10-Q 1 ar3q0510q.txt AMR CORPORATION 10-Q 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, 2005. [ ]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, including area code (817) 963-1234 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 Rule 12b-2 of the Exchange Act). Yes X No . Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No X . 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 - 165,067,635 shares as of October 14, 2005. INDEX AMR CORPORATION PART I: FINANCIAL INFORMATION Item 1. Financial Statements Consolidated Statements of Operations -- Three and nine months ended September 30, 2005 and 2004 Condensed Consolidated Balance Sheets -- September 30, 2005 and December 31, 2004 Condensed Consolidated Statements of Cash Flows -- Nine months ended September 30, 2005 and 2004 Notes to Condensed Consolidated Financial Statements -- September 30, 2005 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 6. Exhibits SIGNATURE 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, 2005 2004 2005 2004 Revenues Passenger - American Airlines $4,428 $3,838 $12,534 $11,411 - Regional Affiliates 570 488 1,582 1,413 Cargo 152 149 460 452 Other revenues 335 287 968 828 Total operating revenues 5,485 4,762 15,544 14,104 Expenses Wages, salaries and benefits 1,664 1,696 4,979 5,039 Aircraft fuel 1,582 1,056 4,030 2,781 Other rentals and landing fees 337 295 956 901 Depreciation and amortization 292 317 868 963 Commissions, booking fees and credit card expense 292 288 849 863 Maintenance, materials and repairs 269 265 761 741 Aircraft rentals 148 152 443 458 Food service 136 145 388 421 Other operating expenses 726 593 1,979 1,775 Special charges (credits) - (18) - (49) Total operating expenses 5,446 4,789 15,253 13,893 Operating Income (Loss) 39 (27) 291 211 Other Income (Expense) Interest income 40 19 104 47 Interest expense (240) (219) (697) (648) Interest capitalized 12 22 59 60 Miscellaneous - net (4) (9) (14) (44) (192) (187) (548) (585) Loss Before Income Taxes (153) (214) (257) (374) Income tax - - - - Net Loss $(153) $(214) $(257) $(374) Basic and Diluted Loss Per Share $(0.93) $(1.33) $(1.58) $(2.33) The accompanying notes are an integral part of these financial statements. -1- AMR CORPORATION CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited) (In millions) September, 30 December, 31 2005 2004 Assets Current Assets Cash $ 127 $ 120 Short-term investments 3,285 2,809 Restricted cash and short-term investments 499 478 Receivables, net 1,111 836 Inventories, net 540 488 Other current assets 425 240 Total current assets 5,987 4,971 Equipment and Property Flight equipment, net 15,111 15,292 Other equipment and property, net 2,464 2,426 Purchase deposits for flight equipment 278 319 17,853 18,037 Equipment and Property Under Capital Leases Flight equipment, net 967 1,016 Other equipment and property, net 91 84 1,058 1,100 Route acquisition costs and airport operating and gate lease rights, net 1,202 1,223 Other assets 3,336 3,442 $ 29,436 $28,773 Liabilities and Stockholders' Equity (Deficit) Current Liabilities Accounts payable $ 1,101 $ 1,003 Accrued liabilities 1,957 2,026 Air traffic liability 3,851 3,183 Current maturities of long-term debt 790 659 Current obligations under capital leases 170 147 Total current liabilities 7,869 7,018 Long-term debt, less current maturities 12,292 12,436 Obligations under capital leases, less current obligations 939 1,088 Pension and postretirement benefits 4,799 4,743 Other liabilities, deferred gains and deferred credits 4,266 4,069 Stockholders' Equity (Deficit) Preferred stock - - Common stock 182 182 Additional paid-in capital 2,314 2,521 Treasury stock (1,081) (1,308) Accumulated other comprehensive loss (575) (664) Accumulated deficit (1,569) (1,312) (729) (581) $ 29,436 $28,773 The accompanying notes are an integral part of these financial statements. -2- AMR CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (In millions) Nine Months Ended September 30, 2005 2004 Net Cash Provided by Operating Activities $1,032 $ 803 Cash Flow from Investing Activities: Capital expenditures, including purchase deposits for flight equipment (586) (773) Net increase in short-term investments (476) (532) Net (increase) decrease in restricted cash and short-term investments (21) 46 Proceeds from sale of equipment and property 25 59 Other - (12) Net cash used by investing activities (1,058) (1,212) Cash Flow from Financing Activities: Payments on long-term debt and capital lease obligations (881) (575) Proceeds from: Issuance of long-term debt 697 975 Exercise of stock options 19 6 DFW Bond Remarketing 198 - Net cash provided by financing activities 33 406 Net increase (decrease) in cash 7 (3) Cash at beginning of period 120 120 Cash at end of period $ 127 $ 117 Activities Not Affecting Cash Flight equipment acquired through seller financing $ - $ 18 Capital lease obligations incurred $ 13 $ 10 The accompanying notes are an integral part of these financial statements. -3- 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, 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 (i) its principal subsidiary American Airlines, Inc. (American) and (ii) its regional airline subsidiary, AMR Eagle Holding Corporation and its primary subsidiaries, American Eagle Airlines, Inc., Executive Airlines, Inc. and AMR Leasing Corporation (collectively, AMR Eagle). 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, 2004 (2004 Form 10-K). 2.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 loss and 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 Nine Months Ended Ended September 30, September 30, 2005 2004 2005 2004 Net loss, as reported $(153) $(214) $(257) $(374) Add (Deduct): Stock-based employee compensation expense included in reported net loss 8 (7) 26 10 Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards (22) (9) (70) (59) Pro forma net loss $(167) $(230) $(301) $(423) Loss per share: Basic and diluted-as reported $(0.93) $(1.33) $(1.58) $(2.33) Basic and diluted-pro forma $(1.02) $(1.43) $(1.85) $(2.64) -4- AMR CORPORATION NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (Unaudited) In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" (SFAS 123(R)). SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. SFAS 123(R) is effective January 1, 2006 for AMR. Under SFAS 123(R), the Company will recognize compensation expense for the portion of outstanding awards for which service has not yet been rendered, based on the grant-date fair value of those awards calculated under SFAS 123 for pro forma disclosures. The Company expects that the impact of adoption on its first quarter 2006 results will be similar to the amounts disclosed in the quarterly pro forma information in this footnote. However, subsequent to the first quarter of 2006, the impact will decrease significantly due to the vesting period ending for the 2003 Employee Stock Incentive Plan. 3.As of September 30, 2005, the Company had commitments to acquire two Boeing 777-200ERs in 2006 and an aggregate of 47 Boeing 737- 800s and seven Boeing 777-200ERs in 2013 through 2016. Future payments for all aircraft, including the estimated amounts for price escalation, will approximate $102 million in 2006 and an aggregate of approximately $2.8 billion in 2011 through 2016. The Company has pre-arranged financing for all aircraft deliveries in 2006. In 2003, the Company reached concessionary agreements with certain lessors. Certain of these agreements provide that the Company's obligations under the related leases will 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 $115 million in additional operating lease payments and $106 million in additional payments related to capital leases as of September 30, 2005. These amounts are being accounted for as contingent rentals and will only be recognized if they become payable. Conversely, as part of the concessionary agreements, the Company will recognize a gain of $37 million related to a debt restructuring if none of the events described above occur prior to December 31, 2005. 4.Accumulated depreciation of owned equipment and property at September 30, 2005 and December 31, 2004 was $10.2 billion and $9.6 billion, respectively. Accumulated amortization of equipment and property under capital leases at September 30, 2005 and December 31, 2004 was $1.0 billion. Effective January 1, 2005, in order to more accurately reflect the expected useful life of its aircraft, the Company changed its estimate of the depreciable lives of its Boeing 737-800, Boeing 757- 200 and McDonnell Douglas MD-80 aircraft from 25 to 30 years. As a result of this change, Depreciation and amortization expense was reduced by approximately $27 million and $81 million, respectively, for the three and nine months ended September 30, 2005. Additionally, the per share net loss for the three and nine months ended September 30, 2005 decreased $0.16 and $0.50 per share, respectively. 5.As discussed in Note 8 to the consolidated financial statements in the 2004 Form 10-K, the Company has a valuation allowance against the full amount of its net deferred tax asset. The Company's deferred tax asset valuation allowance increased $127 million during the nine months ended September 30, 2005 to $960 million as of September 30, 2005. As a result of historical and current losses, the Company did not provide for a net tax benefit associated with its loss in the nine month period ended September 30, 2005. -5- AMR CORPORATION NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (Unaudited) 6.In July 2005, American completed the re-marketing of $198 million of DFW-FIC Series 2000A Unsecured Revenue Refunding Bonds that mature May 1, 2029. Certain municipalities originally issued these special facility revenue bonds primarily to improve airport facilities that are leased by American and accounted for as operating leases. They were acquired by American in 2003 under a mandatory tender provision. Thus, American received the proceeds from the remarketing in July which results in an increase to Other liabilities, deferred gains and deferred credits where the tendered bonds had been classified pending their use to offset certain future operating lease obligations. In September 2005, American sold and leased back 89 spare engines with a book value of $105 million to a variable interest entity (VIE). The net proceeds received from third parties were $133 million. American is considered the primary beneficiary of the activities of the VIE as American has substantially all of the residual value risk associated with the transaction. As such, American is required to consolidate the VIE in its financial statements. At September 30, 2005, the book value of the engines was included in Flight equipment, net on the condensed consolidated balance sheet. The engines serve as collateral for the VIE's long- term debt of $133 million at September 30, 2005, which has also been included in the condensed consolidated balance sheet. The VIE has no other significant operations. Also in September 2005, American purchased certain obligations due October 2006 with a face value of $261 million at par value from an institutional investor. In conjunction with the purchase, American borrowed an additional $245 million under an existing mortgage agreement with a final maturity in December 2012 from the same investor. The interest rate on the mortgage agreement remains substantially unchanged. The additional borrowings required American to grant a security interest in certain spare engines and related collateral. The transaction was accounted for as a modification of the original debt under Emerging Issues Task Force Issue 96-19 "Debtor's Accounting for a Modification or Exchange of Debt Instruments". As a result of this transaction, the Company's 2006 maturities of long-term debt decreased from $1.3 billion to $1.1 billion. During the nine month period ended September 30, 2005, AMR Eagle borrowed approximately $319 million (net of discount), under various debt agreements related to the purchase of regional jet aircraft. These debt agreements are secured by the related aircraft, have an effective interest rate of 5.0 percent, are guaranteed by AMR and mature over various periods of time through 2021. As of September 30, 2005, AMR had issued guarantees covering approximately $928 million of American's tax-exempt bond debt and American's fully drawn $803 million credit facility. American had issued guarantees covering approximately $1.3 billion of AMR's unsecured debt. In addition, as of September 30, 2005, AMR and American had issued guarantees covering approximately $428 million of AMR Eagle's secured debt and AMR had issued guarantees covering an additional $2.8 billion of AMR Eagle's secured debt. -6- AMR CORPORATION NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (Unaudited) 7.The following tables provide the components of net periodic benefit cost for the three and nine months ended September 30, 2005 and 2004 (in millions): Pension

Benefits Three Months Nine Months Ended Ended September 30, September 30, 2005 2004 2005 2004 Components of net periodic benefit cost Service cost $ 93 $ 89 $ 278 $ 268 Interest cost 152 142 457 425 Expected return on assets (164) (143) (493) (427) Amortization of: Prior service cost 4 4 12 11 Unrecognized net loss 13 15 39 44 Net periodic benefit cost $ 98 $ 107 $ 293 $ 321 Other Postretirement Benefits Three Months Nine Months Ended Ended September 30, September 30, 2005 2004 2005 2004 Components of net periodic benefit cost Service cost $ 19 $ 19 $ 56 $ 57 Interest cost 49 51 148 152 Expected return on assets (3) (3) (10) (9) Amortization of: Prior service cost (2) (3) (7) (8) Unrecognized net loss - 2 1 6 Net periodic benefit cost $ 63 $ 66 $ 188 $ 198 The Company contributed $288 million to its defined benefit pension plans during the nine month period ended September 30, 2005, and completed its required 2005 calendar year funding by contributing an additional $22 million on October 14, 2005. -7- AMR CORPORATION NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (Unaudited) 8.As a result of the events of September 11, 2001, the depressed revenue environment, high fuel prices and the Company's restructuring activities, the Company has recorded a number of special charges during the last few years. The following table summarizes the changes since December 31, 2004 in the accruals for these charges (in millions): Aircraft Facility Employee Total Charges Exit Costs Charges Remaining accrual at December 31, 2004 $ 129 $ 26 $ 36 $191 Payments (13) (5) (34) (52) Remaining accrual at September 30, 2005 $ 116 $ 21 $ 2 $139 Cash outlays related to these accruals, as of September 30, 2005, for aircraft charges, facility exit costs and employee charges will occur through 2014, 2018 and the end of 2005, respectively. 9.The Company includes changes in the fair value of certain derivative financial instruments that qualify for hedge accounting (primarily crude oil derivative contracts), changes in minimum pension liabilities and unrealized gains and losses on available-for-sale securities in comprehensive loss. For the three months ended September 30, 2005 and 2004, comprehensive loss was $121 million and $194 million, respectively, and for the nine months ended September 30, 2005 and 2004, comprehensive loss was $168 and $371 million, respectively. The difference between net loss and comprehensive loss for the three and nine months ended September 30, 2005 and 2004 is due primarily to the accounting for the Company's derivative financial instruments. Ineffectiveness is inherent in hedging jet fuel with derivative positions based in crude oil or other crude oil related commodities. As required by Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities", the Company assesses, both at the inception of each hedge and on an on-going basis, whether the derivatives that are used in its hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. The Company discontinues hedge accounting prospectively if it determines that a derivative is no longer expected to be highly effective as a hedge or if it decides to discontinue the hedging relationship. As a result of its quarterly effectiveness assessment, the Company determined that all of its derivatives settling during the remainder of 2005 and certain of its derivatives settling in 2006 are no longer expected to be highly effective in offsetting changes in forecasted jet fuel purchases. As a result, effective on October 1, 2005, all subsequent changes in the fair value of those particular hedge contracts will be recognized directly in earnings rather than being deferred in Accumulated other comprehensive loss. Hedge accounting will continue to be applied to derivatives used to hedge forecasted jet fuel purchases that are expected to remain highly effective. -8- AMR CORPORATION NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (Unaudited) 10.The following table sets forth the computations of basic and diluted loss per share (in millions, except per share data): Three Months Nine Months Ended Ended September 30, September 30, 2005 2004 2005 2004 Numerator: Net loss - numerator for basic and diluted loss per share $(153) $(214) $(257) $(374) Denominator: Denominator for basic and diluted loss per share - weighted- average shares 164 161 163 160 Basic and diluted loss per share $(0.93) $(1.33) $(1.58) $(2.33) For the three month and nine month periods ended September 30, 2005 and 2004, approximately 82 million shares issuable upon conversion of the Company's convertible notes or related to employee stock options and deferred stock were not added to the denominator because inclusion of such shares would be antidilutive or because the options' exercise prices were greater than the average market price of the common shares. -9- Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 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," "indicates," "believes," "forecast," "guidance," "outlook" and similar expressions are intended to identify forward- looking statements. Forward-looking statements include, without limitation, the Company's expectations concerning operations and financial conditions, including changes in capacity, revenues and costs, future financing plans and needs, overall economic conditions, plans and objectives for future operations, and the impact on the Company of its results of operations in recent years and the sufficiency of its financial resources to absorb that impact. Other forward-looking statements include statements which do not relate solely to historical facts, such as, without limitation, statements which discuss the possible future effects of current known trends or uncertainties or which indicate that the future effects of known trends or uncertainties cannot be predicted, guaranteed or assured. All forward-looking statements in this report are based upon information available to the Company on the date of this report. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise. Forward-looking statements are subject to a number of factors that could cause the Company's actual results to differ materially from the Company's 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: changes in economic, business and financial conditions; the Company's substantial indebtedness; continued high fuel prices and the availability of fuel; further increases in the price of fuel; the impact of events in Iraq; conflicts in the Middle East or elsewhere; the highly competitive business environment faced by the Company, characterized by increasing pricing transparency and competition from low cost carriers and financially distressed carriers; historically low fare levels and fare simplification initiatives (both of which could result in a further deterioration of the revenue environment); the ability of the Company to reduce its costs further without adversely affecting operational performance and service levels; uncertainties with respect to the Company's international operations; changes in the Company's business strategy; actions by U.S. or foreign government agencies; the possible occurrence of additional terrorist attacks; another outbreak of a disease (such as SARS) that affects travel behavior; uncertainties with respect to the Company's relationships with unionized and other employee work groups; the inability of the Company to satisfy existing financial or other covenants in certain of its credit agreements; the availability and terms of future financing; the ability of the Company to reach acceptable agreements with third parties; and increased insurance costs and potential reductions of available insurance coverage. Additional information concerning these and other factors is contained in the Company's Securities and Exchange Commission filings, including but not limited to the 2004 Form 10-K. Overview The Company incurred a $153 million net loss during the third quarter of 2005 compared to a net loss of $214 million in the same period last year. The Company's third quarter 2005 results were impacted by the continuing increase in fuel prices and certain other costs, offset by an improvement in revenues, a $27 million decrease in depreciation expense related to a change in the depreciable lives of certain aircraft types described in Note 4 to the condensed consolidated financial statements, and productivity improvements and other cost reductions resulting from progress under the Turnaround Plan. The Company's third quarter 2005 results were also impacted by an $80 million charge for the termination of a contract and a $22 million credit for the reversal of an insurance reserve. Fuel price increases resulted in a year-over-year increase of 62.6 cents per gallon for the third quarter. This price increase negatively impacted fuel expense by $525 million during the quarter based on fuel consumption of 839 million gallons. Continuing high fuel prices, additional increases in the price of fuel, and/or disruptions in the supply of fuel would further adversely affect the Company's financial condition and its results of operations. Mainline passenger unit revenues increased 12.6 percent for the third quarter due to a 3.3 point load factor increase and an 8.0 percent increase in passenger yield (passenger revenue per passenger mile) compared to the same period in 2004. Although load factor performance and yield showed significant year-over-year improvement, passenger yield remains depressed by historical standards. The Company believes this depressed passenger yield is due in large part to a corresponding decline in the Company's pricing power. The Company's reduced pricing power is the product of several factors, including: greater cost sensitivity on the part of travelers (particularly business travelers); pricing transparency resulting from the use of the internet; greater competition from low-cost carriers and from carriers that have recently reorganized or are reorganizing, including under the protection of Chapter 11 of the Bankruptcy Code; other carriers that are well hedged against rising fuel costs and able to better absorb the current high jet fuel prices; and, more recently, fare simplification efforts by certain carriers. The Company believes that its reduced pricing power will persist indefinitely and possibly permanently. The Company's ability to become profitable and its ability to continue to fund its obligations on an ongoing basis will depend on a number of factors, some of which are largely beyond the Company's control. Some of the risk factors that affect the Company's business and financial results are referred to under "Forward-Looking Information" above and are discussed in the Risk Factors listed in Item 7 (on pages 35-38) in the 2004 Form 10-K. As the Company seeks to improve its financial condition, it must continue to take steps to generate additional revenues and to significantly reduce its costs. Although the Company has a number of initiatives underway to address its cost and revenue challenges, the adequacy and ultimate success of these initiatives is not known at this time and cannot be assured. It will be very difficult, absent continued restructuring of its operations, for the Company to continue to fund its obligations on an ongoing basis or to become profitable if the overall industry revenue environment does not improve and fuel prices remain at historically high levels for an extended period. LIQUIDITY AND CAPITAL RESOURCES Significant Indebtedness and Future Financing The Company remains heavily indebted and has significant obligations (including substantial pension funding obligations), as described more fully under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2004 Form 10-K. The Company believes it should have sufficient liquidity to fund its operations for the foreseeable future, including repayment of debt and capital leases, capital expenditures and other contractual obligations. Nonetheless, to maintain sufficient liquidity as the Company continues to implement its restructuring and cost reduction initiatives, the Company will need access to additional funding. The Company's possible financing sources primarily include: (i) a limited amount of additional secured aircraft debt (a very large majority of the Company's owned aircraft, including virtually all of the Company's Section 1110-eligible aircraft, are encumbered) or sale-leaseback transactions involving owned aircraft; (ii) debt secured by new aircraft deliveries; (iii) debt secured by other assets; (iv) securitization of future operating receipts; (v) the sale or monetization of certain assets; (vi) unsecured debt; and (vii) equity and/or equity-like securities. However, the availability and level of these financing sources cannot be assured, particularly in light of the Company's and American's reduced credit ratings, high fuel prices, the historically weak fare environment and the financial difficulties being experienced in the airline industry. The inability of the Company to obtain additional funding would have a material negative impact on the ability of the Company to sustain its operations over the long-term. The Company's substantial indebtedness could have important consequences. For example, it could: (i) limit the Company's ability to obtain additional financing for working capital, capital expenditures, acquisitions and general corporate purposes, or adversely affect the terms on which such financing could be obtained; (ii) require the Company to dedicate a substantial portion of its cash flow from operations to payments on its indebtedness, thereby reducing the funds available for other purposes; (iii) make the Company more vulnerable to economic downturns; (iv) limit its ability to withstand competitive pressures and reduce its flexibility in responding to changing business and economic conditions; and (v) limit the Company's flexibility in planning for, or reacting to, changes in its business and the industry in which it operates. Credit Facility Covenants American has a credit facility (the Credit Facility) consisting of a fully drawn $555 million senior secured revolving credit facility with a final maturity on June 17, 2009 and a fully drawn $248 million term loan facility with a final maturity on December 17, 2010. The Credit Facility contains a covenant (the Liquidity Covenant) requiring American to maintain, as defined, unrestricted cash, unencumbered short term investments and amounts available for drawing under committed revolving credit facilities of not less than $1.5 billion for each quarterly period through September 30, 2005 and $1.25 billion for each quarterly period thereafter. American was in compliance with the Liquidity Covenant as of September 30, 2005 and expects to be able to continue to comply with this covenant. In addition, the Credit Facility contains a covenant (the EBITDAR Covenant) requiring AMR to maintain a ratio of cash flow (defined as consolidated net income, before interest expense (less capitalized interest), income taxes, depreciation and amortization and rentals, adjusted for certain gains or losses and non-cash items) to fixed charges (comprising interest expense (less capitalized interest) and rentals). The required ratio was 0.90 to 1.00 for the four quarter period ending September 30, 2005 and will increase gradually to 1.50 to 1.00 for the four quarter period ending March 31, 2008 and for each four quarter period ending on each fiscal quarter thereafter. AMR was in compliance with the EBITDAR covenant as of September 30, 2005 and expects to be able to continue to comply with this covenant for the period ending December 31, 2005. However, given the historically high price of fuel and the volatility of fuel prices and revenues, it is difficult to assess whether AMR and American will, in fact, be able to continue to comply with the Liquidity Covenant and in particular the EBITDAR Covenant, and there are no assurances that AMR and American will be able to comply with these covenants. Failure to comply with these covenants would result in a default under the Credit Facility which - - if the Company did not take steps to obtain a waiver of, or otherwise mitigate, the default - - could result in a default under a significant amount of the Company's other debt and lease obligations. Pension Funding Obligation The Company contributed $288 million to its defined benefit pension plans during the nine month period ended September 30, 2005, and completed its required 2005 calendar year funding by contributing an additional $22 million on October 14, 2005. Due to uncertainty regarding the impact of proposed legislation, the Company is not yet able to reasonably estimate its future required contributions beyond 2005. Various defined benefit pension reform proposals are currently under consideration by the Government, which could have a significant - - positive or negative - - impact on the Company's future required pension contributions. The likely outcome of these proposals is currently unclear. Based on the current regulatory environment and market conditions, the Company expects that its 2006 minimum required contributions will exceed its 2005 contributions; however, there are certain scenarios where the Company's 2006 minimum required contribution would be less than the 2005 amount. -12- Cash Flow Activity At September 30, 2005, the Company had $3.4 billion in unrestricted cash and short-term investments, an increase of $483 million from December 31, 2004. Net cash provided by operating activities in the nine-month period ended September 30, 2005 was $1.0 billion, an increase of $229 million over the same period in 2004. The increase was primarily the result of an increase in the Air traffic liability due to a modest improvement in the revenue environment. Capital expenditures for the first nine months of 2005 were $586 million and included the acquisition of 20 Embraer 145 aircraft and the cost of improvements at New York's John F. Kennedy airport. In July 2005, American completed the re-marketing of $198 million of DFW-FIC Series 2000A Unsecured Revenue Refunding Bonds that mature May 1, 2029. Certain municipalities originally issued these special facility revenue bonds primarily to improve airport facilities that are leased by American and accounted for as operating leases. They were acquired by American in 2003 under a mandatory tender provision. Thus, American received the proceeds from the remarketing in July which results in an increase to Other liabilities, deferred gains and deferred credits where the tendered bonds had been classified pending their use to offset certain future operating lease obligations. In September 2005, American sold and leased back 89 spare engines with a book value of $105 million to a variable interest entity (VIE). The net proceeds received from third parties were $133 million. American is considered the primary beneficiary of the activities of the VIE as American has substantially all of the residual value risk associated with the transaction. As such, American is required to consolidate the VIE in its financial statements. At September 30, 2005, the book value of the engines was included in Flight equipment, net on the condensed consolidated balance sheet. The engines serve as collateral for the VIE's long-term debt of $133 million at September 30, 2005, which has also been included in the condensed consolidated balance sheet. The VIE has no other significant operations. Also in September 2005, American purchased certain obligations due October 2006 with a face value of $261 million at par value from an institutional investor. In conjunction with the purchase, American borrowed an additional $245 million under an existing mortgage agreement with a final maturity in December 2012 from the same investor. The interest rate on the mortgage agreement remains substantially unchanged. The additional borrowings required American to grant a security interest in certain spare engines and related collateral. The transaction was accounted for as a modification of the original debt under Emerging Issues Task Force Issue 96-19 "Debtor's Accounting for a Modification or Exchange of Debt Instruments". As a result of this transaction, the Company's 2006 maturities of long-term debt decreased from $1.3 billion to $1.1 billion. During the nine-month period ended September 30, 2005, AMR Eagle borrowed approximately $319 million (net of discount), under various debt agreements, related to the purchase of regional jet aircraft. These debt agreements are secured by the related aircraft, have an effective interest rate of 5.0 percent, are guaranteed by AMR and mature over various periods of time through 2021. The New York City Industrial Development Agency is in the process of offering up to $770 million of special facility revenue bonds on behalf of American. Proceeds from these bonds would generally be used to reimburse American for certain construction costs related to facility improvements at John F. Kennedy International Airport. If these bonds are issued, American would be responsible for debt service on the bonds and would consolidate the debt in its financial statements. American can give no assurance as to whether or when these bonds will be issued or, if issued, as to the amount of the bonds that will be issued. -13- RESULTS OF OPERATIONS For the Three Months Ended September 30, 2005 and 2004 Revenues The Company's revenues increased approximately $723 million, or 15.2 percent, to $5.5 billion in the third quarter of 2005 from the same period last year. American's passenger revenues increased by 15.4 percent, or $590 million, on a capacity (available seat mile) (ASM) increase of 2.5 percent. American's passenger load factor increased 3.3 points to 81.2 percent and passenger revenue yield per passenger mile increased by 8.0 percent to 11.96 cents. This resulted in an increase in American's passenger revenue per available seat mile (RASM) of 12.6 percent to 9.71 cents. Following is additional information regarding American's domestic and international RASM and capacity: Three Months Ended September 30, 2005 RASM Y-O-Y ASMs Y-O-Y (cents) Change (billions) Change Domestic 9.4 13.8% 29.6 0.1% International 10.2 10.1 16.0 7.1 Latin America 9.9 14.3 7.5 3.8 Europe 11.1 10.8 6.6 5.5 Pacific 8.3 (9.0) 1.8 31.4 Regional affiliates' passenger revenues, which are based on industry standard proration agreements for flights connecting to American flights, increased $82 million, or 16.8 percent, to $570 million as a result of increased capacity and load factors. Regional affiliates' traffic increased 21.8 percent to 2.4 billion revenue passenger miles (RPMs), while capacity increased 17.1 percent to 3.3 billion ASMs, resulting in a 2.7 point increase in the passenger load factor to 71.7 percent. Cargo revenues increased 2.0 percent, or $3 million, to $152 million as a result of a 1.9 percent increase in cargo ton miles. In addition, the cargo division saw a $13 million increase in fuel surcharges and other service fees. These amounts are included in Other revenues which are discussed below. Other revenues increased 16.7 percent, or $48 million, to $335 million due in part to increased cargo fuel surcharges, increased third-party maintenance contracts obtained by the Company's maintenance and engineering group, and increases in certain passenger fees. Operating Expenses The Company's total operating expenses increased 13.7 percent, or $657 million, to $5.4 billion in the third quarter of 2005 compared to the third quarter of 2004. American's mainline operating expenses per ASM in the third quarter of 2005 increased 9.7 percent compared to the third quarter of 2004 to 10.62 cents. These increases are due primarily to a 49.6 percent increase in American's price per gallon of fuel in the third quarter of 2005 relative to the third quarter of 2004. The Company's operating and financial results are significantly affected by the price of jet fuel. Continuing high fuel prices, additional increases in the price of fuel, or disruptions in the supply of fuel, would further adversely affect the Company's financial condition and results of operations. The Company's 2005 third quarter expenses were impacted by an $80 million charge for the termination of a contract and a $22 million credit for the reversal of an insurance reserve. The Company recorded an $18 million adjustment in Special charges in the third quarter of 2004 (see explanation below). -14- (in millions) Three Months Ended Increase / Operating Expenses September 30, (Decrease) Percentage 2005 from 2004 Change Wages, salaries and benefits $1,664 $ (32) (1.9)% Aircraft fuel 1,582 526 49.8 (a) Other rentals and landing fees 337 42 14.2 (b) Depreciation and amortization 292 (25) (7.9) Commissions, booking fees and credit card expense 292 4 1.4 Maintenance, materials and repairs 269 4 1.5 Aircraft rentals 148 (4) (2.7) Food service 136 (9) (6.2) Other operating expenses 726 133 22.4 (c) Special charges (credits) - 18 NM (d) Total operating expenses $5,446 $ 657 13.7% (a) Aircraft fuel expense increased primarily due to a 49.6 percent increase in American's price per gallon of fuel offset by a 1.3 percent decrease in American's fuel consumption. (b) Other rentals and landing fees increased primarily due to additional landing fees resulting from higher rates. (c) Other operating expenses increased primarily due to a charge of $80 million related to the termination of a contract somewhat offset by a $22 million credit for the reversal of an insurance reserve. An increase in communications charges of $23 million, primarily due to increased international services, also contributed to the increase in the account. (d) Special charges (credits) for 2004 included the reversal of reserves previously established for facility exit costs of $18 million. Other Income (Expense) Other income (expense), historically a net expense, increased $5 million with offsetting $21 million increases in both interest income and interest expense due primarily to higher balances and interest rates. Income Tax The Company did not record a net tax benefit associated with its third quarter 2005 and 2004 losses due to the Company providing a valuation allowance, as discussed in Note 5 to the condensed consolidated financial statements. -15- Operating Statistics The following table provides statistical information for American and Regional Affiliates for the three months ended September 30, 2005 and 2004. Three Months Ended September 30, 2005 2004 American Airlines, Inc. Mainline Jet Operations Revenue passenger miles (millions) 37,025 34,659 Available seat miles (millions) 45,613 44,515 Cargo ton miles (millions) 539 529 Passenger load factor 81.2% 77.9% Passenger revenue yield per passenger mile (cents) 11.96 11.07 Passenger revenue per available seat mile (cents) 9.71 8.62 Cargo revenue yield per ton mile (cents) 28.23 28.11 Operating expenses per available seat mile, excluding Regional Affiliates (cents) (*) 10.62 9.68 Fuel consumption (gallons, in millions) 763 773 Fuel price per gallon (cents) 187.6 125.4 Operating aircraft at period-end 727 734 Regional Affiliates Revenue passenger miles (millions) 2,386 1,959 Available seat miles (millions) 3,326 2,840 Passenger load factor 71.7% 69.0% (*) Excludes $650 million and $539 million of expense incurred related to Regional Affiliates in 2005 and 2004, respectively. Operating aircraft at September 30, 2005, included: American Airlines Aircraft AMR Eagle Aircraft Airbus A300-600R 34 Bombardier CRJ-700 25 Boeing 737-800 77 Embraer 135 39 Boeing 757-200 143 Embraer 140 59 Boeing 767-200 Extended Range 16 Embraer 145 108 Boeing 767-300 Extended Range 58 Super ATR 41 Boeing 777-200 Extended Range 45 Saab 340B/340B Plus 28 McDonnell Douglas MD-80 354 Total 300 Total 727 The average aircraft age for American's and AMR Eagle's aircraft is 13.0 years and 5.9 years, respectively. Of the operating aircraft listed above, 24 McDonnell Douglas MD-80s - - 13 owned, five operating leased and six capital leased - - as well as two Saab 340B Plus were in temporary storage as of September 30, 2005. -16- Owned and leased aircraft not operated by the Company at September 30, 2005, included: American Airlines Aircraft AMR Eagle Aircraft Boeing 767-200 2 Embraer 145 10 Boeing 767-200 Extended Range 3 Saab 340B/340B Plus 53 Fokker 100 4 Total 63 McDonnell Douglas MD-80 7 Total 16 As part of the Company's fleet simplification initiative, American has agreed to sell certain aircraft. As of September 30, 2005, remaining owned aircraft to be delivered under these agreements include one Boeing 767-200 Extended Range and two Boeing 767-200 aircraft. AMR Eagle has leased its 10 owned Embraer 145s that are not operated by AMR Eagle to Trans States Airlines, Inc. For the Nine Months Ended September 30, 2005 and 2004 Revenues The Company's revenues increased approximately $1.4 billion, or 10.2 percent, to $15.5 billion for the nine months ended September 30, 2005 from the same period last year. American's passenger revenues increased by 9.8 percent, or $1.1 billion, on a capacity (ASM) increase of 1.8 percent. American's passenger load factor increased 3.8 points to 78.8 percent and passenger revenue yield per passenger mile increased 2.7 percent to 11.92 cents. This resulted in an increase in American's passenger RASM of 7.9 percent to 9.39 cents. Following is additional information regarding American's domestic and international RASM and capacity: Nine Months Ended September 30, 2005 RASM Y-O-Y ASMs Y-O-Y (cents) Change (billions) Change Domestic 9.3 8.6% 87.3 (1.9)% International 9.6 6.2 46.1 9.7 Latin America 9.4 6.3 22.9 8.6 Europe 10.3 9.6 18.1 6.4 Pacific 8.3 (5.9) 5.1 29.1 Regional affiliates' passenger revenues, which are based on industry standard proration agreements for flights connecting to American flights, increased $169 million, or 12.0 percent, to $1.6 billion as a result of increased capacity and load factors. Regional affiliates' traffic increased 23.0 percent to 6.6 billion RPMs, while capacity increased 18.8 percent to 9.5 billion ASMs, resulting in a 2.4 point increase in the passenger load factor to 69.7 percent. Cargo revenues increased 1.8 percent, or $8 million, to $460 million as a result of a 1.2 percent increase in cargo ton miles in addition to a 0.7 percent increase in cargo revenue yield per ton mile. In addition, the cargo division saw a $38 million increase in fuel surcharges and other service fees. These amounts are included in Other revenues which are discussed below. Other revenues increased 16.9 percent, or $140 million, to $968 million due in part to increased cargo fuel surcharges, increased third-party maintenance contracts obtained by the Company's maintenance and engineering group, and increases in certain passenger fees. -17- Operating Expenses The Company's total operating expenses increased 9.8 percent, or $1.4 billion, to $15.3 billion for the nine months ended September 30, 2005 compared to the same period in 2004. American's mainline operating expenses per ASM in the nine months ended September 30, 2005 increased 6.3 percent compared to the same period in 2004 to 10.16 cents. These increases are due primarily to a 44.5 percent increase in American's price per gallon of fuel in 2005 relative to the same period in 2004, including the impact of a $55 million fuel excise tax refund received in March 2005. (in millions) Nine Months Ended Increase / September 30, (Decrease) Percentage Operating Expenses 2005 from 2004 Change Wages, salaries and benefits $4,979 $(60) (1.2)% Aircraft fuel 4,030 1,249 44.9 (a) Other rentals and landing fees 956 55 6.1 Depreciation and amortization 868 (95) (9.9) Commissions, booking fees and credit card expense 849 (14) (1.6) Maintenance, materials and repairs 761 20 2.7 Aircraft rentals 443 (15) (3.3) Food service 388 (33) (7.8) Other operating expenses 1,979 204 11.5 (b) Special charges (credits) - 49 NM (c) Total operating expenses $15,253 $1,360 9.8% (a) Aircraft fuel expense increased primarily due to a 44.5 percent increase in American's price per gallon of fuel (including the benefit of a $55 million fuel excise tax refund received in March 2005 and the impact of fuel hedging) offset by a 1.5 percent decrease in American's fuel consumption. (b) Other operating expenses increased in part due to a charge of $80 million related to the termination of a contract somewhat offset by a $22 million credit for the reversal of an insurance reserve. Increases in communications charges of $51 million and information technology spending of $15 million also contributed to the increase in the account. (c) Special charges (credits) for 2004 included the reversal of reserves previously established for aircraft return costs of $20 million, facility exit costs of $18 million and employee severance of $11 million. Other Income (Expense) Other income (expense), historically a net expense, decreased $37 million. Interest income increased $57 million due primarily to a $14 million interest refund related to the fuel excise tax refund discussed above and increases in interest rates and short-term investments. Interest expense increased $49 million due primarily to increases in variable interest rates. Miscellaneous-net decreased $30 million, reflecting the accrual during the first quarter of 2004 of a $23 million award rendered by an independent arbitrator related to a grievance filed by the Allied Pilots Association. Income Tax The Company did not record a net tax benefit associated with its losses for the nine months ended September 30, 2005 and 2004 due to the Company providing a valuation allowance, as discussed in Note 5 to the condensed consolidated financial statements. -18- Operating Statistics The following table provides statistical information for American and Regional Affiliates for the nine months ended September 30, 2005 and 2004. Nine Months Ended September 30, 2005 2004 American Airlines, Inc. Mainline Jet Operations Revenue passenger miles (millions) 105,147 98,271 Available seat miles (millions) 133,485 131,109 Cargo ton miles (millions) 1,636 1,617 Passenger load factor 78.8% 75.0% Passenger revenue yield per passenger mile (cents) 11.92 11.61 Passenger revenue per available seat mile (cents) 9.39 8.70 Cargo revenue yield per ton mile (cents) 28.11 27.92 Operating expenses per available seat mile, excluding Regional Affiliates (cents) (*) 10.16 9.56 Fuel consumption (gallons, in millions) 2,242 2,276 Fuel price per gallon (cents) (**) 162.9 112.7 Regional Affiliates Revenue passenger miles (millions) 6,588 5,355 Available seat miles (millions) 9,452 7,958 Passenger load factor 69.7% 67.3% (*) Excludes $1.9 billion and $1.5 billion of expense incurred related to Regional Affiliates in 2005 and 2004, respectively. (**) Includes the benefit of 2.5 cents per gallon impact from the $55 million fuel excise tax refund in 2005. Outlook The Company expects to post -- at the current level of fuel prices -- a significant loss in the fourth quarter. The Company currently expects fourth quarter mainline unit costs to be approximately 11.42 cents, including the 0.09 cent favorable impact of the $37 million potential gain discussed in Note 3 to the condensed consolidated financial statements. Capacity for American's mainline jet operations is expected to remain approximately flat in the fourth quarter of 2005 compared to the fourth quarter of 2004. -19- Item 3. Quantitative and Qualitative Disclosures about Market Risk 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 2004 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 analyses presented do not consider the effects that such adverse changes may have on overall economic activity, nor do they consider additional actions management may take to mitigate the Company's exposure to such changes. Therefore, actual results may differ. The Company does not hold or issue derivative financial instruments for trading purposes. 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 oil hedging contracts. Market risk is estimated as a hypothetical 10 percent increase in the September 30, 2005 cost per gallon of fuel. Based on projected 2005 and 2006 fuel usage through September 30, 2006, such an increase would result in an increase to aircraft fuel expense of approximately $948 million in the twelve months ended September 30, 2006, inclusive of the impact of effective fuel hedge instruments outstanding at September 30, 2005, and assumes the Company's fuel hedging program remains effective under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities". Comparatively, based on projected 2005 fuel usage, such an increase would have resulted in an increase to aircraft fuel expense of approximately $377 million in the twelve months ended December 31, 2005, inclusive of the impact of fuel hedge instruments outstanding at December 31, 2004. The change in market risk is primarily due to the increase in fuel prices. Ineffectiveness is inherent in hedging jet fuel with derivative positions based in crude oil or other crude oil related commodities. As required by Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities", the Company assesses, both at the inception of each hedge and on an on- going basis, whether the derivatives that are used in its hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. The Company discontinues hedge accounting prospectively if it determines that a derivative is no longer expected to be highly effective as a hedge or if it decides to discontinue the hedging relationship. As a result of its quarterly effectiveness assessment, the Company determined that all of its derivatives settling during the remainder of 2005 and certain of its derivatives settling in 2006 are no longer expected to be highly effective in offsetting changes in forecasted jet fuel purchases. As a result, effective on October 1, 2005, all subsequent changes in the fair value of those particular hedge contracts will be recognized directly in earnings rather than being deferred in Accumulated other comprehensive loss. Hedge accounting will continue to be applied to derivatives used to hedge forecasted jet fuel purchases that are expected to remain highly effective. As of September 30, 2005, the Company had hedged an insignificant percentage of its estimated remaining 2005, 2006 and 2007 fuel requirements with option contracts. -20- Item 4. Controls and Procedures The term "disclosure controls and procedures" is defined in Rules 13a- 15(e) and 15d-15(e) of the Securities Exchange Act of 1934, or the Exchange Act. This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission. 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 Company's disclosure controls and procedures as of September 30, 2005. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of September 30, 2005. During the quarter ending on September 30, 2005, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. -21- 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). On July 9, 2003, the court certified a class that included 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. On February 24, 2005, the court decertified the class. In September 2005, the Court granted Summary Judgment in favor of the Company and all other defendants. The time for plaintiffs to file a notice of appeal has not yet run. 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. Between April 3, 2003 and June 5, 2003, three lawsuits were filed by travel agents some of whom opted out of a prior class action (now dismissed) to pursue their claims individually against American 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. These cases have been consolidated in the United States District Court for the Northern District of Ohio Eastern Division. 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 August 19, 2002, a class action lawsuit seeking monetary damages 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 Airlines, 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. -22- 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 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). The Company is vigorously defending the lawsuit. 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. The case is currently stayed while the parties pursue an alternative dispute resolution process. The County has proposed draft allocation models for remedial costs for the Terminal and Tank Farm areas of MIA. While it is anticipated that American and AMR Eagle will be allocated equitable shares of remedial costs, the Company does not expect the allocated amounts to have a material adverse effect on the Company. Four cases (each being a purported class action) have been filed against American arising from the disclosure of passenger name records by a vendor of American. The cases are: Kimmell v. AMR, et al. (U. S. District Court, Texas), Baldwin v. AMR, et al. (U. S. District Court, Texas), Rosenberg v. AMR, et al. (U. S. District Court, New York) and Anapolsky v. AMR, et al. (U.S. District Court, New York). The Kimmell suit was filed in April 2004. The Baldwin and Rosenberg cases were filed in May 2004. The Anapolsky suit was filed in September 2004. The suits allege various causes of action, including but not limited to, violations of the Electronic Communications Privacy Act, negligent misrepresentation, breach of contract and violation of alleged common law rights of privacy. In each case plaintiffs seek statutory damages of $1000 per passenger, plus additional unspecified monetary damages. The Court dismissed the cases but allowed leave to amend, and the Kimmell and Rosenberg cases have been refiled. The Company is vigorously defending these suits and believes the suits are without merit. However, a final adverse court decision awarding a maximum amount of statutory damages would have an adverse impact on the Company. American is defending three lawsuits, filed as class actions but not certified as such, arising from allegedly improper failure to refund certain governmental taxes and fees collected by the Company upon the sale of nonrefundable tickets when such tickets are not used for travel. The suits are: Coleman v. American Airlines, Inc., No. 101106, filed December 31, 2002, pending (on appeal) before the Supreme Court of Oklahoma. The Coleman Plaintiffs seek actual damages (not specified) and interest. Hayes v. American Airlines, Inc., No. 04-3231, pending in the United States District Court for the Eastern District of New York, filed July 2, 2004. The Hayes Plaintiffs seek unspecified damages, declaratory judgment, costs, attorneys' fees, and interest. Harrington v. Delta Air Lines, Inc., et. al., No. 04- 12558, pending in the United States District Court for the District of Massachusetts, filed November 4, 2004. The Harrington plaintiffs seek unspecified actual damages (trebled), declaratory judgment, injunctive relief, costs, and attorneys' fees. The suits assert various causes of action, including breach of contract, conversion, and unjust enrichment. The Company is vigorously defending the suits and believes them to be without merit. However, a final adverse court decision requiring the Company to refund collected taxes and/or fees could have an adverse impact on the Company. On March 11, 2004, a patent infringement lawsuit was filed against AMR Corporation, American Airlines, Inc., AMR Eagle Holding Corporation, and American Eagle Airlines, Inc. in the United States District Court for the Eastern District of Texas (IAP Intermodal, L.L.C. v. AMR Corp., et al.). The case was consolidated with eight similar lawsuits filed against a number of other unaffiliated airlines, including Continental, Northwest, British Airways, Air France, Pinnacle Airlines, Korean Air and Singapore Airlines (as well as various regional affiliates of the foregoing). The plaintiff alleges that the airline defendants infringe three patents, each of which relates to a system of scheduling vehicles based on freight and passenger transportation requests received from remote computer terminals. The plaintiff is seeking past and future royalties of over $30 billion dollars, injunctive relief, costs and attorneys' fees. On September 7, 2005, the court issued a memorandum opinion that interpreted disputed terms in the patents. The plaintiff dismissed its claims without prejudice to its right to appeal the September 7, 2005 opinion. Although the Company believes that the plaintiff's claims are without merit and is vigorously defending the lawsuit, a final adverse court decision awarding substantial money damages or placing material restrictions on existing scheduling practices would have an adverse impact on the Company. -23- On July 12, 2004, a consolidated class action complaint, that was subsequently amended on November 30, 2004, was filed against American Airlines, Inc. and the Association of Professional Flight Attendants (APFA), the Union which represents the Company's flight attendants (Ann M. Marcoux, et al., v. American Airlines Inc., et al. in the United States District Court for the Eastern District of New York). While a class has not yet been certified, the lawsuit seeks on behalf of all of American's flight attendants or various subclasses to set aside, and to obtain damages allegedly resulting from, the April 2003 Collective Bargaining Agreement referred to as the Restructuring Participation Agreement (RPA). The RPA was one of three labor agreements the Company successfully reached with its unions in order to avoid filing for bankruptcy in 2003. In a related case (Sherry Cooper, et al. v. TWA Airlines, LLC, et al., also in the United States District Court for the Eastern District of New York), the court denied a preliminary injunction against implementation of the RPA on June 30, 2003. The Marcoux suit alleges various claims against the Union and American relating to the RPA and the ratification vote on the RPA by individual Union members, including: violation of the Labor Management Reporting and Disclosure Act (LMRDA) and the APFA's Constitution and By-laws, violation by the Union of its duty of fair representation to its members, violation by the Company of provisions of the Railway Labor Act through improper coercion of flight attendants into voting or changing their vote for ratification, and violations of the Racketeer Influenced and Corrupt Organizations Act of 1970 (RICO). Although the Company believes the case against it is without merit and both the Company and the Union are vigorously defending the lawsuit, a final adverse court decision invalidating the RPA and awarding substantial money damages would have an adverse impact on the Company. -24- Item 6. Exhibits The following exhibits are included herein: 10 Trust Agreement Under Supplemental Executive Retirement Program for Officers of American Airlines, Inc Participating in the $uper $aver Plus Plan. 12 Computation of ratio of earnings to fixed charges for the three and nine months ended September 30, 2005 and 2004. 31.1 Certification of Chief Executive Officer pursuant to Rule 13a- 14(a). 31.2 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). -25- 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 21, 2005 BY: /s/ James A. Beer James A. Beer Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer) -26-