fort Worth International Airport (DFW) by increasing service when new competitors began flying to DFW, and by matching these new competitors' fares. The Department of Justice seeks to enjoin American from engaging in the alleged improper conduct and to impose restraints on American to remedy the alleged effects of its past conduct. On April 27, 2001, the U.S. District Court for the District of Kansas granted American's motion for summary judgment. On June 26, 2001, the U.S. Department of Justice appealed the granting of American's motion for summary judgment (United States v. AMR Corporation, et al, No. 01-3203, United States District Court of Appeals for the Tenth Circuit), and on September 23, 2002, the parties presented oral arguments to the 10th Circuit Court of Appeals, which affirmed the summary judgment on July 3, 2003. The U.S Department of Justice has indicated that it does not intend to appeal the decision of the 10th Circuit Court of Appeals. Between May 14, 1999 and June 7, 1999, seven class action lawsuits were filed against AMR Corporation, American Airlines, Inc., and AMR Eagle Holding Corporation in the United States District Court in Wichita, Kansas seeking treble damages under federal and state antitrust laws, as well as injunctive relief and attorneys' fees (King v. AMR Corp., et al.; Smith v. AMR Corp., et al.; Team Electric v. AMR Corp., et al.; Warren v. AMR Corp., et al.; Whittier v. AMR Corp., et al.; Wright v. AMR Corp., et al.; and Youngdahl v. AMR Corp., et al.). Collectively, these lawsuits allege that American unlawfully monopolized or attempted to monopolize airline passenger service to and from DFW by increasing service when new competitors began flying to DFW, and by matching these new competitors' fares. Two of the suits (Smith and Wright) also allege that American unlawfully monopolized or attempted to monopolize airline passenger service to and from DFW by offering discounted fares to corporate purchasers, by offering a frequent flyer program, by imposing certain conditions on the use and availability of certain fares, and by offering override commissions to travel agents. The suits propose to certify several classes of consumers, the broadest of which is all persons who purchased tickets for air travel on American into or out of DFW from 1995 to the present. On November 10, 1999, the District Court stayed all of these actions pending developments in the case brought by the Department of Justice (see above description). To date no class has been certified. The Company intends to defend these lawsuits vigorously. One or more final adverse court decisions imposing restrictions on the Company's ability to respond to competitors or awarding substantial money damages would have an adverse impact on the Company. -32- 35 On May 17, 2002, the named plaintiffs in Hall, et al. v. United Airlines, et al., pending in the United States District Court for the Eastern District of North Carolina, filed an amended complaint alleging that between 1995 and the present, American and over 15 other defendant airlines conspired to reduce commissions paid to U.S.-based travel agents in violation of Section 1 of the Sherman Act. The court granted class action certification to the plaintiff on September 17, 2002, defining the plaintiff class as all travel agents in the United States, Puerto Rico, and the United States Virgin Islands, who, at any time from October 1, 1997 to the present, issued tickets, miscellaneous change orders, or prepaid ticket advices for travel on any of the defendant airlines. The case is stayed as to US Airways and United Air Lines, since they filed for bankruptcy. American is vigorously defending the lawsuit. Defendant carriers filed a motion for summary judgment on December 10, 2002. Trial is set to begin on February 2, 2004. A final adverse court decision awarding substantial money damages or placing restrictions on the Company's commission policies or practices would have an adverse impact on the Company. Between April 3, 2003 and June 5, 2003 three lawsuits were filed by travel agents who have opted out of the Hall class action (above) to pursue their claims individually against American Airlines, Inc., other airline defendants, and in one case against certain airline defendants and Orbitz LLC. (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 (6 agencies)). 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. American is vigorously defending these lawsuits. A final adverse court decision awarding substantial money damages or placing restrictions on the Company's distribution practices would have an adverse impact on the Company. On April 26, 2002, six travel agencies filed Albany Travel Co., et al. v. Orbitz, LLC, et al., in the United States District Court for the Central District of California against American, United Air Lines, Delta Air Lines, and Orbitz, LLC, alleging that American and the other defendants: (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; and (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. The named plaintiffs seek to certify a nationwide class of travel agents, but no class has yet been certified. American is vigorously defending the lawsuit. On November 25, 2002, the District Court stayed this case pending a judgment in Hall et. al. v. United Airlines, et. al. (see above description). A final adverse court decision awarding substantial money damages or placing restrictions on the Company's distribution practices would have an adverse impact on the Company. On April 25, 2002, a Quebec travel agency filed a motion seeking a declaratory judgment of the Superior Court in Montreal, Canada (Voyages Montambault (1989) Inc. v. International Air Transport Association, et al.), that American and the other airline defendants owe a "fair and reasonable commission" to the agency, and that American and the other airline defendants breached alleged contracts with the agency by adopting policies of not paying base commissions. The motion was subsequently amended to add 40 additional travel agencies as petitioners. The current defendants are the International Air Transport Association, the Air Transport Association of Canada, Air Canada, American, America West Airlines, Delta Air Lines, Grupo TACA, Northwest Airlines/KLM Airlines, United

Airlines, and Continental Airlines. American is vigorously defending the lawsuit. Although the Company believes that the litigation is without merit, a final adverse court decision granting declaratory relief could expose the Company to claims for substantial money damages or force the Company to pay agency commissions, either of which would have an adverse impact on the Company. -33- 36 On May 13, 2002, the named plaintiffs in Always Travel, et. al. v. Air Canada, et. al., pending in the Federal Court of Canada, Trial Division, Montreal, filed a statement of claim alleging that between 1995 and the present, American, the other defendant airlines, and the International Air Transport Association conspired to reduce commissions paid to Canada-based travel agents in violation of Section 45 of the Competition Act of Canada. The named plaintiffs seek to certify a nationwide class of travel agents. Plaintiffs have filed a motion for class certification, but that motion has not yet been decided. American is vigorously defending the lawsuit. A final adverse court decision awarding substantial money damages or placing restrictions on the Company's commission policies would have an adverse impact on the Company. On August 14, 2002, a class action lawsuit was filed against American Airlines, Inc. in the United States District Court for the Central District of California, Western Division (All World Professional Travel Services, Inc. v. American Airlines, Inc.). The lawsuit alleges that requiring travel agencies to pay debit memos for refunding tickets after September 11, 2001: (1) breaches the Agent Reporting Agreement between American and plaintiff; (2) constitutes unjust enrichment; and (3) violates the Racketeer Influenced and Corrupt Organizations Act of 1970 (RICO). The as yet uncertified class includes all travel agencies who have or will be required to pay moneys to American for an "administrative service charge," "penalty fee," or other fee for processing refunds on behalf of passengers who were unable to use their tickets in the days immediately following the resumption of air carrier service after the tragedies on September 11, 2001. The plaintiff seeks to enjoin American from collecting the debit memos and to recover the amounts paid for the debit memos, plus treble damages, attorneys' fees, and costs. The Company intends to vigorously defend the lawsuit. Although the Company believes that the litigation is without merit, a final adverse court decision could impose restrictions on the Company's relationships with travel agencies which could have an adverse impact on the Company. On August 19, 2002, a class action lawsuit was filed, and on May 7, 2003 an amended complaint was filed in the United States District Court for the Southern District of New York (Power Travel International, Inc. v. American Airlines, Inc., et al.) against American, Continental Airlines, Delta Air Lines, United Airlines, and Northwest Airlines, alleging that American and the other defendants breached their contracts with the agency and were unjustly enriched when these carriers at various times reduced their base commissions to zero. The as yet uncertified class includes all travel agencies accredited by the Airlines Reporting Corporation "whose base commissions on airline tickets were unilaterally reduced to zero by" the defendants. The case is stayed as to United Air Lines, since it filed for bankruptcy. American is vigorously defending the lawsuit. Although the Company believes that the litigation is without merit, a final adverse court decision awarding substantial money damages or forcing the Company to pay agency commissions would have an adverse impact on the Company. Miami-Dade County (the County) is currently investigating and remediating various environmental conditions at the Miami International Airport (MIA) and funding the remediation costs through landing fees and various cost recovery methods. American Airlines, Inc. and AMR Eagle have been named as potentially responsible parties (PRPs) for the contamination at MIA. During the second quarter of 2001, the County filed a lawsuit against 17 defendants, including American Airlines, Inc., in an attempt to recover its past and future cleanup costs (Miami-Dade County, Florida v. Advance Cargo Services, Inc., et al. in the Florida Circuit Court). In addition to the 17 defendants named in the lawsuit, 243 other agencies and companies were also named as PRPs and contributors to the contamination. American's and AMR Eagle's portion of the cleanup costs cannot be reasonably estimated due to various factors, including the unknown extent of the remedial actions that may be required, the proportion of the cost that will ultimately be recovered from the responsible parties, and uncertainties regarding the environmental agencies that will ultimately supervise the remedial activities and the nature of that supervision. The Company is vigorously defending the lawsuit. -34- 37 PART II Item 2. Changes in Securities and Use of Proceeds On September 23, 2003, the Company sold $300 million principal amount of its 4.25% Senior Convertible Notes due 2023 to Citigroup Global Markets, Inc. for $292.5 million (net of initial purchaser's discounts of $7.5 million). The notes were issued in a private placement under the exemption from registration set forth in section 4(2) of the Securities Act of 1933. Citigroup informed the Company that the notes were resold to "qualified institutional buyers", as defined in Rule 144A under the Securities Act, in transactions exempt from registration in accordance with Rule 144A. Each note is convertible into AMR common stock at a conversion rate of 57.61 shares per $1,000 principal amount of notes (which represents an equivalent conversion price of $17.36 per share), subject to adjustment in certain circumstances. These notes are guaranteed by American. The Company expects to use the proceeds of the sale for working capital and general corporate purposes. The notes are convertible under certain circumstances, including if (i) the closing sale price of the Company's common stock reaches a certain level for a specified period of time, (ii) the trading price of the notes as a percentage of the closing sale price of the Company's common stock falls below a certain level for a specified period of time, (iii) the Company calls the notes for redemption, or (iv) certain corporate transactions occur. Holders of the notes may require the Company to repurchase all or any portion of the notes on September 23, 2008, 2013 and 2018 at a purchase price equal to the principal amount of the notes being purchased plus accrued and unpaid interest to the date of purchase. The Company may pay the purchase price in cash, common stock or a combination of cash and common stock. After September 23, 2008, the Company may redeem all or any portion of the notes for cash at a price equal to the principal amount of the notes being redeemed plus accrued and unpaid interest as of the redemption date. Item 4. Submission of Matters to a Vote of Security Holders The owners of 133,307,282 shares of common stock, or 85 percent of shares outstanding, were represented at the annual meeting of stockholders on May 21, 2003 at the American Airlines Training & Conference Center, Flagship Auditorium, 4501 Highway 360 South, Fort Worth, Texas. Elected as directors of the Corporation, each receiving a minimum of 121,000,000 votes were: Gerard J. Arpey Ann McLaughlin Korologos John W. Bachmann Michael A. Miles David L. Boren Philip J. Purcell Edward A. Brennan Joe M. Rodgers Armando M. Codina Judith Rodin, Ph.D. Earl G. Graves Roger T. Staubach Stockholders ratified the appointment of Ernst & Young LLP as independent auditors for the Corporation for 2003. The vote was 130,625,037 in favor, 2,471,054 against and 211,191 abstaining. A stockholder proposal to recommend that the Company affirm its political non-partisanship - submitted by Mrs. Evelyn Y. Davis - was defeated. The vote was 3,276,672 in favor, 48,695,235 against, 3,996,780 abstaining, and 77,338,595 not voting. A stockholder proposal to recommend that the Company annually submit to a shareholder vote any poison pill adopted since the previous annual meeting - submitted by Mr. John Chevedden - was approved. The vote was 29,464,351 in favor, 25,991,408 against, 512,928 abstaining and 77,338,595 not voting. -35- 38 Item 6. Exhibits and Reports on Form 8-K The following exhibits are included herein: 3.1 Amendments to the AMR Corporation Certificate of Incorporation. 3.2 Bylaws of AMR Corporation, amended as of April 24, 2003. 10.1 Current form of Stock Option Agreement under the 1998 Long-Term Incentive Plan, as amended. 12 Computation of ratio of earnings to fixed charges for the three and nine months ended September 30, 2003 and 2002. 13.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a). 13.2 Certification of Chief

~~Financial Officer pursuant to Rule 13a-14(a). 32 Certification pursuant to Rule 13a-14(b) and section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code). Form 8-Ks filed under Item 5 - Other Events On July 3, 2003, AMR filed an amended report on Form 8-K to provide additional information regarding the unit cost expectations provided in its June 25, 2003 report on Form 8-K. On August 1, 2003, AMR filed a report on Form 8-K to provide unit revenue expectations for July, capacity estimates for the remainder of 2003 and 2004 and highlights of an agreement with Sabre covering American Airlines' participation in Sabre's Direct Connect Availability program. On September 18, 2003, AMR filed a report on Form 8-K relating to a press release issued by AMR to announce the pricing of a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933 of $300 million principal amount of 4.25 percent senior convertible notes due 2023. Form 8-Ks furnished under Item 9 - Regulation FD Disclosure On July 11, 2003, AMR furnished a report on Form 8-K to announce AMR's intent to host a conference call on July 16, 2003 with the financial community relating to its second quarter 2003 results. On September 29, 2003, AMR furnished a report on Form 8-K to announce AMR's intent to host a conference call on October 22, 2003 with the financial community relating to its third quarter 2003 results. Form 8-Ks filed under Item 12 - Disclosure of Results of Operations and Financial Condition On July 16, 2003, AMR filed a report on Form 8-K to furnish a press release issued by AMR to announce its second quarter 2003 results. -36- 39 Signature Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. AMR CORPORATION Date: October 24, 2003 BY: /s/ Jeffrey C. Campbell Jeffrey C. Campbell Senior Vice President and Chief Financial Officer -37-~~