UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended June 30, 2019

☐ **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

American Airlines Group Inc.
(Exact name of registrant as specified in its charter)

Delaware	**75-1825172**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4333 Amon Carter Blvd., Fort Worth, Texas 76155	**(817) 963-1234**
(Address of principal executive offices, including zip code)	(Registrant's telephone number, including area code)

Commission file number 1-2691

American Airlines, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**13-1502798**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4333 Amon Carter Blvd., Fort Worth, Texas 76155	**(817) 963-1234**
(Address of principal executive offices, including zip code)	(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value per share	**AAL**	**The Nasdaq Global Select Market**

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.

American Airlines Group Inc.	☒	Yes	☐	No
American Airlines, Inc.	☒	Yes	☐	No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

American Airlines Group Inc.	☒	Yes	☐	No
American Airlines, Inc.	☒	Yes	☐	No

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

American Airlines Group Inc.	☒ Large accelerated filer	☐ Accelerated filer	☐ Non-accelerated filer	☐ Smaller reporting company	☐ Emerging growth company
American Airlines, Inc.	☐ Large accelerated filer	☐ Accelerated filer	☒ Non-accelerated filer	☐ Smaller reporting company	☐ Emerging growth company

If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

American Airlines Group Inc.	☐
American Airlines, Inc.	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

American Airlines Group Inc.	☐	Yes	☒	No
American Airlines, Inc.	☐	Yes	☒	No

As of July 19, 2019, there were 445,270,728 shares of American Airlines Group Inc. common stock outstanding.

As of July 19, 2019, there were 1,000 shares of American Airlines, Inc. common stock outstanding, all of which were held by American Airlines Group Inc.

American Airlines Group Inc.
American Airlines, Inc.
Form 10-Q
Quarterly Period Ended June 30, 2019
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General

This report is filed by American Airlines Group Inc. (AAG) and its wholly-owned subsidiary American Airlines, Inc. (American). References in this report to "we," "us," "our," the "Company" and similar terms refer to AAG and its consolidated subsidiaries. References in this report to "mainline" refer to the operations of American only and exclude regional operations.

Note Concerning Forward-Looking Statements

Certain of the statements contained in this report should be considered forward-looking statements within the meaning of the Securities Act of 1933, as amended (the Securities Act), the Securities Exchange Act of 1934, as amended (the Exchange Act), and the Private Securities Litigation Reform Act of 1995. These forward-looking statements may be identified by words such as "may," "will," "expect," "intend," "anticipate," "believe," "estimate," "plan," "project," "could," "should," "would," "continue," "seek," "target," "guidance," "outlook," "if current trends continue," "optimistic," "forecast" and other similar words. Such statements include, but are not limited to, statements about our plans, objectives, expectations, intentions, estimates and strategies for the future, and other statements that are not historical facts. These forward-looking statements are based on our current objectives, beliefs and expectations, and they are subject to significant risks and uncertainties that may cause actual results and financial position and timing of certain events to differ materially from the information in the forward-looking statements. These risks and uncertainties include, but are not limited to, those described below under Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Part II, Item 1A. Risk Factors and other risks and uncertainties listed from time to time in our filings with the Securities and Exchange Commission (the SEC).

All of the forward-looking statements are qualified in their entirety by reference to the factors discussed in Part II, Item 1A. Risk Factors and elsewhere in this report. There may be other factors of which we are not currently aware that may affect matters discussed in the forward-looking statements and may also cause actual results to differ materially from those discussed. We do not assume any obligation to publicly update or supplement any forward-looking statement to reflect actual results, changes in assumptions or changes in other factors affecting such statements other than as required by law. Forward-looking statements speak only as of the date of this report or as of the dates indicated in the statements.

PART I: FINANCIAL INFORMATION

This report on Form 10-Q is filed by both AAG and American and includes the Condensed Consolidated Financial Statements of each company in Item 1A and Item 1B, respectively.

ITEM 1A. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES GROUP INC.

AMERICAN AIRLINES GROUP INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except shares and per share amounts)(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Operating revenues:				
Passenger	$ 11,011	$ 10,674	$ 20,669	$ 20,154
Cargo	221	261	439	488
Other	728	708	1,436	1,402
Total operating revenues	11,960	11,643	22,544	22,044
Operating expenses:				
Aircraft fuel and related taxes	1,995	2,103	3,722	3,866
Salaries, wages and benefits	3,200	3,095	6,290	6,111
Regional expenses	1,886	1,793	3,648	3,490
Maintenance, materials and repairs	575	505	1,136	973
Other rent and landing fees	535	495	1,039	962
Aircraft rent	334	311	661	621
Selling expenses	401	385	771	742
Depreciation and amortization	489	457	969	898
Special items, net	121	182	259	407
Other	1,271	1,313	2,521	2,574
Total operating expenses	10,807	10,639	21,016	20,644
Operating income	1,153	1,004	1,528	1,400
Nonoperating income (expense):				
Interest income	35	30	68	55
Interest expense, net	(275)	(263)	(546)	(525)
Other income (expense), net	(31)	(15)	78	64
Total nonoperating expense, net	(271)	(248)	(400)	(406)
Income before income taxes	882	756	1,128	994
Income tax provision	220	200	281	278
Net income	$ 662	$ 556	$ 847	$ 716
Earnings per common share:				
Basic	$ 1.49	$ 1.20	$ 1.89	$ 1.53
Diluted	$ 1.49	$ 1.20	$ 1.88	$ 1.52
Weighted average shares outstanding (in thousands):				
Basic	445,008	463,533	448,479	467,915
Diluted	445,587	464,618	449,508	469,608
Cash dividends declared per common share	$ 0.10	$ 0.10	$ 0.20	$ 0.20

See accompanying notes to condensed consolidated financial statements.

AMERICAN AIRLINES GROUP INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Net income	$ 662	$ 556	$ 847	$ 716
Other comprehensive income (loss), net of tax:				
Pension, retiree medical and other postretirement benefits	(18)	(17)	(34)	(33)
Investments	—	2	3	—
Total other comprehensive loss, net of tax	(18)	(15)	(31)	(33)
Total comprehensive income	$ 644	$ 541	$ 816	$ 683

See accompanying notes to condensed consolidated financial statements.

AMERICAN AIRLINES GROUP INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except shares and par value)

	June 30, 2019 (Unaudited)	December 31, 2018
ASSETS		
Current assets		
Cash	$ 319	$ 275
Short-term investments	5,088	4,485
Restricted cash and short-term investments	157	154
Accounts receivable, net	1,943	1,706
Aircraft fuel, spare parts and supplies, net	1,708	1,522
Prepaid expenses and other	635	495
Total current assets	9,850	8,637
Operating property and equipment		
Flight equipment	42,437	41,499
Ground property and equipment	9,007	8,764
Equipment purchase deposits	1,372	1,278
Total property and equipment, at cost	52,816	51,541
Less accumulated depreciation and amortization	(18,114)	(17,443)
Total property and equipment, net	34,702	34,098
Operating lease right-of-use assets	9,102	9,151
Other assets		
Goodwill	4,091	4,091
Intangibles, net of accumulated amortization of $683 and $663, respectively	2,105	2,137
Deferred tax asset	792	1,145
Other assets	1,325	1,321
Total other assets	8,313	8,694
Total assets	$ 61,967	$ 60,580
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Current maturities of long-term debt and finance leases	$ 3,500	$ 3,294
Accounts payable	2,118	1,773
Accrued salaries and wages	1,304	1,427
Air traffic liability	5,956	4,339
Loyalty program liability	3,310	3,267
Operating lease liabilities	1,639	1,654
Other accrued liabilities	2,296	2,342
Total current liabilities	20,123	18,096
Noncurrent liabilities		
Long-term debt and finance leases, net of current maturities	21,791	21,179
Pension and postretirement benefits	5,641	6,907
Loyalty program liability	5,249	5,272
Operating lease liabilities	7,818	7,902
Other liabilities	1,367	1,393
Total noncurrent liabilities	41,866	42,653
Commitments and contingencies		
Stockholders' equity (deficit)		
Common stock, $0.01 par value; 1,750,000,000 shares authorized, 445,262,351 shares issued and outstanding at June 30, 2019; 460,610,870 shares issued and outstanding at December 31, 2018	5	5
Additional paid-in capital	4,386	4,964
Accumulated other comprehensive loss	(5,927)	(5,896)
Retained earnings	1,514	758
Total stockholders' deficit	(22)	(169)
Total liabilities and stockholders' equity (deficit)	$ 61,967	$ 60,580

See accompanying notes to condensed consolidated financial statements.

AMERICAN AIRLINES GROUP INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)(Unaudited)

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Net cash provided by operating activities	$ 2,387	$ 2,894
Cash flows from investing activities:		
Capital expenditures and aircraft purchase deposits	(2,323)	(1,731)
Proceeds from sale of property and equipment and sale-leaseback transactions	537	258
Purchases of short-term investments	(2,201)	(1,184)
Sales of short-term investments	1,611	1,579
Decrease (increase) in restricted short-term investments	(2)	43
Other investing activities	(35)	—
Net cash used in investing activities	(2,413)	(1,035)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	2,589	892
Payments on long-term debt and finance leases	(1,781)	(1,884)
Deferred financing costs	(22)	(28)
Treasury stock repurchases	(625)	(837)
Dividend payments	(90)	(94)
Other financing activities	(1)	(1)
Net cash provided by (used in) financing activities	70	(1,952)
Net increase (decrease) in cash and restricted cash	44	(93)
Cash and restricted cash at beginning of period	286	398
Cash and restricted cash at end of period [(1)]	$ 330	$ 305
Non-cash transactions:		
Right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	$ 708	$ 315
Finance leases	4	—
Settlement of bankruptcy obligations	7	—
Supplemental information:		
Interest paid, net	559	542
Income taxes paid	4	13

[(1)] The following table provides a reconciliation of cash and restricted cash to amounts reported within the condensed consolidated balance sheets:

	2019	2018
Cash	$ 319	$ 293
Restricted cash included in restricted cash and short-term investments	11	12
Total cash and restricted cash	$ 330	$ 305

See accompanying notes to condensed consolidated financial statements.

AMERICAN AIRLINES GROUP INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(In millions, except share amounts)(Unaudited)

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	Total
Balance at December 31, 2018	$ 5	$ 4,964	$ (5,896)	$ 758	$ (169)
Net income	—	—	—	185	185
Other comprehensive loss, net	—	—	(13)	—	(13)
Purchase and retirement of 16,947,393 shares of AAG common stock	—	(610)	—	—	(610)
Dividends declared on AAG common stock ($0.10 per share)	—	—	—	(46)	(46)
Issuance of 552,752 shares of AAG common stock pursuant to employee stock plans net of shares withheld for cash taxes	—	(8)	—	—	(8)
Share-based compensation expense	—	25	—	—	25
Balance at March 31, 2019	5	4,371	(5,909)	897	(636)
Net income	—	—	—	662	662
Other comprehensive loss, net	—	—	(18)	—	(18)
Dividends declared on AAG common stock ($0.10 per share)	—	—	—	(45)	(45)
Issuance of 1,046,122 shares of AAG common stock pursuant to employee stock plans net of shares withheld for cash taxes	—	(17)	—	—	(17)
Settlement of single-dip unsecured claims held in Disputed Claims Reserve	—	7	—	—	7
Share-based compensation expense	—	25	—	—	25
Balance at June 30, 2019	$ 5	$ 4,386	$ (5,927)	$ 1,514	$ (22)

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	Total
Balance at December 31, 2017	$ 5	$ 5,714	$ (5,776)	$ (723)	$ (780)
Net income	—	—	—	159	159
Other comprehensive loss, net	—	—	(18)	—	(18)
Purchase and retirement of 8,431,150 shares of AAG common stock	—	(449)	—	—	(449)
Dividends declared on AAG common stock ($0.10 per share)	—	—	—	(48)	(48)
Issuance of 313,744 shares of AAG common stock pursuant to employee stock plans net of shares withheld for cash taxes	—	(10)	—	—	(10)
Share-based compensation expense	—	24	—	—	24
Impact of adoption of Accounting Standards Update (ASU) 2016-01 related to financial instruments	—	—	—	60	60
Impact of adoption of ASU 2016-02 related to leases	—	—	—	197	197
Balance at March 31, 2018	5	5,279	(5,794)	(355)	(865)
Net income	—	—	—	556	556
Other comprehensive loss, net	—	—	(15)	—	(15)
Purchase and retirement of 8,175,007 shares of AAG common stock	—	(350)	—	—	(350)
Dividends declared on AAG common stock ($0.10 per share)	—	—	—	(47)	(47)
Issuance of 1,286,622 shares of AAG common stock pursuant to employee stock plans net of shares withheld for cash taxes	—	(26)	—	—	(26)
Share-based compensation expense	—	20	—	—	20
Balance at June 30, 2018	$ 5	$ 4,923	$ (5,809)	$ 154	$ (727)

See accompanying notes to condensed consolidated financial statements.

1. Basis of Presentation and Recent Accounting Pronouncements

(a) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of American Airlines Group Inc. (we, us, our and similar terms, or AAG) should be read in conjunction with the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2018. The accompanying unaudited condensed consolidated financial statements include the accounts of AAG and its wholly-owned subsidiaries. AAG's principal subsidiary is American Airlines, Inc. (American). All significant intercompany transactions have been eliminated.

Management believes that all adjustments necessary for the fair presentation of results, consisting of normally recurring items, have been included in the unaudited condensed consolidated financial statements for the interim periods presented. The preparation of financial statements in accordance with accounting principles generally accepted in the United States (GAAP) requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The most significant areas of judgment relate to passenger revenue recognition, impairment of goodwill, impairment of long-lived and intangible assets, the loyalty program, as well as pension and retiree medical and other postretirement benefits.

In the fourth quarter of 2018, we adopted ASU 2016-02: Leases (Topic 842) (the New Lease Standard) as of January 1, 2018. The New Lease Standard did not require the recast of prior periods; however, since we elected to early adopt the New Lease Standard in the fourth quarter of 2018, the three and six months ended June 30, 2018 have been recast to reflect the effects of adoption. As a result of the adoption of the New Lease Standard, our three and six months ended June 30, 2018 net income decreased by $10 million and $37 million, respectively.

(b) Recent Accounting Pronouncements

ASU 2018-02: Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

This ASU provides the option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings due to the U.S. federal corporate income tax rate change as a result of H.R. 1, the 2017 Tax Cuts and Jobs Act (the 2017 Tax Act). The amount of the reclassification is the difference between the amount initially charged or credited directly to other comprehensive income at the previous U.S. federal corporate income tax rate that remains in accumulated other comprehensive income and the amount that would have been charged or credited directly to other comprehensive income using the newly enacted U.S. federal corporate income tax rate, excluding the effect of any valuation allowance previously charged to income from continuing operations. This standard is effective for interim and annual reporting periods beginning after December 15, 2018. In the first quarter of 2019, we adopted this standard retrospectively as of December 22, 2017, the date the 2017 Tax Act was enacted, which resulted in the recast of prior reporting periods. As a result of the adoption, we reclassified $622 million of stranded tax effects principally related to our pension plans from accumulated other comprehensive loss to retained earnings.

2. Special Items, Net

Special items, net in the condensed consolidated statements of operations consisted of the following (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Fleet restructuring expenses [1]	$ 77	$ 113	$ 160	$ 226
Merger integration expenses [2]	39	60	76	120
Mark-to-market adjustments on bankruptcy obligations, net [3]	5	(57)	5	(56)
Intangible asset impairment [4]	—	26	—	26
Litigation settlement [5]	—	5	—	45
Labor contract expenses	—	—	—	13
Other operating charges, net	—	35	18	33
Mainline operating special items, net	121	182	259	407
Mark-to-market adjustments on equity investments, net [6]	52	66	(25)	66
Debt refinancing and extinguishment charges	8	14	8	14
Other nonoperating charges, net	9	—	16	—
Nonoperating special items, net	69	80	(1)	80
Income tax special items, net [7]	—	18	—	40

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(1) Fleet restructuring expenses principally included accelerated depreciation and rent expense for aircraft and related equipment grounded or expected to be grounded earlier than planned.

(2) Merger integration expenses included costs associated with integration projects, principally our technical operations, flight attendant, human resources and payroll systems.

(3) Bankruptcy obligations that will be settled in shares of our common stock are marked-to-market based on our stock price.

(4) Intangible asset impairment includes a non-cash charge to write-off our Brazil route authority as a result of the U.S.-Brazil open skies agreement.

(5) Settlement of a private party antitrust lawsuit. See Note 12 - "*Private Party Antitrust Action Related to Passenger Capacity*" for further discussion.

(6) Mark-to-market adjustments on equity investments relate to net unrealized gains and losses primarily associated with our equity investment in China Southern Airlines Company Limited (China Southern Airlines).

(7) Income tax special items for the three months ended June 30, 2018 included an $18 million charge related to an international income tax matter. Additionally, the six months ended June 30, 2018 included a $22 million charge to income tax expense to establish a required valuation allowance related to our estimated refund for Alternative Minimum Tax (AMT) credits.

3. Earnings Per Common Share

The following table sets forth the computation of basic and diluted earnings per common share (EPS) (in millions, except share and per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Basic EPS:				
Net income	$ 662	$ 556	$ 847	$ 716
Weighted average common shares outstanding (in thousands)	445,008	463,533	448,479	467,915
Basic EPS	$ 1.49	$ 1.20	$ 1.89	$ 1.53
Diluted EPS:				
Net income for purposes of computing diluted EPS	$ 662	$ 556	$ 847	$ 716
Share computation for diluted EPS (in thousands):				
Basic weighted average common shares outstanding	445,008	463,533	448,479	467,915
Dilutive effect of stock awards	579	1,085	1,029	1,693
Diluted weighted average common shares outstanding	445,587	464,618	449,508	469,608
Diluted EPS	$ 1.49	$ 1.20	$ 1.88	$ 1.52
Restricted stock unit awards excluded from the calculation of diluted EPS because inclusion would be antidilutive (in thousands)	3,087	1,690	2,677	845

4. Share Repurchase Programs and Dividends

In April 2018, we announced that our Board of Directors authorized a $2.0 billion share repurchase program that will expire on December 31, 2020. Since July 2014, our Board of Directors has approved seven share repurchase programs aggregating $13.0 billion of authority. As of June 30, 2019, there was $1.1 billion of remaining authority to repurchase shares under our current $2.0 billion share repurchase program. Share repurchases under our repurchase programs may be made through a variety of methods, which may include open market purchases, privately negotiated transactions, block trades or accelerated share repurchase transactions. Any such repurchases that may be made from time to time will be subject to market and economic conditions, applicable legal requirements and other relevant factors. We are not obligated to repurchase any specific number of shares and our repurchase of AAG common stock may be limited, suspended or discontinued at any time at our discretion and without prior notice.

During the six months ended June 30, 2019, we repurchased 16.7 million shares of AAG common stock (all of which we purchased during the first quarter of 2019) for $600 million at a weighted average cost per share of $36.02. Since the inception of our share repurchase programs in July 2014 through June 30, 2019, we repurchased 295.6 million shares of AAG common stock for $11.9 billion at a weighted average cost per share of $40.43.

In April 2019, our Board of Directors declared a cash dividend of $0.10 per share for stockholders of record as of May 8, 2019 and paid on May 22, 2019, totaling $44 million. For the first six months of 2019, we paid total quarterly cash dividends of $90 million.

5. Revenue Recognition

Revenue

The following are the significant categories comprising our reported operating revenues (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Passenger revenue:				
Passenger travel	$ 10,217	$ 9,877	$ 18,989	$ 18,507
Loyalty revenue - travel [1]	794	797	1,680	1,647
Total passenger revenue	11,011	10,674	20,669	20,154
Cargo	221	261	439	488
Other:				
Loyalty revenue - marketing services	594	582	1,172	1,152
Other revenue	134	126	264	250
Total other revenue	728	708	1,436	1,402
Total operating revenues	$ 11,960	$ 11,643	$ 22,544	$ 22,044

(1) Loyalty revenue included in passenger revenue is principally comprised of mileage credit redemptions earned through travel and mileage credits sold to co-branded credit card and other partners.

The following is our total passenger revenue by geographic region (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Domestic	$ 8,009	$ 7,685	$ 15,235	$ 14,648
Latin America	1,241	1,284	2,612	2,729
Atlantic	1,407	1,298	2,080	1,967
Pacific	354	407	742	810
Total passenger revenue	$ 11,011	$ 10,674	$ 20,669	$ 20,154

We attribute passenger revenue by geographic region based upon the origin and destination of each flight segment.

Contract Balances

Our significant contract liabilities are comprised of (1) outstanding loyalty program mileage credits that may be redeemed for future travel and other non-air travel awards, reported as loyalty program liability on the condensed consolidated balance sheets and (2) ticket sales for transportation that has not yet been provided, reported as air traffic liability on the condensed consolidated balance sheets.

	June 30, 2019	December 31, 2018
	(In millions)	
Loyalty program liability	$ 8,559	$ 8,539
Air traffic liability	5,956	4,339
Total	$ 14,515	$ 12,878

The balance of the loyalty program liability fluctuates based on seasonal patterns, which impact the volume of mileage credits issued through travel or sold to co-branded credit card and other partners (deferral of revenue) and mileage credits redeemed (recognition of revenue). Changes in loyalty program liability are as follows (in millions):

Balance at December 31, 2018	$	8,539
Deferral of revenue		1,806
Recognition of revenue [1]		(1,786)
Balance at June 30, 2019 [2]	$	8,559

(1) Principally relates to revenue recognized from the redemption of mileage credits for both air and non-air travel awards. Mileage credits are combined in one homogenous pool and are not separately identifiable. As such, the revenue is comprised of miles that were part of the loyalty program deferred revenue balance at the beginning of the period, as well as miles that were issued during the period.

(2) Mileage credits can be redeemed at any time and do not expire as long as that AAdvantage member has any type of qualifying activity at least every 18 months. As of June 30, 2019, our current loyalty program liability was $3.3 billion and represents our current estimate of revenue expected to be recognized in the next twelve months based on historical trends, with the balance reflected in long-term loyalty program liability expected to be recognized as revenue in periods thereafter.

The air traffic liability principally represents tickets sold for future travel on American and partner airlines, as well as estimated future refunds and exchanges of tickets sold for past travel. The balance in our air traffic liability also fluctuates with seasonal travel patterns. The contract duration of passenger tickets is one year. Accordingly, any revenue associated with tickets sold for future travel will be recognized within twelve months. For the six months ended June 30, 2019, $3.1 billion of revenue was recognized in passenger revenue that was included in our air traffic liability at December 31, 2018.

6. Debt

Long-term debt included in the condensed consolidated balance sheets consisted of (in millions):

	June 30, 2019	December 31, 2018
Secured		
2013 Credit Facilities, variable interest rate of 4.06%, installments through 2025	$ 1,807	$ 1,825
2014 Credit Facilities, variable interest rate of 4.41%, installments through 2021	1,215	1,215
April 2016 Credit Facilities, variable interest rate of 4.40%, installments through 2023	970	980
December 2016 Credit Facilities, variable interest rate of 4.39%, installments through 2023	1,225	1,225
Enhanced equipment trust certificates (EETCs), fixed interest rates ranging from 3.00% to 8.39%, averaging 4.14%, maturing from 2019 to 2029	11,448	11,648
Equipment loans and other notes payable, fixed and variable interest rates ranging from 3.43% to 7.31%, averaging 4.06%, maturing from 2019 to 2031	5,392	5,060
Special facility revenue bonds, fixed interest rates ranging from 5.00% to 8.00%, maturing from 2019 to 2031	798	798
	22,855	22,751
Unsecured		
5.50% senior notes, interest only payments until due in October 2019	750	750
4.625% senior notes, interest only payments until due in March 2020	500	500
5.000% senior notes, interest only payments until due in June 2022	750	—
	2,000	1,250
Total long-term debt	24,855	24,001
Less: Total unamortized debt discount, premium and issuance costs	216	222
Less: Current maturities	3,417	3,213
Long-term debt, net of current maturities	$ 21,222	$ 20,566

The table below shows the maximum availability under revolving credit facilities, all of which were undrawn, as of June 30, 2019 (in millions):

2013 Revolving Facility	$ 1,000
2014 Revolving Facility	1,543
April 2016 Revolving Facility	300
Total	$ 2,843

The December 2016 Credit Facilities provide for a revolving credit facility that may be established thereunder in the future.

2019 Financing Activities

2019-1 Spare Engine Enhanced Equipment Trust Certificates

In June 2019, American created pass-through trusts which issued $650 million in aggregate face amount of 2019-1 Engine EETCs (the 2019-1 Engine EETCs), with maturities from June 2022 to June 2026. All of the proceeds received by such pass-through trusts from the sale of the 2019-1 Engine EETCs have been used to acquire equipment notes issued by American to the pass-through trusts. The pass-through trust certificates represent the right to payment under the equipment notes that are full-recourse obligations of American and such equipment notes are secured by spare aircraft engines currently owned and operated by American.

Equipment Notes Issued in 2019

In the first six months of 2019, American entered into agreements under which it borrowed $1.1 billion in connection with the financing or refinancing, as the case may be, of certain aircraft, of which $464 million was used to repay existing indebtedness. Debt incurred under these agreements matures in 2024 through 2031 and bears interest at variable rates (comprised of LIBOR plus an applicable margin) averaging 3.86% at June 30, 2019.

5.000% Senior Notes

In May 2019, AAG issued $750 million aggregate principal amount of 5.000% senior notes due 2022 (the 5.000% senior notes). These notes bear interest at a rate of 5.000% per annum, payable semi-annually in arrears on June 1 and December 1 of each year, beginning on December 1, 2019. The 5.000% senior notes are senior unsecured obligations of AAG. The 5.000% senior notes mature on June 1, 2022 and are fully and unconditionally guaranteed by American. The indenture for the 5.000% senior notes contains covenants and events of default generally customary for similar financings. In addition, if AAG experiences a specified change of control, AAG must offer to repurchase the 5.000% senior notes in whole or in part at a repurchase price of 101% of the aggregate principal amount plus accrued and unpaid interest, if any, to (but not including) the repurchase date. Upon the occurrence of certain events of default, the 5.000% senior notes may be accelerated and become due and payable immediately.

7. Income Taxes

At December 31, 2018, we had approximately $10.2 billion of federal net operating losses (NOLs) carried over from prior taxable years (NOL Carryforwards) to reduce future federal taxable income, substantially all of which we expect to be available for use in 2019. The federal NOL Carryforwards will expire beginning in 2022 if unused. We also had approximately $3.2 billion of NOL Carryforwards to reduce future state taxable income at December 31, 2018, which will expire in years 2019 through 2038 if unused.

At December 31, 2018, we had an AMT credit carryforward of approximately $339 million available for federal income tax purposes, which is expected to be fully refundable over the next several years as a result of the repeal of corporate AMT.

During the three and six months ended June 30, 2019, we recorded an income tax provision of $220 million and $281 million, respectively, which was substantially non-cash as we utilized our NOLs as described above.

8. Fair Value Measurements

Assets Measured at Fair Value on a Recurring Basis

We utilize the market approach to measure fair value for our financial assets. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets. Our short-term investments classified as Level 2 primarily utilize broker quotes in a non-active market for valuation of these securities. No changes in valuation techniques or inputs occurred during the six months ended June 30, 2019.

Assets measured at fair value on a recurring basis are summarized below (in millions):

	Fair Value Measurements as of June 30, 2019			
	Total	Level 1	Level 2	Level 3
Short-term investments [1], [2]:				
Money market funds	$ 23	$ 23	$ —	$ —
Corporate obligations	1,737	—	1,737	—
Bank notes/certificates of deposit/time deposits	3,103	—	3,103	—
Repurchase agreements	225	—	225	—
	5,088	23	5,065	—
Restricted cash and short-term investments [1]	157	12	145	—
Long-term investments [3]	214	214	—	—
Total	$ 5,459	$ 249	$ 5,210	$ —

(1) Unrealized gains or losses on short-term investments are recorded in accumulated other comprehensive loss at each measurement date.

(2) All short-term investments are classified as available-for-sale and stated at fair value. Our short-term investments mature in one year or less except for $1.2 billion of bank notes/certificates of deposit/time deposits and $197 million of corporate obligations.

(3) Long-term investments primarily include our equity investment in China Southern Airlines and are classified in other assets on the condensed consolidated balance sheets.

Fair Value of Debt

The fair value of our long-term debt was estimated using quoted market prices or discounted cash flow analyses, based on our current estimated incremental borrowing rates for similar types of borrowing arrangements. If our long-term debt was measured at fair value, it would have been classified as Level 2 in the fair value hierarchy.

The carrying value and estimated fair value of our long-term debt, including current maturities, were as follows (in millions):

	June 30, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current maturities	$ 24,639	$ 25,205	$ 23,779	$ 23,775

9. Employee Benefit Plans

The following table provides the components of net periodic benefit cost (income) (in millions):

	Pension Benefits		Retiree Medical and Other Postretirement Benefits	
Three Months Ended June 30,	**2019**	**2018**	**2019**	**2018**
Service cost	$ 1	$ 1	$ 1	$ 1
Interest cost	176	169	8	9
Expected return on assets	(204)	(226)	(4)	(6)
Amortization of:				
Prior service cost (benefit)	7	7	(59)	(59)
Unrecognized net loss (gain)	38	36	(8)	(5)
Net periodic benefit cost (income)	$ 18	$ (13)	$ (62)	$ (60)

	Pension Benefits		Retiree Medical and Other Postretirement Benefits	
Six Months Ended June 30,	**2019**	**2018**	**2019**	**2018**
Service cost	$ 1	$ 1	$ 2	$ 2
Interest cost	352	338	17	17
Expected return on assets	(406)	(452)	(8)	(11)
Amortization of:				
Prior service cost (benefit)	14	14	(118)	(119)
Unrecognized net loss (gain)	76	72	(16)	(10)
Net periodic benefit cost (income)	$ 37	$ (27)	$ (123)	$ (121)

Effective November 1, 2012, substantially all of our defined benefit pension plans were frozen.

The components of net periodic benefit cost (income) other than the service cost component are included in nonoperating other income (expense), net in the condensed consolidated statements of operations.

During the first six months of 2019, we made contributions of $1.2 billion to our defined benefit pension plans.

10. Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss (AOCI) are as follows (in millions):

	Pension, Retiree Medical and Other Postretirement Benefits	Unrealized Gain (Loss) on Investments	Income Tax Benefit (Provision) [1]	Total
Balance at December 31, 2018	$ (4,673)	$ (5)	$ (1,218)	$ (5,896)
Other comprehensive income (loss) before reclassifications	—	4	(1)	3
Amounts reclassified from AOCI	(44)	—	10 [2]	(34)
Net current-period other comprehensive income (loss)	(44)	4	9	(31)
Balance at June 30, 2019	$ (4,717)	$ (1)	$ (1,209)	$ (5,927)

(1) Relates principally to pension, retiree medical and other postretirement benefits obligations that will not be recognized in net income until the obligations are fully extinguished.

(2) Relates to pension, retiree medical and other postretirement benefits obligations and is recognized within the income tax provision on the condensed consolidated statement of operations.

Reclassifications out of AOCI are as follows (in millions):

	Amounts reclassified from AOCI				
	Three Months Ended June 30,		Six Months Ended June 30,		Affected line items on the condensed consolidated statements of operations
AOCI Components	2019	2018	2019	2018	
Amortization of pension, retiree medical and other postretirement benefits:					
Prior service benefit	$ (41)	$ (40)	$ (81)	$ (80)	Nonoperating other income (expense), net
Actuarial loss	23	23	47	47	Nonoperating other income (expense), net
Total reclassifications for the period, net of tax	$ (18)	$ (17)	$ (34)	$ (33)	

11. Regional Expenses

Expenses associated with American Eagle operations are classified as regional expenses on the condensed consolidated statements of operations. Regional expenses consist of the following (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Aircraft fuel and related taxes	$ 487	$ 465	$ 909	$ 863
Salaries, wages and benefits	439	389	848	772
Capacity purchases from third-party regional carriers (1)	352	364	692	717
Maintenance, materials and repairs	101	89	195	168
Other rent and landing fees	162	153	329	300
Aircraft rent	8	8	15	17
Selling expenses	106	96	197	181
Depreciation and amortization	83	82	162	165
Other	148	147	301	307
Total regional expenses	$ 1,886	$ 1,793	$ 3,648	$ 3,490

(1) During the three months ended June 30, 2019 and 2018, we recognized $149 million and $144 million, respectively, of expense under our capacity purchase agreement with Republic Airline Inc. (Republic). During the six months ended June 30, 2019 and 2018, we recognized $292 million and $282 million, respectively, of expense under our capacity purchase agreement with Republic. We hold a 25% equity interest in Republic Airways Holdings Inc., the parent company of Republic.

12. Legal Proceedings

Chapter 11 Cases. On November 29, 2011, AMR Corporation (AMR), American, and certain of AMR's other direct and indirect domestic subsidiaries (the Debtors) filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York (the Bankruptcy Court). On October 21, 2013, the Bankruptcy Court entered an order approving and confirming the Debtors' fourth amended joint plan of reorganization (as amended, the Plan). On the Effective Date, December 9, 2013, the Debtors consummated their reorganization pursuant to the Plan and completed the acquisition of US Airways Group, Inc. by AMR (the Merger).

Pursuant to rulings of the Bankruptcy Court, the Plan established the Disputed Claims Reserve to hold shares of AAG common stock reserved for issuance to disputed claimholders at the Effective Date that ultimately become holders of allowed claims. The shares of AAG common stock issued to the Disputed Claims Reserve were originally issued on December 13, 2013 and have at all times since been included in the number of shares issued and outstanding as reported from time to time in our quarterly and annual reports, including for purposes of calculating earnings per common share. As disputed claims are resolved, the claimants will receive distributions of shares from the Disputed Claims Reserve. However, we are not required to distribute additional shares above the limits contemplated by the Plan, even if the shares remaining for distribution in the Disputed Claims Reserve are not sufficient to fully pay any additional allowed unsecured claims. To the extent that any of the reserved shares remain undistributed upon resolution of all remaining disputed claims, such shares will not be returned to us but rather will be distributed to former AMR stockholders and former convertible noteholders treated as stockholders under the Plan. On February 12, 2019, in accordance with the approval granted by the Bankruptcy Court on December 6, 2018, an aggregate of approximately 17.3 million shares of AAG common stock were distributed from the Disputed Claims Reserve to former AMR shareholders and convertible noteholders. After giving effect to this distribution, the Disputed Claims Reserve holds approximately 7 million shares of AAG common stock.

Private Party Antitrust Action Related to Passenger Capacity. We, along with Delta Air Lines, Inc., Southwest Airlines Co., United Airlines, Inc. and, in the case of litigation filed in Canada, Air Canada, have been named as defendants in approximately 100 putative class action lawsuits alleging unlawful agreements with respect to air passenger capacity. The U.S. lawsuits have been consolidated in the Federal District Court for the District of Columbia (the DC Court). On June 15, 2018, we reached a preliminary settlement agreement with the plaintiffs in the amount of $45 million that, once approved, will resolve all class claims in the U.S. lawsuits. That settlement was approved by the DC Court on May 13, 2019. Three parties who objected to the settlement have appealed that decision to the United States Court of Appeals for the District of Columbia. We believe these appeals are without merit and intend to vigorously defend against them.

Private Party Antitrust Action Related to the Merger. On August 6, 2013, a lawsuit captioned Carolyn Fjord, et al., v. AMR Corporation, et al., was filed in the Bankruptcy Court. The complaint named as defendants US Airways Group, Inc., US Airways, Inc., AMR and American, alleged that the effect of the Merger may be to create a monopoly in violation of Section 7 of the Clayton Antitrust Act, and sought injunctive relief and/or divestiture. On November 27, 2013, the Bankruptcy Court denied plaintiffs' motion to preliminarily enjoin the Merger. On August 29, 2018, the Bankruptcy Court denied in part defendants' motion for summary judgment, and fully denied plaintiffs' cross-motion for summary judgment. The parties' evidentiary cases were presented before the Bankruptcy Court in a bench trial in March 2019. The parties submitted proposed findings of fact and conclusions of law and made closing arguments in April 2019, and we are awaiting the Bankruptcy Court's decision. We believe this lawsuit is without merit and intend to vigorously defend against the allegations.

DOJ Investigation Related to the United States Postal Service. In April 2015, the Department of Justice (DOJ) informed us of an inquiry regarding American's 2009 and 2011 contracts with the United States Postal Service for the international transportation of mail by air. In October 2015, we received a Civil Investigative Demand from the DOJ seeking certain information relating to these contracts and the DOJ has also sought information concerning certain of the airlines that transport mail on a codeshare basis. The DOJ has indicated it is investigating potential violations of the False Claims Act or other statutes. We are cooperating fully with the DOJ with regard to its investigation.

General. In addition to the specifically identified legal proceedings, we and our subsidiaries are also engaged in other legal proceedings from time to time. Legal proceedings can be complex and take many months, or even years, to reach resolution, with the final outcome depending on a number of variables, some of which are not within our control. Therefore, although we will vigorously defend ourselves in each of the actions described above and such other legal proceedings, their ultimate resolution and potential financial and other impacts on us are uncertain but could be material. See Part II, Item 1A. Risk Factors – *"We may be a party to litigation in the normal course of business or otherwise, which could affect our financial position and liquidity"* for additional discussion.

13. Subsequent Events

Dividend Declaration

In July 2019, we announced that our Board of Directors declared a $0.10 per share dividend for stockholders of record as of August 7, 2019, and payable on August 21, 2019. Any future dividends that may be declared and paid from time to time will be subject to market and economic conditions, applicable legal requirements and other relevant factors. We are not obligated to continue a dividend for any fixed period, and the payment of dividends may be suspended or discontinued at any time at our discretion and without prior notice.

ITEM 1B. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES, INC.

AMERICAN AIRLINES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions)(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Operating revenues:				
Passenger	$ 11,011	$ 10,674	$ 20,669	$ 20,154
Cargo	221	261	439	488
Other	726	705	1,431	1,396
Total operating revenues	11,958	11,640	22,539	22,038
Operating expenses:				
Aircraft fuel and related taxes	1,995	2,103	3,722	3,866
Salaries, wages and benefits	3,198	3,091	6,286	6,105
Regional expenses	1,911	1,784	3,702	3,465
Maintenance, materials and repairs	575	505	1,136	973
Other rent and landing fees	535	495	1,039	962
Aircraft rent	334	311	661	621
Selling expenses	401	385	771	742
Depreciation and amortization	489	457	969	898
Special items, net	121	182	259	407
Other	1,272	1,313	2,522	2,574
Total operating expenses	10,831	10,626	21,067	20,613
Operating income	1,127	1,014	1,472	1,425
Nonoperating income (expense):				
Interest income	132	82	258	155
Interest expense, net	(277)	(254)	(554)	(505)
Other income (expense), net	(31)	(15)	79	65
Total nonoperating expense, net	(176)	(187)	(217)	(285)
Income before income taxes	951	827	1,255	1,140
Income tax provision	237	218	311	322
Net income	$ 714	$ 609	$ 944	$ 818

See accompanying notes to condensed consolidated financial statements.

AMERICAN AIRLINES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net income	$ 714	$ 609	$ 944	$ 818
Other comprehensive income (loss), net of tax:				
Pension, retiree medical and other postretirement benefits	(18)	(17)	(34)	(33)
Investments	—	2	3	—
Total other comprehensive loss, net of tax	(18)	(15)	(31)	(33)
Total comprehensive income	$ 696	$ 594	$ 913	$ 785

See accompanying notes to condensed consolidated financial statements.

AMERICAN AIRLINES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except shares and par value)

	June 30, 2019	December 31, 2018
	(Unaudited)	
ASSETS		
Current assets		
Cash	$ 311	$ 265
Short-term investments	5,075	4,482
Restricted cash and short-term investments	157	154
Accounts receivable, net	1,965	1,755
Receivables from related parties, net	10,889	10,666
Aircraft fuel, spare parts and supplies, net	1,623	1,442
Prepaid expenses and other	632	493
Total current assets	20,652	19,257
Operating property and equipment		
Flight equipment	42,090	41,180
Ground property and equipment	8,675	8,466
Equipment purchase deposits	1,372	1,277
Total property and equipment, at cost	52,137	50,923
Less accumulated depreciation and amortization	(17,776)	(17,123)
Total property and equipment, net	34,361	33,800
Operating lease right-of-use assets	9,052	9,094
Other assets		
Goodwill	4,091	4,091
Intangibles, net of accumulated amortization of $683 and $663, respectively	2,105	2,137
Deferred tax asset	868	1,280
Other assets	1,222	1,219
Total other assets	8,286	8,727
Total assets	$ 72,351	$ 70,878
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Current maturities of long-term debt and finance leases	$ 2,249	$ 2,547
Accounts payable	2,052	1,707
Accrued salaries and wages	1,239	1,363
Air traffic liability	5,956	4,339
Loyalty program liability	3,310	3,267
Operating lease liabilities	1,625	1,639
Other accrued liabilities	2,212	2,259
Total current liabilities	18,643	17,121
Noncurrent liabilities		
Long-term debt and finance leases, net of current maturities	21,024	20,650
Pension and postretirement benefits	5,597	6,863
Loyalty program liability	5,249	5,272
Operating lease liabilities	7,779	7,857
Other liabilities	1,319	1,345
Total noncurrent liabilities	40,968	41,987
Commitments and contingencies		
Stockholder's equity		
Common stock, $1.00 par value; 1,000 shares authorized, issued and outstanding	—	—
Additional paid-in capital	16,859	16,802
Accumulated other comprehensive loss	(6,023)	(5,992)
Retained earnings	1,904	960
Total stockholder's equity	12,740	11,770
Total liabilities and stockholder's equity	$ 72,351	$ 70,878

See accompanying notes to condensed consolidated financial statements.

AMERICAN AIRLINES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)(Unaudited)

	Six Months Ended June 30,	
	2019	2018
Net cash provided by operating activities	$ 2,335	$ 1,426
Cash flows from investing activities:		
Capital expenditures and aircraft purchase deposits	(2,255)	(1,703)
Proceeds from sale of property and equipment and sale-leaseback transactions	537	255
Purchases of short-term investments	(2,190)	(1,176)
Sales of short-term investments	1,611	1,579
Decrease (increase) in restricted short-term investments	(2)	43
Other investing activities	(35)	—
Net cash used in investing activities	(2,334)	(1,002)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	1,839	892
Payments on long-term debt and finance leases	(1,781)	(1,384)
Deferred financing costs	(13)	(28)
Net cash provided by (used in) financing activities	45	(520)
Net increase (decrease) in cash and restricted cash	46	(96)
Cash and restricted cash at beginning of period	276	390
Cash and restricted cash at end of period [(1)]	$ 322	$ 294
Non-cash transactions:		
Right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	$ 708	$ 293
Finance leases	4	—
Settlement of bankruptcy obligations	7	—
Supplemental information:		
Interest paid, net	526	493
Income taxes paid	4	12

[(1)] The following table provides a reconciliation of cash and restricted cash to amounts reported within the condensed consolidated balance sheets:

Cash	$ 311	$ 282
Restricted cash included in restricted cash and short-term investments	11	12
Total cash and restricted cash	$ 322	$ 294

See accompanying notes to condensed consolidated financial statements.

AMERICAN AIRLINES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY
(In millions)(Unaudited)

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance at December 31, 2018	$ —	$ 16,802	$ (5,992)	$ 960	$ 11,770
Net income	—	—	—	230	230
Other comprehensive loss, net	—	—	(13)	—	(13)
Share-based compensation expense	—	25	—	—	25
Balance at March 31, 2019	—	16,827	(6,005)	1,190	12,012
Net income	—	—	—	714	714
Other comprehensive loss, net	—	—	(18)	—	(18)
Share-based compensation expense	—	25	—	—	25
Intercompany equity transfer	—	7	—	—	7
Balance at June 30, 2019	$ —	$ 16,859	$ (6,023)	$ 1,904	$ 12,740

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	Total
Balance at December 31, 2017	$ —	$ 16,716	$ (5,873)	$ (955)	$ 9,888
Net income	—	—	—	209	209
Other comprehensive loss, net	—	—	(18)	—	(18)
Share-based compensation expense	—	24	—	—	24
Impact of adoption of Accounting Standards Update (ASU) 2016-01 related to financial instruments	—	—	—	60	60
Impact of adoption of ASU 2016-02 related to leases	—	—	—	197	197
Balance at March 31, 2018	—	16,740	(5,891)	(489)	10,360
Net income	—	—	—	609	609
Other comprehensive loss, net	—	—	(15)	—	(15)
Share-based compensation expense	—	20	—	—	20
Balance at June 30, 2018	$ —	$ 16,760	$ (5,906)	$ 120	$ 10,974

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES, INC.
(Unaudited)

1. Basis of Presentation and Recent Accounting Pronouncements

(a) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of American Airlines, Inc. (American) should be read in conjunction with the consolidated financial statements contained in American's Annual Report on Form 10-K for the year ended December 31, 2018. American is the principal wholly-owned subsidiary of American Airlines Group Inc. (AAG). All significant intercompany transactions have been eliminated.

Management believes that all adjustments necessary for the fair presentation of results, consisting of normally recurring items, have been included in the unaudited condensed consolidated financial statements for the interim periods presented. The preparation of financial statements in accordance with accounting principles generally accepted in the United States (GAAP) requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The most significant areas of judgment relate to passenger revenue recognition, impairment of goodwill, impairment of long-lived and intangible assets, the loyalty program, as well as pension and retiree medical and other postretirement benefits.

In the fourth quarter of 2018, American adopted ASU 2016-02: Leases (Topic 842) (the New Lease Standard) as of January 1, 2018. The New Lease Standard did not require the recast of prior periods; however, since American elected to early adopt the New Lease Standard in the fourth quarter of 2018, the three and six months ended June 30, 2018 have been recast to reflect the effects of adoption. As a result of the adoption of the New Lease Standard, American's three and six months ended June 30, 2018 net income decreased by $10 million and $37 million, respectively.

(b) Recent Accounting Pronouncements

ASU 2018-02: Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

This ASU provides the option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings due to the U.S. federal corporate income tax rate change as a result of H.R. 1, the 2017 Tax Cuts and Jobs Act (the 2017 Tax Act). The amount of the reclassification is the difference between the amount initially charged or credited directly to other comprehensive income at the previous U.S. federal corporate income tax rate that remains in accumulated other comprehensive income and the amount that would have been charged or credited directly to other comprehensive income using the newly enacted U.S. federal corporate income tax rate, excluding the effect of any valuation allowance previously charged to income from continuing operations. This standard is effective for interim and annual reporting periods beginning after December 15, 2018. In the first quarter of 2019, American adopted this standard retrospectively as of December 22, 2017, the date the 2017 Tax Act was enacted, which resulted in the recast of prior reporting periods. As a result of the adoption, American reclassified $622 million of stranded tax effects principally related to its pension plans from accumulated other comprehensive loss to retained earnings.

2. Special Items, Net

Special items, net in the condensed consolidated statements of operations consisted of the following (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Fleet restructuring expenses [1]	$ 77	$ 113	$ 160	$ 226
Merger integration expenses [2]	39	60	76	120
Mark-to-market adjustments on bankruptcy obligations, net [3]	5	(57)	5	(56)
Intangible asset impairment [4]	—	26	—	26
Litigation settlement [5]	—	5	—	45
Labor contract expenses	—	—	—	13
Other operating charges, net	—	35	18	33
Mainline operating special items, net	121	182	259	407
Mark-to-market adjustments on equity investments, net [6]	52	66	(25)	66
Debt refinancing and extinguishment charges	8	14	8	14
Other nonoperating charges, net	9	—	16	—
Nonoperating special items, net	69	80	(1)	80
Income tax special items, net [7]	—	18	—	48

(1) Fleet restructuring expenses principally included accelerated depreciation and rent expense for aircraft and related equipment grounded or expected to be grounded earlier than planned.

(2) Merger integration expenses included costs associated with integration projects, principally American's technical operations, flight attendant, human resources and payroll systems.

(3) Bankruptcy obligations that will be settled in shares of AAG common stock are marked-to-market based on AAG's stock price.

(4) Intangible asset impairment includes a non-cash charge to write-off American's Brazil route authority as a result of the U.S.-Brazil open skies agreement.

(5) Settlement of a private party antitrust lawsuit. See Note 11 - "*Private Party Antitrust Action Related to Passenger Capacity*" for further discussion.

(6) Mark-to-market adjustments on equity investments relate to net unrealized gains and losses primarily associated with American's equity investment in China Southern Airlines Company Limited (China Southern Airlines).

(7) Income tax special items for the three months ended June 30, 2018 included an $18 million charge related to an international income tax matter. Additionally, the six months ended June 30, 2018 included a $30 million charge to income tax expense to establish a required valuation allowance related to American's estimated refund for Alternative Minimum Tax (AMT) credits.

3. Revenue Recognition

Revenue

The following are the significant categories comprising American's reported operating revenues (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Passenger revenue:				
Passenger travel	$ 10,217	$ 9,877	$ 18,989	$ 18,507
Loyalty revenue - travel (1)	794	797	1,680	1,647
Total passenger revenue	11,011	10,674	20,669	20,154
Cargo	221	261	439	488
Other:				
Loyalty revenue - marketing services	594	582	1,172	1,152
Other revenue	132	123	259	244
Total other revenue	726	705	1,431	1,396
Total operating revenues	$ 11,958	$ 11,640	$ 22,539	$ 22,038

(1) Loyalty revenue included in passenger revenue is principally comprised of mileage credit redemptions earned through travel and mileage credits sold to co-branded credit card and other partners.

The following is American's total passenger revenue by geographic region (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Domestic	$ 8,009	$ 7,685	$ 15,235	$ 14,648
Latin America	1,241	1,284	2,612	2,729
Atlantic	1,407	1,298	2,080	1,967
Pacific	354	407	742	810
Total passenger revenue	$ 11,011	$ 10,674	$ 20,669	$ 20,154

American attributes passenger revenue by geographic region based upon the origin and destination of each flight segment.

Contract Balances

American's significant contract liabilities are comprised of (1) outstanding loyalty program mileage credits that may be redeemed for future travel and other non-air travel awards, reported as loyalty program liability on the condensed consolidated balance sheets and (2) ticket sales for transportation that has not yet been provided, reported as air traffic liability on the condensed consolidated balance sheets.

	June 30, 2019	December 31, 2018
	(In millions)	
Loyalty program liability	$ 8,559	$ 8,539
Air traffic liability	5,956	4,339
Total	$ 14,515	$ 12,878

The balance of the loyalty program liability fluctuates based on seasonal patterns, which impact the volume of mileage credits issued through travel or sold to co-branded credit card and other partners (deferral of revenue) and mileage credits redeemed (recognition of revenue). Changes in loyalty program liability are as follows (in millions):

Balance at December 31, 2018	$	8,539
Deferral of revenue		1,806
Recognition of revenue [1]		(1,786)
Balance at June 30, 2019 [2]	$	8,559

[1] Principally relates to revenue recognized from the redemption of mileage credits for both air and non-air travel awards. Mileage credits are combined in one homogenous pool and are not separately identifiable. As such, the revenue is comprised of miles that were part of the loyalty program deferred revenue balance at the beginning of the period, as well as miles that were issued during the period.

[2] Mileage credits can be redeemed at any time and do not expire as long as that AAdvantage member has any type of qualifying activity at least every 18 months. As of June 30, 2019, American's current loyalty program liability was $3.3 billion and represents American's current estimate of revenue expected to be recognized in the next twelve months based on historical trends, with the balance reflected in long-term loyalty program liability expected to be recognized as revenue in periods thereafter.

The air traffic liability principally represents tickets sold for future travel on American and partner airlines, as well as estimated future refunds and exchanges of tickets sold for past travel. The balance in American's air traffic liability also fluctuates with seasonal travel patterns. The contract duration of passenger tickets is one year. Accordingly, any revenue associated with tickets sold for future travel will be recognized within twelve months. For the six months ended June 30, 2019, $3.1 billion of revenue was recognized in passenger revenue that was included in American's air traffic liability at December 31, 2018.

4. Debt

Long-term debt included in the condensed consolidated balance sheets consisted of (in millions):

	June 30, 2019		December 31, 2018	
Secured				
2013 Credit Facilities, variable interest rate of 4.06%, installments through 2025	$	1,807	$	1,825
2014 Credit Facilities, variable interest rate of 4.41%, installments through 2021		1,215		1,215
April 2016 Credit Facilities, variable interest rate of 4.40%, installments through 2023		970		980
December 2016 Credit Facilities, variable interest rate of 4.39%, installments through 2023		1,225		1,225
Enhanced equipment trust certificates (EETCs), fixed interest rates ranging from 3.00% to 8.39%, averaging 4.14%, maturing from 2019 to 2029		11,448		11,648
Equipment loans and other notes payable, fixed and variable interest rates ranging from 3.43% to 7.31%, averaging 4.06%, maturing from 2019 to 2031		5,392		5,060
Special facility revenue bonds, fixed interest rates of 5.00%, maturing from 2019 to 2031		769		769
Total long-term debt		22,826		22,722
Less: Total unamortized debt discount, premium and issuance costs		205		219
Less: Current maturities		2,166		2,466
Long-term debt, net of current maturities	$	20,455	$	20,037

The table below shows the maximum availability under revolving credit facilities, all of which were undrawn, as of June 30, 2019 (in millions):

2013 Revolving Facility	$	1,000
2014 Revolving Facility		1,543
April 2016 Revolving Facility		300
Total	$	2,843

The December 2016 Credit Facilities provide for a revolving credit facility that may be established thereunder in the future.

2019 Financing Activities

2019-1 Spare Engine Enhanced Equipment Trust Certificates

In June 2019, American created pass-through trusts which issued $650 million in aggregate face amount of 2019-1 Engine EETCs (the 2019-1 Engine EETCs), with maturities from June 2022 to June 2026. All of the proceeds received by such pass-through trusts from the sale of the 2019-1 Engine EETCs have been used to acquire equipment notes issued by American to the pass-through trusts. The pass-through trust certificates represent the right to payment under the equipment notes that are full-recourse obligations of American and such equipment notes are secured by spare aircraft engines currently owned and operated by American.

Equipment Notes Issued in 2019

In the first six months of 2019, American entered into agreements under which it borrowed $1.1 billion in connection with the financing or refinancing, as the case may be, of certain aircraft, of which $464 million was used to repay existing indebtedness. Debt incurred under these agreements matures in 2024 through 2031 and bears interest at variable rates (comprised of LIBOR plus an applicable margin) averaging 3.86% at June 30, 2019.

5. Income Taxes

At December 31, 2018, American had approximately $10.6 billion of federal net operating losses (NOLs) carried over from prior taxable years (NOL Carryforwards) to reduce future federal taxable income, substantially all of which American expects to be available for use in 2019. American is a member of AAG's consolidated federal and certain state income tax returns. The amount of federal NOL Carryforwards available in those returns is $10.2 billion, substantially all of which is expected to be available for use in 2019. The federal NOL Carryforwards will expire beginning in 2022 if unused. American also had approximately $3.1 billion of NOL Carryforwards to reduce future state taxable income at December 31, 2018, which will expire in years 2019 through 2038 if unused.

At December 31, 2018, American had an AMT credit carryforward of approximately $452 million available for federal income tax purposes, which is expected to be fully refundable over the next several years as a result of the repeal of corporate AMT.

During the three and six months ended June 30, 2019, American recorded an income tax provision of $237 million and $311 million, respectively, which was substantially non-cash as American utilized its NOLs as described above.

6. Fair Value Measurements

Assets Measured at Fair Value on a Recurring Basis

American utilizes the market approach to measure fair value for its financial assets. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets. American's short-term investments classified as Level 2 primarily utilize broker quotes in a non-active market for valuation of these securities. No changes in valuation techniques or inputs occurred during the six months ended June 30, 2019.

Assets measured at fair value on a recurring basis are summarized below (in millions):

	Fair Value Measurements as of June 30, 2019			
	Total	Level 1	Level 2	Level 3
Short-term investments (1), (2):				
Money market funds	$ 11	$ 11	$ —	$ —
Corporate obligations	1,737	—	1,737	—
Bank notes/certificates of deposit/time deposits	3,102	—	3,102	—
Repurchase agreements	225	—	225	—
	5,075	11	5,064	—
Restricted cash and short-term investments (1)	157	12	145	—
Long-term investments (3)	214	214	—	—
Total	$ 5,446	$ 237	$ 5,209	$ —

(1) Unrealized gains or losses on short-term investments are recorded in accumulated other comprehensive loss at each measurement date.

(2) All short-term investments are classified as available-for-sale and stated at fair value. American's short-term investments mature in one year or less except for $1.2 billion of bank notes/certificates of deposit/time deposits and $197 million of corporate obligations.

(3) Long-term investments primarily include American's equity investment in China Southern Airlines and are classified in other assets on the condensed consolidated balance sheets.

Fair Value of Debt

The fair value of American's long-term debt was estimated using quoted market prices or discounted cash flow analyses, based on American's current estimated incremental borrowing rates for similar types of borrowing arrangements. If American's long-term debt was measured at fair value, it would have been classified as Level 2 in the fair value hierarchy.

The carrying value and estimated fair value of American's long-term debt, including current maturities, were as follows (in millions):

	June 30, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current maturities	$ 22,621	$ 23,147	$ 22,503	$ 22,497

7. Employee Benefit Plans

The following table provides the components of net periodic benefit cost (income) (in millions):

	Pension Benefits		Retiree Medical and Other Postretirement Benefits	
Three Months Ended June 30,	**2019**	**2018**	**2019**	**2018**
Service cost	$ 1	$ 1	$ 1	$ 1
Interest cost	175	168	8	9
Expected return on assets	(203)	(225)	(4)	(6)
Amortization of:				
Prior service cost (benefit)	7	7	(59)	(59)
Unrecognized net loss (gain)	38	36	(8)	(5)
Net periodic benefit cost (income)	$ 18	$ (13)	$ (62)	$ (60)

	Pension Benefits		Retiree Medical and Other Postretirement Benefits	
Six Months Ended June 30,	**2019**	**2018**	**2019**	**2018**
Service cost	$ 1	$ 1	$ 2	$ 2
Interest cost	350	336	17	17
Expected return on assets	(405)	(450)	(8)	(11)
Amortization of:				
Prior service cost (benefit)	14	14	(118)	(119)
Unrecognized net loss (gain)	76	72	(16)	(10)
Net periodic benefit cost (income)	$ 36	$ (27)	$ (123)	$ (121)

Effective November 1, 2012, substantially all of American’s defined benefit pension plans were frozen.

The components of net periodic benefit cost (income) other than the service cost component are included in nonoperating other income (expense), net in the condensed consolidated statements of operations.

During the first six months of 2019, American made contributions of $1.2 billion to its defined benefit pension plans.

8. Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss (AOCI) are as follows (in millions):

	Pension, Retiree Medical and Other Postretirement Benefits	Unrealized Gain (Loss) on Investments	Income Tax Benefit (Provision) [(1)]	Total
Balance at December 31, 2018	$ (4,658)	$ (5)	$ (1,329)	$ (5,992)
Other comprehensive income (loss) before reclassifications	—	4	(1)	3
Amounts reclassified from AOCI	(44)	—	10 [(2)]	(34)
Net current-period other comprehensive income (loss)	(44)	4	9	(31)
Balance at June 30, 2019	$ (4,702)	$ (1)	$ (1,320)	$ (6,023)

(1) Relates principally to pension, retiree medical and other postretirement benefits obligations that will not be recognized in net income until the obligations are fully extinguished.

(2) Relates to pension, retiree medical and other postretirement benefits obligations and is recognized within the income tax provision on the condensed consolidated statement of operations.

Reclassifications out of AOCI are as follows (in millions):

	Amounts reclassified from AOCI				
	Three Months Ended June 30,		Six Months Ended June 30,		Affected line items on the condensed consolidated statements of operations
AOCI Components	2019	2018	2019	2018	
Amortization of pension, retiree medical and other postretirement benefits:					
Prior service benefit	$ (41)	$ (40)	$ (81)	$ (80)	Nonoperating other income (expense), net
Actuarial loss	23	23	47	47	Nonoperating other income (expense), net
Total reclassifications for the period, net of tax	$ (18)	$ (17)	$ (34)	$ (33)	

9. Regional Expenses

Expenses associated with American Eagle operations are classified as regional expenses on the condensed consolidated statements of operations. Regional expenses consist of the following (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Aircraft fuel and related taxes	$ 487	$ 465	$ 909	$ 863
Salaries, wages and benefits	85	87	165	169
Capacity purchases from third-party regional carriers [(1)]	907	825	1,765	1,622
Maintenance, materials and repairs	5	3	9	5
Other rent and landing fees	154	147	313	288
Aircraft rent	8	7	15	14
Selling expenses	105	96	197	181
Depreciation and amortization	71	67	138	135
Other	89	87	191	188
Total regional expenses	$ 1,911	$ 1,784	$ 3,702	$ 3,465

(1) During the three months ended June 30, 2019 and 2018, American recognized $149 million and $144 million, respectively, of expense under its capacity purchase agreement with Republic Airline Inc. (Republic). During the six months ended June 30, 2019 and 2018, American recognized $292 million and $282 million, respectively, of expense under its capacity purchase agreement with Republic. American holds a 25% equity interest in Republic Airways Holdings Inc., the parent company of Republic.

10. Transactions with Related Parties

The following represents the net receivables (payables) to related parties (in millions):

	June 30, 2019	December 31, 2018
AAG [(1)]	$ 13,035	$ 12,808
AAG's wholly-owned subsidiaries [(2)]	(2,146)	(2,142)
Total	$ 10,889	$ 10,666

(1) The increase in American's net related party receivable from AAG is primarily due to American providing the cash funding for AAG's dividend and share repurchase programs.

(2) The net payable to AAG's wholly-owned subsidiaries consists primarily of amounts due under regional capacity purchase agreements with AAG's wholly-owned regional airlines operating under the brand name of American Eagle.

11. Legal Proceedings

Chapter 11 Cases. On November 29, 2011, AMR Corporation (AMR), American, and certain of AMR's other direct and indirect domestic subsidiaries (the Debtors) filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York (the Bankruptcy Court). On October 21, 2013, the Bankruptcy Court entered an order approving and confirming the Debtors' fourth amended joint plan of reorganization (as amended, the Plan). On the Effective Date, December 9, 2013, the Debtors consummated their reorganization pursuant to the Plan and completed the acquisition of US Airways Group, Inc. by AMR (the Merger).

Pursuant to rulings of the Bankruptcy Court, the Plan established the Disputed Claims Reserve to hold shares of AAG common stock reserved for issuance to disputed claimholders at the Effective Date that ultimately become holders of allowed claims. The shares of AAG common stock issued to the Disputed Claims Reserve were originally issued on December 13, 2013 and have at all times since been included in the number of shares issued and outstanding as reported by AAG from time to time in its quarterly and annual reports, including for purposes of calculating earnings per common share. As disputed claims are resolved, the claimants will receive distributions of shares from the Disputed Claims Reserve. However, American is not required to distribute additional shares above the limits contemplated by the Plan, even if the shares remaining for distribution in the Disputed Claims Reserve are not sufficient to fully pay any additional allowed unsecured claims. To the extent that any of the reserved shares remain undistributed upon resolution of all remaining disputed claims, such shares will not be returned to AAG but rather will be distributed to former AMR stockholders and former convertible noteholders treated as stockholders under the Plan. On February 12, 2019, in accordance with the approval granted by the Bankruptcy Court on December 6, 2018, an aggregate of approximately 17.3 million shares of AAG common stock were distributed from the Disputed Claims Reserve to former AMR shareholders and convertible noteholders. After giving effect to this distribution, the Disputed Claims Reserve holds approximately 7 million shares of AAG common stock.

Private Party Antitrust Action Related to Passenger Capacity. American, along with Delta Air Lines, Inc., Southwest Airlines Co., United Airlines, Inc. and, in the case of litigation filed in Canada, Air Canada, have been named as defendants in approximately 100 putative class action lawsuits alleging unlawful agreements with respect to air passenger capacity. The U.S. lawsuits have been consolidated in the Federal District Court for the District of Columbia (the DC Court). On June 15, 2018, American reached a preliminary settlement agreement with the plaintiffs in the amount of $45 million that, once approved, will resolve all class claims in the U.S. lawsuits. That settlement was approved by the DC Court on May 13, 2019. Three parties who objected to the settlement have appealed that decision to the United States Court of Appeals for the District of Columbia. American believes these appeals are without merit and intends to vigorously defend against them.

Private Party Antitrust Action Related to the Merger. On August 6, 2013, a lawsuit captioned Carolyn Fjord, et al., v. AMR Corporation, et al., was filed in the Bankruptcy Court. The complaint named as defendants US Airways Group, Inc., US Airways, Inc., AMR and American, alleged that the effect of the Merger may be to create a monopoly in violation of Section 7 of the Clayton Antitrust Act, and sought injunctive relief and/or divestiture. On November 27, 2013, the Bankruptcy Court denied plaintiffs’ motion to preliminarily enjoin the Merger. On August 29, 2018, the Bankruptcy Court denied in part defendants' motion for summary judgment, and fully denied plaintiffs' cross-motion for summary judgment. The parties' evidentiary cases were presented before the Bankruptcy Court in a bench trial in March 2019. The parties submitted proposed findings of fact and conclusions of law and made closing arguments in April 2019, and they are awaiting the Bankruptcy Court's decision. American believes this lawsuit is without merit and intends to vigorously defend against the allegations.

DOJ Investigation Related to the United States Postal Service. In April 2015, the Department of Justice (DOJ) informed American of an inquiry regarding American’s 2009 and 2011 contracts with the United States Postal Service for the international transportation of mail by air. In October 2015, American received a Civil Investigative Demand from the DOJ seeking certain information relating to these contracts and the DOJ has also sought information concerning certain of the airlines that transport mail on a codeshare basis. The DOJ has indicated it is investigating potential violations of the False Claims Act or other statutes. American is cooperating fully with the DOJ with regard to its investigation.

General. In addition to the specifically identified legal proceedings, American and its subsidiaries are also engaged in other legal proceedings from time to time. Legal proceedings can be complex and take many months, or even years, to reach resolution, with the final outcome depending on a number of variables, some of which are not within American’s control. Therefore, although American will vigorously defend itself in each of the actions described above and such other legal proceedings, their ultimate resolution and potential financial and other impacts on American are uncertain but could be material. See Part II, Item 1A. Risk Factors – *“We may be a party to litigation in the normal course of business or otherwise, which could affect our financial position and liquidity”* for additional discussion.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Part I, Item 2 of this report should be read in conjunction with Part II, Item 7 of AAG's and American's Annual Report on Form 10-K for the year ended December 31, 2018 (the 2018 Form 10-K). The information contained herein is not a comprehensive discussion and analysis of the financial condition and results of operations of AAG and American, but rather updates disclosures made in the 2018 Form 10-K.

Background

Together with our wholly-owned regional airline subsidiaries and third-party regional carriers operating as American Eagle, we offer customers nearly 6,800 daily flights to more than 365 destinations in more than 60 countries from our hubs and gateways in Charlotte, Chicago, Dallas/Fort Worth, London Heathrow, Los Angeles, Miami, New York, Philadelphia, Phoenix and Washington, D.C. In the second quarter of 2019, approximately 55 million passengers boarded our flights.

Financial Overview

AAG's Second Quarter 2019 Results

The selected financial data presented below is derived from AAG's unaudited condensed consolidated financial statements included in Part I, Item 1A of this report and should be read in conjunction with those financial statements and the related notes thereto.

In the fourth quarter of 2018, we adopted Accounting Standards Update (ASU) 2016-02: Leases (Topic 842) (the New Lease Standard) as of January 1, 2018. In accordance with the New Lease Standard, we have recast our 2018 financial information presented within this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

	Three Months Ended June 30,		Increase (Decrease)	Percent Increase (Decrease)
	2019	2018		
	(In millions, except percentage changes)			
Passenger revenue	$ 11,011	$ 10,674	$ 337	3.2
Cargo revenue	221	261	(40)	(15.4)
Other operating revenue	728	708	20	2.9
Total operating revenues	11,960	11,643	317	2.7
Mainline and regional aircraft fuel and related taxes	2,482	2,568	(86)	(3.4)
Salaries, wages and benefits	3,200	3,095	105	3.4
Total operating expenses	10,807	10,639	168	1.6
Operating income	1,153	1,004	149	14.8
Pre-tax income	882	756	126	16.7
Income tax provision	220	200	20	10.5
Net income	662	556	106	18.9
Pre-tax income	$ 882	$ 756	$ 126	16.7
Adjusted for: Total pre-tax special items, net [1]	190	262	(72)	(27.6)
Pre-tax income excluding special items	$ 1,072	$ 1,018	$ 54	5.3

(1) See below *"Reconciliation of GAAP to Non-GAAP Financial Measures"* and Note 2 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A of this report for details on the components of special items.

Pre-Tax Income and Net Income

Pre-tax income and net income were $882 million and $662 million, respectively, in the second quarter of 2019. This compares to second quarter 2018 pre-tax income and net income of $756 million and $556 million, respectively. Excluding the effects of pre-tax net special items, pre-tax income was $1.1 billion and $1.0 billion in the second quarters of 2019 and 2018, respectively. The quarter-over-quarter increase in our pre-tax income on both a GAAP basis and excluding pre-tax net special items were principally driven by higher revenues and lower fuel costs, offset in part by increases in salaries, wages and benefits, maintenance expenses, and costs associated with increased regional capacity.

Fleet and Operation

On March 13, 2019, the Federal Aviation Administration (FAA) grounded all U.S.-registered Boeing 737 MAX aircraft. Our fleet currently includes 24 Boeing 737 MAX aircraft with an additional 76 aircraft on order (seven of which were due to have been delivered in the second quarter). As a result, we cancelled approximately 7,800 flights in the second quarter of 2019.

We estimate that the Boeing 737 MAX flight cancellations decreased our second quarter 2019 pre-tax income by approximately $175 million.

We have removed all Boeing 737 MAX flying from our flight schedule through November 2, 2019. In total, we currently estimate the Boeing 737 MAX cancellations, which are assumed to extend through November 2, 2019, will decrease our full-year 2019 pre-tax income by approximately $400 million.

In addition, in May, we initiated litigation against the Transport Workers Union of America, AFL-CIO, International Association of Machinists and Aerospace Workers, and Airline Mechanic and Related Employee Association TWU/IAM, claiming that the unions have been engaged in an illegal work slowdown in an effort to influence contract negotiations. This slowdown has significantly impacted our operation and caused a significant number of flight cancellations and delays in the second quarter of 2019. A temporary restraining order enjoining the slowdown and further interruption to our operations was granted by U.S. District Court for the Northern District of Texas on June 14, 2019. The court conducted a trial on our request for a permanent injunction against the continuation of these illegal activities and we are currently awaiting the result of this trial.

Revenue

In the second quarter of 2019, we reported total operating revenues of $12.0 billion, an increase of $317 million, or 2.7%, as compared to the second quarter of 2018. Passenger revenue was $11.0 billion in the second quarter of 2019, an increase of $337 million, or 3.2%, as compared to the second quarter of 2018. The increase in passenger revenue in the second quarter of 2019 was due to continued strength in passenger demand resulting in a 3.1% quarter-over-quarter increase in revenue passenger miles (RPMs) and a 3.2 point increase in passenger load factor.

Cargo revenue decreased $40 million, or 15.4%, primarily due to a 16.2% decrease in cargo ton miles reflecting declines in international freight volumes. Other revenue increased $20 million, or 2.9%, as compared to the second quarter of 2018, driven primarily by higher loyalty revenue.

Our total revenue per available seat mile (TRASM) was 16.54 cents in the second quarter of 2019, a 3.5% increase as compared to 15.97 cents in the second quarter of 2018. This marks our eleventh consecutive quarter of positive TRASM growth.

Fuel

Our mainline and regional fuel expense totaled $2.5 billion in the second quarter of 2019, which was $86 million, or 3.4%, lower compared to the second quarter of 2018. This decrease was primarily driven by a 4.4% decrease in the average price per gallon of fuel including related taxes to $2.14 in the second quarter of 2019 from $2.24 in the second quarter of 2018.

As of June 30, 2019, we did not have any fuel hedging contracts outstanding to hedge our fuel consumption. Our current policy is not to enter into transactions to hedge our fuel consumption, although we review that policy from time to time based on market conditions and other factors. As such, and assuming we do not enter into any future transactions to hedge our fuel consumption, we will continue to be fully exposed to fluctuations in fuel prices.

Other Costs

We remain committed to actively managing our cost structure, which we believe is necessary in an industry whose economic prospects are heavily dependent upon two variables we cannot control: the health of the economy and the price of fuel.

Our 2019 second quarter total cost per available seat mile (CASM) was 14.94 cents, an increase of 2.4%, from 14.59 cents in the second quarter of 2018.

Our 2019 second quarter CASM excluding special items and fuel was 11.34 cents, an increase of 4.8%, as compared to the second quarter of 2018. The increase was primarily driven by lower than planned capacity in the second quarter of 2019.

For a reconciliation of total CASM excluding special items and fuel, see below *"Reconciliation of GAAP to Non-GAAP Financial Measures."*

Liquidity

As of June 30, 2019, we had approximately $8.2 billion in total available liquidity, consisting of $5.4 billion in unrestricted cash and short-term investments and $2.8 billion in undrawn revolving credit facilities. We also had restricted cash and short-term investments of $157 million.

During the second quarter of 2019, we completed the following financing transactions:

- Issued $750 million in aggregate principal amount of 5.000% senior notes due 2022 (the 5.000% senior notes);
- Raised $650 million from a spare engine financing;
- Raised $740 million from aircraft financings, of which $464 million was used to repay existing indebtedness; and
- Raised $167 million from aircraft sale-leaseback transactions.

See Note 6 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A for additional information on our debt obligations.

Additionally, in the second quarter of 2019, we returned $44 million to our stockholders through a quarterly dividend payment.

Reconciliation of GAAP to Non-GAAP Financial Measures

We sometimes use financial measures that are derived from the condensed consolidated financial statements but that are not presented in accordance with GAAP to understand and evaluate our current operating performance and to allow for period-to-period comparisons. We believe these non-GAAP financial measures may also provide useful information to investors and others. These non-GAAP measures may not be comparable to similarly titled non-GAAP measures of other companies, and should be considered in addition to and not as a substitute for or superior to, any measure of performance, cash flow or liquidity prepared in accordance with GAAP. We are providing a reconciliation of reported non-GAAP financial measures to their comparable financial measures on a GAAP basis.

The following table presents the reconciliation of pre-tax income (GAAP measure) to pre-tax income excluding special items (non-GAAP measure). Management uses this non-GAAP financial measure to evaluate our current operating performance and to allow for period-to-period comparisons. As special items may vary from period-to-period in nature and amount, the adjustment to exclude special items allows management an additional tool to understand our core operating performance.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(In millions)			
Reconciliation of Pre-Tax Income Excluding Special Items:				
Pre-tax income - GAAP	$ 882	$ 756	$ 1,128	$ 994
Pre-tax special items [(1)]:				
Operating special items, net	121	182	259	407
Nonoperating special items, net	69	80	(1)	80
Total pre-tax special items, net	190	262	258	487
Pre-tax income excluding special items	$ 1,072	$ 1,018	$ 1,386	$ 1,481

(1) See Note 2 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A for further information on special items.

Additionally, the table below presents the reconciliation of total operating costs (GAAP measure) to total operating costs excluding special items and fuel (non-GAAP measure). Management uses total operating costs excluding special items and fuel to evaluate our current operating performance and for period-to-period comparisons. The price of fuel, over which we have no control, impacts the comparability of period-to-period financial performance. The adjustment to exclude aircraft fuel and special items allows management an additional tool to understand and analyze our non-fuel costs and core operating performance. Amounts may not recalculate due to rounding.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Reconciliation of Total Operating Costs per Available Seat Mile (CASM) Excluding Special Items and Fuel:				
(In millions)				
Total operating expenses - GAAP	$ 10,807	$ 10,639	$ 21,016	$ 20,644
Special items:				
Special items, net [1]	(121)	(182)	(259)	(407)
Fuel:				
Aircraft fuel and related taxes - mainline	(1,995)	(2,103)	(3,722)	(3,866)
Aircraft fuel and related taxes - regional	(487)	(465)	(909)	(863)
Total operating expenses, excluding special items and fuel	$ 8,204	$ 7,889	$ 16,126	$ 15,508
(In millions)				
Total Available Seat Miles (ASM)	72,322	72,893	138,996	138,717
(In cents)				
Total operating CASM	14.94	14.59	15.12	14.88
Special items per ASM:				
Special items, net [1]	(0.17)	(0.25)	(0.19)	(0.29)
Fuel per ASM:				
Aircraft fuel and related taxes - mainline	(2.76)	(2.89)	(2.68)	(2.79)
Aircraft fuel and related taxes - regional	(0.67)	(0.64)	(0.65)	(0.62)
Total CASM, excluding special items and fuel	11.34	10.82	11.60	11.18

[1] See Note 2 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A for further information on special items.

AAG's Results of Operations

Operating Statistics

The table below sets forth selected operating data for the three and six months ended June 30, 2019 and 2018.

	Three Months Ended June 30,		Increase (Decrease)	Six Months Ended June 30,		Increase (Decrease)
	2019	2018		2019	2018	
Revenue passenger miles (millions) [(a)]	62,658	60,779	3.1%	117,460	113,725	3.3%
Available seat miles (millions) [(b)]	72,322	72,893	(0.8)%	138,996	138,717	0.2%
Passenger load factor (percent) [(c)]	86.6	83.4	3.2pts	84.5	82.0	2.5pts
Yield (cents) [(d)]	17.57	17.56	0.1%	17.60	17.72	(0.7)%
Passenger revenue per available seat mile (cents) [(e)]	15.22	14.64	4.0%	14.87	14.53	2.4%
Total revenue per available seat mile (cents) [(f)]	16.54	15.97	3.5%	16.22	15.89	2.1%
Aircraft at end of period	1,579	1,559	1.3%	1,579	1,559	1.3%
Fuel consumption (gallons in millions)	1,158	1,147	1.1%	2,211	2,177	1.6%
Average aircraft fuel price including related taxes (dollars per gallon)	2.14	2.24	(4.4)%	2.09	2.17	(3.6)%
Full-time equivalent employees at end of period	133,800	131,600	1.7%	133,800	131,600	1.7%
Operating cost per available seat mile (cents) [(g)]	14.94	14.59	2.4%	15.12	14.88	1.6%

(a) Revenue passenger mile (RPM) – A basic measure of sales volume. One RPM represents one passenger flown one mile.

(b) Available seat mile (ASM) – A basic measure of production. One ASM represents one seat flown one mile.

(c) Passenger load factor – The percentage of available seats that are filled with revenue passengers.

(d) Yield – A measure of airline revenue derived by dividing passenger revenue by RPMs.

(e) Passenger revenue per available seat mile (PRASM) – Passenger revenue divided by ASMs.

(f) Total revenue per available seat mile (TRASM) – Total revenues divided by ASMs.

(g) Operating cost per available seat mile (CASM) – Operating expenses divided by ASMs.

Three Months Ended June 30, 2019 Compared to Three Months Ended June 30, 2018

Pre-tax income and net income were $882 million and $662 million, respectively, in the second quarter of 2019. This compares to second quarter 2018 pre-tax income and net income of $756 million and $556 million, respectively. Excluding the effects of pre-tax net special items, pre-tax income was $1.1 billion and $1.0 billion in the second quarters of 2019 and 2018, respectively.

The quarter-over-quarter increases in our pre-tax income on both a GAAP basis and excluding pre-tax net special items were principally driven by higher revenues and lower fuel costs, offset in part by increases in salaries, wages and benefits, maintenance expenses, and costs associated with increased regional capacity.

Operating Revenues

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Passenger	$ 11,011	$ 10,674	$ 337	3.2
Cargo	221	261	(40)	(15.4)
Other	728	708	20	2.9
Total operating revenues	$ 11,960	$ 11,643	$ 317	2.7

This table presents our passenger revenue and the quarter-over-quarter change in certain operating statistics:

	Three Months Ended June 30, 2019	Increase (Decrease) vs. Three Months Ended June 30, 2018: RPMs	ASMs	Load Factor	Passenger Yield	PRASM
	(In millions)					
Passenger revenue	$ 11,011	3.1%	(0.8)%	3.2pts	0.1%	4.0%

Passenger revenue increased $337 million, or 3.2%, in the second quarter of 2019 from the second quarter of 2018 primarily due to continued strength in passenger demand resulting in a 3.1% quarter-over-quarter increase in RPMs and a 3.2 point increase in passenger load factor.

Cargo revenue decreased $40 million, or 15.4%, in the second quarter of 2019 from the second quarter of 2018 primarily due to a 16.2% decrease in cargo ton miles reflecting declines in international freight volumes.

Other revenue increased $20 million, or 2.9%, in the second quarter of 2019 from the second quarter of 2018 primarily due to higher revenue associated with our loyalty program. For the three months ended June 30, 2019 and 2018, loyalty revenue included in other revenue was $594 million and $582 million, respectively.

Total operating revenues in the second quarter of 2019 increased $317 million, or 2.7%, from the second quarter of 2018 driven principally by a 3.2% increase in passenger revenue as described above. Our TRASM was 16.54 cents in the second quarter of 2019, a 3.5% increase as compared to 15.97 cents in the 2018 period.

Operating Expenses

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Aircraft fuel and related taxes	$ 1,995	$ 2,103	$ (108)	(5.1)
Salaries, wages and benefits	3,200	3,095	105	3.4
Maintenance, materials and repairs	575	505	70	13.9
Other rent and landing fees	535	495	40	8.2
Aircraft rent	334	311	23	7.7
Selling expenses	401	385	16	3.9
Depreciation and amortization	489	457	32	7.0
Special items, net	121	182	(61)	(33.6)
Other	1,271	1,313	(42)	(3.2)
Regional expenses:				
Aircraft fuel and related taxes	487	465	22	4.7
Other	1,399	1,328	71	5.4
Total operating expenses	$ 10,807	$ 10,639	$ 168	1.6

Total operating expenses increased $168 million, or 1.6%, in the second quarter of 2019 from the second quarter of 2018. See detailed explanations below relating to changes in total CASM.

Total CASM

We sometimes use financial measures that are derived from the condensed consolidated financial statements but that are not presented in accordance with GAAP to understand and evaluate our current operating performance to allow for period-to-period comparisons. We believe these non-GAAP financial measures may also provide useful information to investors and others. These non-GAAP measures may not be comparable to similarly titled non-GAAP measures of other companies, and should be considered in addition to, and not as a substitute for or superior to, any measure of performance, cash flow or liquidity prepared in accordance with GAAP. We are providing a reconciliation of reported non-GAAP financial measures to their comparable financial measures on a GAAP basis.

The table below presents the reconciliation of total operating expenses (GAAP measure) to total operating costs excluding special items and fuel (non-GAAP measure). Management uses total operating costs excluding special items and fuel to evaluate our current operating performance and for period-to-period comparisons. The price of fuel, over which we have no control, impacts the comparability of period-to-period financial performance. The adjustment to exclude aircraft fuel and special items allows management an additional tool to understand and analyze our non-fuel costs and core operating performance.

The major components of our total CASM and our total CASM excluding special items and fuel for the three months ended June 30, 2019 and 2018 are as follows (amounts may not recalculate due to rounding):

	Three Months Ended June 30,		Percent Increase (Decrease)
	2019	2018	
	(In cents, except percentage changes)		
Total CASM:			
Aircraft fuel and related taxes	2.76	2.89	(4.4)
Salaries, wages and benefits	4.42	4.25	4.2
Maintenance, materials and repairs	0.80	0.69	14.8
Other rent and landing fees	0.74	0.68	9.1
Aircraft rent	0.46	0.43	8.5
Selling expenses	0.55	0.53	4.8
Depreciation and amortization	0.68	0.63	7.8
Special items, net	0.17	0.25	(33.1)
Other	1.76	1.80	(2.4)
Regional expenses:			
Aircraft fuel and related taxes	0.67	0.64	5.5
Other	1.93	1.82	6.2
Total CASM	14.94	14.59	2.4
Special items, net	(0.17)	(0.25)	(33.1)
Aircraft fuel and related taxes:			
Aircraft fuel and related taxes - mainline	(2.76)	(2.89)	(4.4)
Aircraft fuel and related taxes - regional	(0.67)	(0.64)	5.5
Total CASM, excluding special items and fuel	11.34	10.82	4.8

Significant changes in the components of total CASM are as follows:

- Mainline aircraft fuel and related taxes per ASM decreased 4.4% primarily due to a 4.6% decrease in the average price per gallon of fuel including related taxes to $2.13 in the second quarter of 2019 from $2.23 in the second quarter of 2018.

- Maintenance, materials and repairs per ASM increased 14.8% in the second quarter of 2019 as compared to the second quarter of 2018, primarily due to a contract change that resulted in certain flight equipment transitioning to a flight hour based contract (referred to as power by the hour) whereby expense is incurred and recognized based on actual hours flown. Previously, this flight equipment was covered by a time and materials based contract whereby expense is incurred and recognized as maintenance is performed. An increase in the volume of component part repairs also drove higher maintenance expenses in the second quarter of 2019.

- Other rent and landing fees per ASM increased 9.1% primarily due to rate increases at certain hub airports in the second quarter of 2019 as compared to the second quarter of 2018.

- Aircraft rent per ASM increased 8.5% primarily due to 21 leased mainline aircraft delivered subsequent to the second quarter of 2018.

- Depreciation and amortization per ASM increased 7.8% due in part to airport facility improvements and the harmonization of interior configurations across the mainline fleet. Depreciation associated with our fleet renewal program also contributed to the increase.

- Regional aircraft fuel and related taxes per ASM increased 5.5% primarily due to an 8.8% increase in gallons of fuel consumed, principally due to increased capacity. This increase was offset in part by a 3.7% decrease in the average price per gallon of fuel including related taxes to $2.21 in the second quarter of 2019 from $2.29 in the second quarter of 2018.

- Regional other operating expenses per ASM increased 6.2% primarily driven by an 8.1% increase in regional capacity, principally from our wholly-owned regional carriers.

Operating Special Items, Net

	Three Months Ended June 30,	
	2019	2018
	(In millions)	
Fleet restructuring expenses [1]	$ 77	$ 113
Merger integration expenses [2]	39	60
Mark-to-market adjustments on bankruptcy obligations, net [3]	5	(57)
Intangible asset impairment [4]	—	26
Litigation settlement	—	5
Other operating charges, net	—	35
Total mainline operating special items, net	$ 121	$ 182

(1) Fleet restructuring expenses principally included accelerated depreciation and rent expense for aircraft and related equipment grounded or expected to be grounded earlier than planned.

(2) Merger integration expenses included costs associated with integration projects, principally our technical operations, flight attendant, human resources and payroll systems.

(3) Bankruptcy obligations that will be settled in shares of our common stock are marked-to-market based on our stock price.

(4) Intangible asset impairment includes a non-cash charge to write-off our Brazil route authority as a result of the U.S.-Brazil open skies agreement.

Nonoperating Results

	Three Months Ended June 30,		Increase	Percent Increase
	2019	2018	(Decrease)	(Decrease)
	(In millions, except percentage changes)			
Interest income	$ 35	$ 30	$ 5	15.2
Interest expense, net	(275)	(263)	(12)	4.5
Other expense, net	(31)	(15)	(16)	97.8
Total nonoperating expense, net	$ (271)	$ (248)	$ (23)	9.0

In the second quarter of 2019, other nonoperating expense, net principally included a $52 million net special charge for mark-to-market unrealized losses primarily associated with our equity investment in China Southern Airlines Company Limited (China Southern Airlines), $11 million of net foreign currency losses, principally associated with losses from Latin American currencies, and $8 million of net special charges associated with debt refinancings and extinguishments. These charges were offset in part by $46 million of non-service related pension and other postretirement benefit plan income.

In the second quarter of 2018, other nonoperating expense, net principally included a $66 million net special charge for mark-to-market unrealized losses primarily associated with our equity investment in China Southern Airlines, $21 million of net foreign currency losses, principally associated with losses from Latin American currencies, and $14 million of net special charges associated with debt refinancings and extinguishments. These charges were offset in part by $75 million of non-service related pension and other postretirement benefit plan income.

The decrease in non-service related pension and other postretirement benefit plan income in the second quarter of 2019 as compared to the second quarter of 2018 is principally due to a decrease in the expected return on pension plan assets.

Income Taxes

In the second quarter of 2019, we recorded an income tax provision of $220 million, which was substantially non-cash due to utilization of our net operating losses (NOLs). Substantially all of our income before income taxes is attributable to the United States. At December 31, 2018, we had approximately $10.2 billion of federal NOLs and $3.2 billion of state NOLs, substantially all of which are expected to be available in 2019 to reduce federal and state taxable income.

See Note 7 to AAG’s Condensed Consolidated Financial Statements in Part I, Item 1A for additional information on income taxes.

Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018

Pre-tax income and net income were $1.1 billion and $847 million in the first six months of 2019, respectively. This compares to the first six months of 2018 pre-tax income and net income of $994 million and $716 million, respectively. The period-over-period increase in pre-tax income was principally driven by higher revenues, lower fuel costs and a decrease in pre-tax net special items, offset in part by increases in salaries, wages and benefits, maintenance expenses, and costs associated with increased regional capacity.

Excluding the effects of pre-tax net special items, pre-tax income was $1.4 billion and $1.5 billion in the first six months of 2019 and 2018, respectively. The period-over-period decrease in our pre-tax income excluding pre-tax net special items was principally driven by increases in salaries, wages and benefits, maintenance expenses, and costs associated with increased regional capacity, offset in part by higher revenues and lower fuel costs.

Operating Revenues

	Six Months Ended June 30, 2019	2018	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Passenger	$ 20,669	$ 20,154	$ 515	2.6
Cargo	439	488	(49)	(10.1)
Other	1,436	1,402	34	2.4
Total operating revenues	$ 22,544	$ 22,044	$ 500	2.3

This table presents our passenger revenue and the period-over-period change in certain operating statistics:

	Six Months Ended June 30, 2019	Increase (Decrease) vs. Six Months Ended June 30, 2018: RPMs	ASMs	Load Factor	Passenger Yield	PRASM
	(In millions)					
Passenger revenue	$ 20,669	3.3%	0.2%	2.5pts	(0.7)%	2.4%

Passenger revenue increased $515 million, or 2.6%, in the first six months of 2019 from the 2018 period primarily due to continued strength in passenger demand resulting in a 3.3% period-over-period increase in RPMs and a 2.5 point increase in passenger load factor.

Cargo revenue decreased $49 million, or 10.1%, in the first six months of 2019 from the 2018 period primarily due to a 12.8% decrease in cargo ton miles reflecting declines in international freight volumes.

Other revenue increased $34 million, or 2.4%, in the first six months of 2019 from the 2018 period primarily due to higher revenue associated with our loyalty program. For the first six months of both 2019 and 2018, loyalty revenue included in other revenue was $1.2 billion.

Total operating revenues in the first six months of 2019 increased $500 million, or 2.3%, from the 2018 period driven principally by a 2.6% increase in passenger revenue as described above. Our TRASM was 16.22 cents in the first six months of 2019, a 2.1% increase as compared to 15.89 cents in the 2018 period.

Operating Expenses

	Six Months Ended June 30, 2019	2018	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Aircraft fuel and related taxes	$ 3,722	$ 3,866	$ (144)	(3.7)
Salaries, wages and benefits	6,290	6,111	179	2.9
Maintenance, materials and repairs	1,136	973	163	16.7
Other rent and landing fees	1,039	962	77	8.0
Aircraft rent	661	621	40	6.6
Selling expenses	771	742	29	3.9
Depreciation and amortization	969	898	71	8.0
Special items, net	259	407	(148)	(36.5)
Other	2,521	2,574	(53)	(2.0)
Regional expenses:				
Aircraft fuel and related taxes	909	863	46	5.4
Other	2,739	2,627	112	4.2
Total operating expenses	$ 21,016	$ 20,644	$ 372	1.8

Total operating expenses increased $372 million, or 1.8%, in the first six months of 2019 from the 2018 period. See detailed explanations below relating to changes in total CASM.

Total CASM

We sometimes use financial measures that are derived from the condensed consolidated financial statements but that are not presented in accordance with GAAP to understand and evaluate our current operating performance to allow for period-to-period comparisons. We believe these non-GAAP financial measures may also provide useful information to investors and others. These non-GAAP measures may not be comparable to similarly titled non-GAAP measures of other companies, and should be considered in addition to, and not as a substitute for or superior to, any measure of performance, cash flow or liquidity prepared in accordance with GAAP. We are providing a reconciliation of reported non-GAAP financial measures to their comparable financial measures on a GAAP basis.

The table below presents the reconciliation of total operating expenses (GAAP measure) to total operating costs excluding special items and fuel (non-GAAP measure). Management uses total operating costs excluding special items and fuel to evaluate our current operating performance and for period-to-period comparisons. The price of fuel, over which we have no control, impacts the comparability of period-to-period financial performance. The adjustment to exclude aircraft fuel and special items allows management an additional tool to understand and analyze our non-fuel costs and core operating performance.

The major components of our total CASM and our total CASM excluding special items and fuel for the six months ended June 30, 2019 and 2018 are as follows (amounts may not recalculate due to rounding):

	Six Months Ended June 30,		Percent Increase (Decrease)
	2019	2018	
	(In cents, except percentage changes)		
Total CASM:			
Aircraft fuel and related taxes	2.68	2.79	(3.9)
Salaries, wages and benefits	4.53	4.41	2.7
Maintenance, materials and repairs	0.82	0.70	16.4
Other rent and landing fees	0.75	0.69	7.8
Aircraft rent	0.48	0.45	6.3
Selling expenses	0.55	0.53	3.7
Depreciation and amortization	0.70	0.65	7.8
Special items, net	0.19	0.29	(36.6)
Other	1.81	1.86	(2.2)
Regional expenses:			
Aircraft fuel and related taxes	0.65	0.62	5.2
Other	1.97	1.89	4.0
Total CASM	15.12	14.88	1.6
Special items, net	(0.19)	(0.29)	(36.6)
Aircraft fuel and related taxes:			
Aircraft fuel and related taxes - mainline	(2.68)	(2.79)	(3.9)
Aircraft fuel and related taxes - regional	(0.65)	(0.62)	5.2
Total CASM, excluding special items and fuel	11.60	11.18	3.8

Significant changes in the components of total CASM are as follows:

- Mainline aircraft fuel and related taxes per ASM decreased 3.9% primarily due to a 3.9% decrease in the average price per gallon of fuel including related taxes to $2.08 in the first six months of 2019 from $2.16 in the 2018 period.

- Maintenance, materials and repairs per ASM increased 16.4% in the first six months of 2019 as compared to the first six months of 2018, primarily due to a contract change that resulted in certain flight equipment transitioning to a flight hour based contract (referred to as power by the hour) whereby expense is incurred and recognized based on actual hours flown. Previously, this flight equipment was covered by a time and materials based contract whereby expense is incurred and recognized as maintenance is performed. The volume of airframe and engine overhauls performed under time and material based contracts as well as an increase in the volume of component part repairs also drove higher maintenance expenses in the first six months of 2019.
- Other rent and landing fees per ASM increased 7.8% primarily due to rate increases at certain hub airports in the first six months of 2019 as compared to the 2018 period.
- Aircraft rent per ASM increased 6.3% primarily due to 21 leased mainline aircraft delivered subsequent to the second quarter of 2018.
- Depreciation and amortization per ASM increased 7.8% due in part to airport facility improvements, harmonization of interior configurations across the mainline fleet as well as information technology and software development projects associated with our merger integration. Depreciation associated with our fleet renewal program also contributed to the increase.
- Regional aircraft fuel and related taxes per ASM increased 5.2% primarily due to an 8.2% increase in gallons of fuel consumed, principally due to increased capacity. This increase was offset in part by a 2.7% decrease in the average price per gallon of fuel including related taxes to $2.17 in the first six months of 2019 from $2.22 in the 2018 period.

Operating Special Items, Net

	Six Months Ended June 30,	
	2019	2018
	(In millions)	
Fleet restructuring expenses (1)	$ 160	$ 226
Merger integration expenses (2)	76	120
Mark-to-market adjustments on bankruptcy obligations, net (3)	5	(56)
Intangible asset impairment (4)	—	26
Litigation settlement (5)	—	45
Labor contract expenses	—	13
Other operating charges, net	18	33
Total mainline operating special items, net	$ 259	$ 407

(1) Fleet restructuring expenses principally included accelerated depreciation and rent expense for aircraft and related equipment grounded or expected to be grounded earlier than planned.

(2) Merger integration expenses included costs associated with integration projects, principally our technical operations, flight attendant, human resources and payroll systems.

(3) Bankruptcy obligations that will be settled in shares of our common stock are marked-to-market based on our stock price.

(4) Intangible asset impairment includes a non-cash charge to write-off our Brazil route authority as a result of the U.S.-Brazil open skies agreement.

(5) Settlement of a private party antitrust lawsuit. See Note 12 - "*Private Party Antitrust Action Related to Passenger Capacity*" to AAG's Consolidated Financial Statements in Part I, Item 1A for further discussion.

Nonoperating Results

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Interest income	$ 68	$ 55	$ 13	23.6
Interest expense, net	(546)	(525)	(21)	3.9
Other income, net	78	64	14	22.1
Total nonoperating expense, net	$ (400)	$ (406)	$ 6	(1.7)

In the first six months of 2019, other nonoperating income, net principally included $89 million of non-service related pension and other postretirement benefit plan income and a $25 million net special gain for mark-to-market unrealized gains primarily associated with our equity investment in China Southern Airlines. This income was offset in part by $13 million of net foreign currency losses, principally associated with losses from Latin American currencies and $8 million of net special charges associated with debt refinancings and extinguishments.

In the first six months of 2018, other nonoperating income, net principally included $151 million of non-service related pension and other postretirement benefit plan income. This income was offset in part by a $66 million net special charge for mark-to-market unrealized losses primarily associated with our equity investment in China Southern Airlines, $18 million of net foreign currency losses, principally associated with losses from Latin American currencies, and $14 million of net special charges associated with debt refinancings and extinguishments.

The decrease in non-service related pension and other postretirement benefit plan income in the first six months of 2019 as compared to the first six months of 2018 is principally due to a decrease in the expected return on pension plan assets.

Income Taxes

In the first six months of 2019, we recorded an income tax provision of $281 million, which was substantially non-cash due to utilization of our NOLs. Substantially all of our income before income taxes is attributable to the United States.

See Note 7 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A for additional information on income taxes.

American's Results of Operations

Three Months Ended June 30, 2019 Compared to Three Months Ended June 30, 2018

American realized pre-tax income of $951 million and net income of $714 million in the second quarter of 2019. This compares to second quarter 2018 pre-tax income of $827 million and net income of $609 million.

The quarter-over-quarter increase in American's pre-tax income was principally driven by higher revenues and lower fuel costs, offset in part by increases in salaries, wages and benefits, maintenance expenses, and costs associated with increased regional capacity.

Operating Revenues

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Passenger	$ 11,011	$ 10,674	$ 337	3.2
Cargo	221	261	(40)	(15.4)
Other	726	705	21	3.1
Total operating revenues	$ 11,958	$ 11,640	$ 318	2.7

Passenger revenue increased $337 million, or 3.2%, in the second quarter of 2019 from the second quarter of 2018 primarily due to continued strength in passenger demand resulting in a quarter-over-quarter increase in RPMs and an increase in passenger load factor.

Cargo revenue decreased $40 million, or 15.4%, in the second quarter of 2019 from the second quarter of 2018 primarily due to a decrease in cargo ton miles reflecting declines in international freight volumes.

Other revenue increased $21 million, or 3.1%, in the second quarter of 2019 from the second quarter of 2018 primarily due to higher revenue associated with American's loyalty program. For the three months ended June 30, 2019 and 2018, loyalty revenue included in other revenue was $594 million and $582 million, respectively.

Total operating revenues in the second quarter of 2019 increased $318 million, or 2.7%, from the second quarter of 2018 driven principally by a 3.2% increase in passenger revenue as described above.

Operating Expenses

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Aircraft fuel and related taxes	$ 1,995	$ 2,103	$ (108)	(5.1)
Salaries, wages and benefits	3,198	3,091	107	3.4
Maintenance, materials and repairs	575	505	70	13.9
Other rent and landing fees	535	495	40	8.2
Aircraft rent	334	311	23	7.7
Selling expenses	401	385	16	3.9
Depreciation and amortization	489	457	32	7.0
Special items, net	121	182	(61)	(33.6)
Other	1,272	1,313	(41)	(3.2)
Regional expenses:				
Aircraft fuel and related taxes	487	465	22	4.7
Other	1,424	1,319	105	8.0
Total operating expenses	$ 10,831	$ 10,626	$ 205	1.9

Total operating expenses increased $205 million, or 1.9%, in the second quarter of 2019 from the second quarter of 2018.

Significant changes in the components of American's total operating expenses are as follows:

- Mainline aircraft fuel and related taxes decreased 5.1% primarily due to a 4.6% decrease in the average price per gallon of fuel including related taxes to $2.13 in the second quarter of 2019 from $2.23 in the second quarter of 2018.
- Maintenance, materials and repairs increased 13.9% in the second quarter of 2019 as compared to the second quarter of 2018, primarily due to a contract change that resulted in certain flight equipment transitioning to a flight hour based contract (referred to as power by the hour) whereby expense is incurred and recognized based on actual hours flown. Previously, this flight equipment was covered by a time and materials based contract whereby expense is incurred and recognized as maintenance is performed. An increase in the volume of component part repairs also drove higher maintenance expenses in the second quarter of 2019.
- Other rent and landing fees increased 8.2% primarily due to rate increases at certain hub airports in the second quarter of 2019 as compared to the second quarter of 2018.
- Aircraft rent increased 7.7% primarily due to 21 leased mainline aircraft delivered subsequent to the second quarter of 2018.
- Depreciation and amortization increased 7.0% due in part to airport facility improvements and the harmonization of interior configurations across the mainline fleet. Depreciation associated with American's fleet renewal program also contributed to the increase.

- Regional aircraft fuel and related taxes increased 4.7% primarily due to an 8.8% increase in gallons of fuel consumed, principally due to increased capacity. This increase was offset in part by a 3.7% decrease in the average price per gallon of fuel including related taxes to $2.21 in the second quarter of 2019 from $2.29 in the second quarter of 2018.
- Regional other operating expenses increased 8.0% primarily driven by an increase in regional capacity.

Operating Special Items, Net

	Three Months Ended June 30,	
	2019	2018
	(In millions)	
Fleet restructuring expenses (1)	$ 77	$ 113
Merger integration expenses (2)	39	60
Mark-to-market adjustments on bankruptcy obligations, net (3)	5	(57)
Intangible asset impairment (4)	—	26
Litigation settlement	—	5
Other operating charges, net	—	35
Total mainline operating special items, net	$ 121	$ 182

(1) Fleet restructuring expenses principally included accelerated depreciation and rent expense for aircraft and related equipment grounded or expected to be grounded earlier than planned.

(2) Merger integration expenses included costs associated with integration projects, principally American's technical operations, flight attendant, human resources and payroll systems.

(3) Bankruptcy obligations that will be settled in shares of AAG common stock are marked-to-market based on AAG's stock price.

(4) Intangible asset impairment includes a non-cash charge to write-off American's Brazil route authority as a result of the U.S.-Brazil open skies agreement.

Nonoperating Results

	Three Months Ended June 30,		Increase (Decrease)	Percent Increase (Decrease)
	2019	2018		
	(In millions, except percentage changes)			
Interest income	$ 132	$ 82	$ 50	61.1
Interest expense, net	(277)	(254)	(23)	9.0
Other expense, net	(31)	(15)	(16)	101.0
Total nonoperating expense, net	$ (176)	$ (187)	$ 11	(6.3)

Interest income increased $50 million in the second quarter of 2019 as compared to the second quarter of 2018, primarily due to higher interest-bearing related party receivables from American's parent company, AAG.

In the second quarter of 2019, other nonoperating expense, net principally included a $52 million net special charge for mark-to-market unrealized losses primarily associated with American's equity investment in China Southern Airlines, $11 million of net foreign currency losses, principally associated with losses from Latin American currencies, and $8 million of net special charges associated with debt refinancings and extinguishments. These charges were offset in part by $46 million of non-service related pension and other postretirement benefit plan income.

In the second quarter of 2018, other nonoperating expense, net principally included a $66 million net special charge for mark-to-market unrealized losses primarily associated with American's equity investment in China Southern Airlines, $20 million of net foreign currency losses, principally associated with losses from Latin American currencies, and $14 million of net special charges associated with debt refinancings and extinguishments. These charges were offset in part by $75 million of non-service related pension and other postretirement benefit plan income.

The decrease in non-service related pension and other postretirement benefit plan income in the second quarter of 2019 as compared to the second quarter of 2018 is principally due to a decrease in the expected return on pension plan assets.

Income Taxes

American is part of the AAG consolidated income tax return.

In the second quarter of 2019, American recorded an income tax provision of $237 million, which was substantially non-cash due to utilization of its NOLs. Substantially all of American's income before income taxes is attributable to the United States. At December 31, 2018, American had approximately $10.6 billion of federal NOLs and $3.1 billion of state NOLs, substantially all of which are expected to be available in 2019 to reduce federal and state taxable income.

See Note 5 to American's Condensed Consolidated Financial Statements in Part I, Item 1B for additional information on income taxes.

Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018

American realized pre-tax income of $1.3 billion and net income of $944 million in the first six months of 2019. This compares to the first six months of 2018 pre-tax income of $1.1 billion and net income of $818 million.

The period-over-period increase in American's pre-tax income was principally driven by higher revenues and lower fuel costs and pre-tax net special items, offset in part by increases in salaries, wages and benefits, maintenance expenses, and costs associated with increased regional capacity.

Operating Revenues

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Passenger	$ 20,669	$ 20,154	$ 515	2.6
Cargo	439	488	(49)	(10.1)
Other	1,431	1,396	35	2.5
Total operating revenues	$ 22,539	$ 22,038	$ 501	2.3

Passenger revenue increased $515 million, or 2.6%, in the first six months of 2019 from the 2018 period primarily due to continued strength in passenger demand resulting in a period-over-period increase in RPMs and an increase in passenger load factor.

Cargo revenue decreased $49 million, or 10.1%, in the first six months of 2019 from the 2018 period primarily due to a decrease in cargo ton miles reflecting declines in international freight volumes.

Other revenue increased $35 million, or 2.5%, in the first six months of 2019 from the 2018 period primarily due to higher revenue associated with American's loyalty program. For the first six months of both 2019 and 2018, loyalty revenue included in other revenue was $1.2 billion.

Total operating revenues in the first six months of 2019 increased $501 million, or 2.3%, from the 2018 period driven principally by a 2.6% increase in passenger revenue as described above.

Operating Expenses

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Aircraft fuel and related taxes	$ 3,722	$ 3,866	$ (144)	(3.7)
Salaries, wages and benefits	6,286	6,105	181	3.0
Maintenance, materials and repairs	1,136	973	163	16.7
Other rent and landing fees	1,039	962	77	8.0
Aircraft rent	661	621	40	6.6
Selling expenses	771	742	29	3.9
Depreciation and amortization	969	898	71	8.0
Special items, net	259	407	(148)	(36.5)
Other	2,522	2,574	(52)	(2.0)
Regional expenses:				
Aircraft fuel and related taxes	909	863	46	5.4
Other	2,793	2,602	191	7.3
Total operating expenses	$ 21,067	$ 20,613	$ 454	2.2

Total operating expenses increased $454 million, or 2.2%, in the first six months of 2019 from the 2018 period.

Significant changes in the components of American’s total operating expenses are as follows:

- Mainline aircraft fuel and related taxes decreased 3.7% primarily due to a 3.9% decrease in the average price per gallon of fuel including related taxes to $2.08 in the first six months of 2019 from $2.16 in the 2018 period.
- Maintenance, materials and repairs increased 16.7% in the first six months of 2019 as compared to the first six months of 2018, primarily due to a contract change that resulted in certain flight equipment transitioning to a flight hour based contract (referred to as power by the hour) whereby expense is incurred and recognized based on actual hours flown. Previously, this flight equipment was covered by a time and materials based contract whereby expense is incurred and recognized as maintenance is performed. The volume of airframe and engine overhauls performed under time and material based contracts as well as an increase in the volume of component part repairs also drove higher maintenance expenses in the first six months of 2019.
- Other rent and landing fees increased 8.0% primarily due to rate increases at certain hub airports in the first six months of 2019 as compared to the 2018 period.
- Aircraft rent increased 6.6% primarily due to 21 leased mainline aircraft delivered subsequent to the second quarter of 2018.
- Depreciation and amortization increased 8.0% due in part to airport facility improvements, harmonization of interior configurations across the mainline fleet as well as information technology and software development projects associated with American's merger integration. Depreciation associated with American's fleet renewal program also contributed to the increase.
- Regional aircraft fuel and related taxes increased 5.4% primarily due to an 8.2% increase in gallons of fuel consumed, principally due to increased capacity. This increase was offset in part by a 2.7% decrease in the average price per gallon of fuel including related taxes to $2.17 in the first six months of 2019 from $2.22 in the 2018 period.

Operating Special Items, Net

	Six Months Ended June 30,	
	2019	2018
	(In millions)	
Fleet restructuring expenses (1)	$ 160	$ 226
Merger integration expenses (2)	76	120
Mark-to-market adjustments on bankruptcy obligations, net (3)	5	(56)
Intangible asset impairment (4)	—	26
Litigation settlement (5)	—	45
Labor contract expenses	—	13
Other operating charges, net	18	33
Total mainline operating special items, net	$ 259	$ 407

(1) Fleet restructuring expenses principally included accelerated depreciation and rent expense for aircraft and related equipment grounded or expected to be grounded earlier than planned.

(2) Merger integration expenses included costs associated with integration projects, principally American's technical operations, flight attendant, human resources and payroll systems.

(3) Bankruptcy obligations that will be settled in shares of AAG common stock are marked-to-market based on AAG's stock price.

(4) Intangible asset impairment includes a non-cash charge to write-off American's Brazil route authority as a result of the U.S.-Brazil open skies agreement.

(5) Settlement of a private party antitrust lawsuit. See Note 11 - "*Private Party Antitrust Action Related to Passenger Capacity*" to American's Consolidated Financial Statements in Part I, Item 1B for further discussion.

Nonoperating Results

	Six Months Ended June 30,		Increase (Decrease)	Percent Increase (Decrease)
	2019	2018		
	(In millions, except percentage changes)			
Interest income	$ 258	$ 155	$ 103	66.7
Interest expense, net	(554)	(505)	(49)	9.8
Other income, net	79	65	14	22.3
Total nonoperating expense, net	$ (217)	$ (285)	$ 68	(24.0)

Interest income increased $103 million in the first six months of 2019 from the 2018 period primarily due to higher interest-bearing related party receivables from American's parent company, AAG.

In the first six months of 2019, other nonoperating income, net principally included $90 million of non-service related pension and other postretirement benefit plan income and a $25 million net special gain for mark-to-market unrealized gains primarily associated with American's equity investment in China Southern Airlines. This income was offset in part by $13 million of net foreign currency losses, principally associated with losses from Latin American currencies and $8 million of net special charges associated with debt refinancings and extinguishments.

In the first six months of 2018, other nonoperating income, net principally included $151 million of non-service related pension and other postretirement benefit plan income. This income was offset in part by a $66 million net special charge for mark-to-market unrealized losses primarily associated with American's equity investment in China Southern Airlines, $18 million of net foreign currency losses, principally associated with losses from Latin American currencies, and $14 million of net special charges associated with debt refinancings and extinguishments.

The decrease in non-service related pension and other postretirement benefit plan income in the first six months of 2019 as compared to the first six months of 2018 is principally due to a decrease in the expected return on pension plan assets.

Income Taxes

American is part of the AAG consolidated income tax return.

In the first six months of 2019, American recorded an income tax provision of $311 million, which was substantially non-cash due to utilization of its NOLs. Substantially all of American's income before income taxes is attributable to the United States.

See Note 5 to American's Condensed Consolidated Financial Statements in Part I, Item 1B for additional information on income taxes.

Liquidity and Capital Resources

Liquidity

As of June 30, 2019, AAG had approximately $8.2 billion in total available liquidity and $157 million in restricted cash and short-term investments. Additional detail of our available liquidity is provided in the table below (in millions):

	AAG		American	
	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
Cash	$ 319	$ 275	$ 311	$ 265
Short-term investments	5,088	4,485	5,075	4,482
Undrawn revolving credit facilities	2,843	2,843	2,843	2,843
Total available liquidity	$ 8,250	$ 7,603	$ 8,229	$ 7,590

Share Repurchase Programs

In April 2018, we announced that our Board of Directors authorized a $2.0 billion share repurchase program that will expire on December 31, 2020. Since July 2014, our Board of Directors has approved seven share repurchase programs aggregating $13.0 billion of authority. As of June 30, 2019, there was $1.1 billion of remaining authority to repurchase shares under our current $2.0 billion share repurchase program. Share repurchases under our repurchase programs may be made through a variety of methods, which may include open market purchases, privately negotiated transactions, block trades or accelerated share repurchase transactions. Any such repurchases that may be made from time to time will be subject to market and economic conditions, applicable legal requirements and other relevant factors. We are not obligated to repurchase any specific number of shares and our repurchase of AAG common stock may be limited, suspended or discontinued at any time at our discretion and without prior notice.

During the six months ended June 30, 2019, we repurchased 16.7 million shares of AAG common stock (all of which we purchased during the first quarter of 2019) for $600 million at a weighted average cost per share of $36.02. Since the inception of our share repurchase programs in July 2014 through June 30, 2019, we repurchased 295.6 million shares of AAG common stock for $11.9 billion at a weighted average cost per share of $40.43.

Cash Dividends

In April 2019, our Board of Directors declared a cash dividend of $0.10 per share for stockholders of record as of May 8, 2019 and paid on May 22, 2019, totaling $44 million. For the first six months of 2019, we paid total quarterly cash dividends of $90 million.

In July 2019, we announced that our Board of Directors declared a $0.10 per share dividend for stockholders of record as of August 7, 2019, and payable on August 21, 2019.

Any future dividends that may be declared and paid from time to time will be subject to market and economic conditions, applicable legal requirements and other relevant factors. We are not obligated to continue a dividend for any fixed period, and the payment of dividends may be suspended or discontinued at any time at our discretion and without prior notice.

Collateral-Related Covenants

Certain of our debt financing agreements (including our term loans, revolving credit facilities and spare engines EETCs) contain loan to value ratio covenants and require us to appraise the related collateral annually. Pursuant to such agreements, if the loan to value ratio exceeds a specified threshold or the value of the appraised collateral fails to meet a specified threshold, as the case may be, we are required, as applicable, to pledge additional qualifying collateral (which in some cases may include cash or investment securities), or pay down such financing, in whole or in part. As of June 30, 2019, we were in compliance with the foregoing collateral coverage tests as of the most recent applicable measurement dates.

Sources and Uses of Cash

AAG

Operating Activities

Our net cash provided by operating activities was $2.4 billion and $2.9 billion for the first six months of 2019 and 2018, respectively, a period-over-period decrease of $507 million. This decrease in operating cash flows in the first six months of 2019 as compared to the first six months of 2018 was primarily driven by contributions to our defined benefit pension plans. In the first six months of 2019, we contributed $1.2 billion to our defined benefit pension plans as compared to $311 million in the first six months of 2018.

Investing Activities

Our net cash used in investing activities was $2.4 billion and $1.0 billion for the first six months of 2019 and 2018, respectively.

Our principal investing activities in the first six months of 2019 included expenditures of $2.3 billion for property and equipment, including 13 Embraer E175 aircraft, five Airbus A321neo aircraft, five Bombardier CRJ900 aircraft, four Boeing 737-8 MAX aircraft and two Boeing 787 Family aircraft as well as $590 million in net purchases of short-term investments. These cash outflows were offset in part by $537 million of proceeds primarily from aircraft sale-leaseback transactions.

Our principal investing activities in the first six months of 2018 included expenditures of $1.7 billion for property and equipment, including seven Boeing 737-8 MAX aircraft and two Boeing 787 Family aircraft. These cash outflows were offset in part by $395 million in net sales of short-term investments and $258 million of proceeds primarily from aircraft sale-leaseback transactions.

Financing Activities

Our net cash provided by financing activities was $70 million for the first six months of 2019 as compared to net cash used in financing activities of $2.0 billion for the first six months of 2018.

Our principal financing activities in the first six months of 2019 included proceeds of $2.6 billion from the issuance of debt, including the issuance of $750 million principal amount of 5.000% senior notes and the financing of certain aircraft and spare engines. These cash inflows were offset in part by $1.8 billion in debt repayments, consisting of $1.3 billion in scheduled debt repayments and the prepayment of $464 million of secured loans. We also had $625 million in share repurchases and $90 million in dividend payments.

Our principal financing activities in the first six months of 2018 included $1.9 billion in debt repayments, consisting of $1.4 billion in scheduled debt repayments, including the repayment of our $500 million 6.125% senior notes, and the prepayment of $454 million of secured loans. We also had $837 million in share repurchases and $94 million in dividend payments. These cash outflows were offset in part by proceeds of $892 million from the issuance of debt, primarily including the issuance of equipment notes related to EETCs.

American

Operating Activities

American’s net cash provided by operating activities was $2.3 billion and $1.4 billion for the first six months of 2019 and 2018, respectively, a period-over-period increase of $909 million. This increase in operating cash flows for the first six months of 2019 was primarily due to lower intercompany transfers of cash from American to AAG, and was offset in part by contributions to American's defined benefit pension plans. In the first six months of 2019, American contributed $1.2 billion to its defined benefit pension plans as compared to $311 million in the first six months of 2018.

Investing Activities

American's net cash used in investing activities was $2.3 billion and $1.0 billion for the first six months of 2019 and 2018, respectively.

American's principal investing activities in the first six months of 2019 included expenditures of $2.3 billion for property and equipment, including 13 Embraer E175 aircraft, five Airbus A321neo aircraft, five Bombardier CRJ900 aircraft, four Boeing 737-8 MAX aircraft and two Boeing 787 Family aircraft as well as $579 million in net purchases of short-term investments. These cash outflows were offset in part by $537 million of proceeds primarily from aircraft sale-leaseback transactions.

American's principal investing activities in the first six months of 2018 included expenditures of $1.7 billion for property and equipment, including seven Boeing 737-8 MAX aircraft and two Boeing 787 Family aircraft. These cash outflows were offset in part by $403 million in net sales of short-term investments and $255 million of proceeds primarily from aircraft sale-leaseback transactions.

Financing Activities

American's net cash provided by financing activities was $45 million for the first six months of 2019 as compared to net cash used in financing activities of $520 million for the first six months of 2018.

American's principal financing activities in the first six months of 2019 included proceeds of $1.8 billion from the issuance of debt for the financing of certain aircraft and engines. These cash inflows were offset in part by $1.8 billion in debt repayments, consisting of $1.3 billion in scheduled debt repayments and the prepayment of $464 million of secured loans.

American's principal financing activities in the first six months of 2018 included $1.4 billion in debt repayments, consisting of $929 million in scheduled debt repayments and the prepayment of $454 million of secured loans. These cash outflows were offset in part by proceeds of $892 million from the issuance of debt, primarily including the issuance of equipment notes related to EETCs.

Commitments

Significant Indebtedness

As of June 30, 2019, AAG had $24.9 billion in long-term debt, including current maturities of $3.4 billion (of which $750 million in aggregate principal amount relates to the 5.50% senior notes due October 2019 and $500 million in aggregate principal amount relates to the 4.625% senior notes due March 2020). As of June 30, 2019, American had $22.8 billion in long-term debt, including current maturities of $2.2 billion. During the six months ended June 30, 2019, there have been no material changes in our significant indebtedness as discussed in our 2018 Form 10-K, except as discussed in Note 6 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A and Note 4 to American's Condensed Consolidated Financial Statements in Part I, Item 1B.

Aircraft and Engine Purchase Commitments

As of June 30, 2019, we had definitive purchase agreements with Airbus, Boeing, Embraer and Bombardier for the acquisition of the following mainline and regional aircraft:

	Remainder of 2019	2020	2021	2022	2023	2024 and Thereafter	Total
Airbus							
A320neo Family [(1)]	7	20	18	20	8	42	115
Boeing							
737 MAX Family [(2)]	16	10	10	—	—	40	76
787 Family	—	12	10	—	6	19	47
Embraer							
E175	7	15	—	—	—	—	22
Bombardier							
CRJ900	6	4	—	—	—	—	10
Total	36	61	38	20	14	101	270

(1) On June 19, 2019, we entered into an amendment of a purchase agreement with Airbus pursuant to which we converted the firm purchase of 30 A321neo aircraft and options to purchase 20 A320neo aircraft into the firm purchase of 50 A321XLR aircraft. Deliveries of the A321XLR aircraft are scheduled to commence in 2023 and continue through 2025.

(2) On March 13, 2019, the FAA grounded all U.S.-registered Boeing 737 MAX aircraft. We currently have 76 Boeing 737 MAX Family aircraft on order and the table above reflects the contractual delivery schedule. However, we have not taken delivery of any Boeing 737 MAX Family aircraft since the grounding, and the timing of future deliveries cannot presently be forecasted.

We also have agreements for 38 spare engines to be delivered in 2019 and beyond.

We currently have financing commitments in place for all aircraft on order and scheduled to be delivered through December 2019, with the exception of three Embraer E175 aircraft. Additionally, we have financing commitments in place for 25 aircraft scheduled to be delivered in 2020: 12 Boeing 787 Family aircraft, seven Airbus A320neo Family aircraft, four Bombardier CRJ900 aircraft, and two Boeing 737 MAX Family aircraft. Our ability to draw on the financing commitments we have in place is subject to the satisfaction of various terms and conditions, including in some cases, on our acquisition of the aircraft by a certain date. We do not have financing commitments in place for the remaining 36 aircraft scheduled to be delivered in 2020 and any of the aircraft scheduled to be delivered beyond 2020, except for 10 Boeing 787 Family aircraft scheduled to be delivered in 2021. See Part II, Item 1A. Risk Factors – *"We will need to obtain sufficient financing or other capital to operate successfully"* for additional discussion.

Off-Balance Sheet Arrangements

An off-balance sheet arrangement is any transaction, agreement or other contractual arrangement involving an unconsolidated entity under which a company has (1) made guarantees, (2) a retained or a contingent interest in transferred assets, (3) an obligation under derivative instruments classified as equity or (4) any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to us, or that engages in leasing, hedging or research and development arrangements with us.

There have been no material changes in our off-balance sheet arrangements as discussed in our 2018 Form 10-K.

Contractual Obligations

The following table provides details of our future cash contractual obligations as of June 30, 2019 (in millions). The table does not include commitments that are contingent on events or other factors that are uncertain or unknown at this time.

	Payments Due by Period						
	Remainder of 2019	2020	2021	2022	2023	2024 and Thereafter	Total
American							
Long-term debt:							
Principal amount [(a), (c)]	$ 1,299	$ 1,917	$ 3,489	$ 1,527	$ 3,974	$ 10,620	$ 22,826
Interest obligations [(b), (c)]	463	811	702	578	498	1,182	4,234
Finance lease obligations	58	122	118	122	105	282	807
Aircraft and engine purchase commitments [(d)]	1,282	1,872	941	1,348	1,543	7,422	14,408
Operating lease commitments [(e)]	924	1,975	1,922	1,749	1,567	5,428	13,565
Regional capacity purchase agreements [(f)]	573	1,087	969	832	700	1,209	5,370
Minimum pension obligations [(g)]	—	625	671	939	909	1,263	4,407
Retiree medical and other postretirement benefits	12	17	17	17	23	280	366
Other purchase obligations [(h)]	1,000	1,289	1,106	562	91	153	4,201
Total American Contractual Obligations	$ 5,611	$ 9,715	$ 9,935	$ 7,674	$ 9,410	$ 27,839	$ 70,184
AAG Parent and Other AAG Subsidiaries							
Long-term debt:							
Principal amount [(a)]	$ 750	$ 505	$ 2	$ 752	$ 2	$ 18	$ 2,029
Interest obligations [(b)]	54	51	39	21	1	4	170
Minimum pension obligations [(g)]	5	4	5	5	5	13	37
Operating lease commitments	10	16	15	13	7	22	83
Total AAG Contractual Obligations	$ 6,430	$ 10,291	$ 9,996	$ 8,465	$ 9,425	$ 27,896	$ 72,503

(a) Amounts represent contractual amounts due. Excludes $205 million and $11 million of unamortized debt discount, premium and issuance costs as of June 30, 2019 for American and AAG Parent, respectively. For additional information, see Note 6 and Note 4 to AAG's and American's Condensed Consolidated Financial Statements in Part I, Items 1A and 1B.

(b) For variable-rate debt, future interest obligations are estimated using the current forward rates at June 30, 2019.

(c) Includes $11.4 billion of future principal payments and $2.3 billion of future interest payments, respectively, as of June 30, 2019, related to EETCs associated with mortgage financings of certain aircraft and spare engines.

(d) See Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – "*Liquidity and Capital Resources*" for additional information about these obligations. Boeing has committed to provide sale-leaseback financing (in the form of operating leases) for 22 787-8 aircraft to be delivered in 2020 and 2021. This financing is reflected in the operating lease commitments line above.

(e) Includes $248 million of future minimum lease payments related to EETC leveraged lease financings of certain aircraft as of June 30, 2019.

(f) Represents minimum payments under capacity purchase agreements with third-party regional carriers. These commitments are estimates of costs based on assumed minimum levels of flying under the capacity purchase agreements and our actual payments could differ materially. Rental payments under operating leases for certain aircraft flown under these capacity purchase agreements are reflected in the operating lease commitments line above.

(g) Includes minimum pension contributions based on actuarially determined estimates as of December 31, 2018 and is based on estimated payments through 2028. During the first six months of 2019, we made $1.2 billion in contributions to fund our pension plans. These contributions exceeded the $786 million in minimum required contributions for 2019.

(h) Includes purchase commitments for jet fuel, construction projects and information technology support.

Capital Raising Activity and Other Possible Actions

In light of our significant financial commitments related to, among other things, new aircraft, the servicing and amortization of existing debt and equipment leasing arrangements, and future pension funding obligations, we and our subsidiaries will regularly consider, and enter into negotiations related to, capital raising activity, which may include the entry into leasing transactions and future issuances of secured or unsecured debt obligations or additional equity securities in public or private offerings or otherwise. The cash available from operations and these sources, however, may not be sufficient to cover cash contractual obligations because economic factors may reduce the amount of cash generated by operations or increase costs. For instance, an economic downturn or general global instability caused by military actions, terrorism, disease outbreaks, natural disasters or other causes could reduce the demand for air travel, which would reduce the amount of cash generated by operations. An increase in costs, either due to an increase in borrowing costs caused by a reduction in credit ratings or a general increase in interest rates, or due to an increase in the cost of fuel, maintenance, or aircraft, aircraft engines or parts, could decrease the amount of cash available to cover cash contractual obligations. Moreover, certain of our financing arrangements contain significant minimum cash balance requirements. As a result, we cannot use all of our available cash to fund operations, capital expenditures and cash obligations without violating these requirements.

In the past, we have from time to time refinanced, redeemed or repurchased our debt and taken other steps to reduce or otherwise manage the aggregate amount and cost of our debt or lease obligations or otherwise improve our balance sheet. Going forward, depending on market conditions, our cash position and other considerations, we may continue to take such actions.

Our Board of Directors has from time to time authorized programs to repurchase shares of our common stock, one of which is currently in effect, and may authorize additional share repurchase programs in the future.

Critical Accounting Policies and Estimates

In the second quarter of 2019, there were no changes to our critical accounting policies and estimates from those disclosed in the Consolidated Financial Statements and accompanying notes contained in our 2018 Form 10-K.

Recent Accounting Pronouncements

ASU 2018-02: Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

This ASU provides the option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings due to the U.S. federal corporate income tax rate change as a result of H.R. 1, the 2017 Tax Cuts and Jobs Act (the 2017 Tax Act). The amount of the reclassification is the difference between the amount initially charged or credited directly to other comprehensive income at the previous U.S. federal corporate income tax rate that remains in accumulated other comprehensive income and the amount that would have been charged or credited directly to other comprehensive income using the newly enacted U.S. federal corporate income tax rate, excluding the effect of any valuation allowance previously charged to income from continuing operations. This standard is effective for interim and annual reporting periods beginning after December 15, 2018. In the first quarter of 2019, we adopted this standard retrospectively as of December 22, 2017, the date the 2017 Tax Act was enacted, which resulted in the recast of prior reporting periods. As a result of the adoption, we reclassified $622 million of stranded tax effects principally related to our pension plans from accumulated other comprehensive loss to retained earnings.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

AAG and American's Market Risk Sensitive Instruments and Positions

Our primary market risk exposures include the price of aircraft fuel, foreign currency exchange rates and interest rate risk. Our exposure to these market risks has not changed materially from our exposure discussed in our 2018 Form 10-K except as updated below.

Aircraft Fuel

As of June 30, 2019, we did not have any fuel hedging contracts outstanding to hedge our fuel consumption. Our current policy is not to enter into transactions to hedge our fuel consumption, although we review that policy from time to time based on market conditions and other factors. As such, and assuming we do not enter into any future transactions to hedge our fuel consumption, we will continue to be fully exposed to fluctuations in fuel prices. Based on our 2019 forecasted fuel consumption, we estimate that a one cent per gallon increase in aviation fuel price would increase our 2019 annual fuel expense by $45 million.

Foreign Currency

We are exposed to the effect of foreign exchange rate fluctuations on the U.S. dollar value of foreign currency-denominated operating revenues and expenses. Our largest exposure comes from the British pound, Euro, Canadian dollar and various Latin American currencies, primarily the Brazilian real. We do not currently have a foreign currency hedge program.

Generally, fluctuations in foreign currencies, including devaluations, cannot be predicted by us and can significantly affect the value of our assets located outside the United States. These conditions, as well as any further delays, devaluations or imposition of more stringent repatriation restrictions, may materially adversely affect our business, results of operations and financial condition. See Part II, Item 1A. Risk Factors – *"We operate a global business with international operations that are subject to economic and political instability and have been, and in the future may continue to be, adversely affected by numerous events, circumstances or government actions beyond our control"* for additional discussion of this and other currency risks.

Interest

Our earnings and cash flow are affected by changes in interest rates due to the impact those changes have on our interest expense from variable rate debt instruments and our interest income from short-term, interest bearing investments. If annual interest rates increase 100 basis points, based on our June 30, 2019 variable-rate debt and short term investments balances, annual interest expense on variable rate debt would increase by approximately $103 million and annual interest income on short-term investments would increase by approximately $54 million.

ITEM 4. CONTROLS AND PROCEDURES

Management's Evaluation of Disclosure 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, as amended (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 SEC's rules and forms, and is accumulated and communicated to management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate to allow timely decisions regarding required disclosure. An evaluation of the effectiveness of AAG's and American's disclosure controls and procedures as of June 30, 2019 was performed under the supervision and with the participation of AAG's and American's management, including AAG's and American's CEO and CFO. Based on that evaluation, AAG's and American's management, including AAG's and American's CEO and CFO, concluded that AAG's and American's disclosure controls and procedures were effective as of June 30, 2019 at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

On December 9, 2013, AAG acquired US Airways Group, Inc. (US Airways Group) and its subsidiaries. We are still in the process of integrating certain processes, technology and operations for the post-Merger combined company, and we will continue to evaluate the impact of any related changes to our internal control over financial reporting. For the quarter ended June 30, 2019, there have been no changes in AAG's or American's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, AAG's and American's internal control over financial reporting.

Limitation on the Effectiveness of Controls

We believe that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, and, as noted above, the CEO and CFO of AAG and American believe that our disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2019.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Chapter 11 Cases. On November 29, 2011, AMR Corporation (AMR), American, and certain of AMR's other direct and indirect domestic subsidiaries (the Debtors) filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York (the Bankruptcy Court). On October 21, 2013, the Bankruptcy Court entered an order approving and confirming the Debtors' fourth amended joint plan of reorganization (as amended, the Plan). On the Effective Date, December 9, 2013, the Debtors consummated their reorganization pursuant to the Plan and completed the acquisition of US Airways Group by AMR (the Merger).

Pursuant to rulings of the Bankruptcy Court, the Plan established the Disputed Claims Reserve to hold shares of AAG common stock reserved for issuance to disputed claimholders at the Effective Date that ultimately become holders of allowed claims. The shares of AAG common stock issued to the Disputed Claims Reserve were originally issued on December 13, 2013 and have at all times since been included in the number of shares issued and outstanding as reported from time to time in our quarterly and annual reports, including for purposes of calculating earnings per common share. As disputed claims are resolved, the claimants will receive distributions of shares from the Disputed Claims Reserve. However, we are not required to distribute additional shares above the limits contemplated by the Plan, even if the shares remaining for distribution in the Disputed Claims Reserve are not sufficient to fully pay any additional allowed unsecured claims. To the extent that any of the reserved shares remain undistributed upon resolution of all remaining disputed claims, such shares will not be returned to us but rather will be distributed to former AMR stockholders and former convertible noteholders treated as stockholders under the Plan. On February 12, 2019, in accordance with the approval granted by the Bankruptcy Court on December 6, 2018, an aggregate of approximately 17.3 million shares of AAG common stock were distributed from the Disputed Claims Reserve to former AMR shareholders and convertible noteholders. After giving effect to this distribution, the Disputed Claims Reserve holds approximately 7 million shares of AAG common stock.

Private Party Antitrust Action Related to Passenger Capacity. We, along with Delta Air Lines, Inc., Southwest Airlines Co., United Airlines, Inc. and, in the case of litigation filed in Canada, Air Canada, have been named as defendants in approximately 100 putative class action lawsuits alleging unlawful agreements with respect to air passenger capacity. The U.S. lawsuits have been consolidated in the Federal District Court for the District of Columbia (the DC Court). On June 15, 2018, we reached a preliminary settlement agreement with the plaintiffs in the amount of $45 million that, once approved, will resolve all class claims in the U.S. lawsuits. That settlement was approved by the DC Court on May 13, 2019. Three parties who objected to the settlement have appealed that decision to the United States Court of Appeals for the District of Columbia. We believe these appeals are without merit and intend to vigorously defend against them.

Private Party Antitrust Action Related to the Merger. On August 6, 2013, a lawsuit captioned Carolyn Fjord, et al., v. AMR Corporation, et al., was filed in the Bankruptcy Court. The complaint named as defendants US Airways Group, US Airways, Inc. (US Airways), AMR and American, alleged that the effect of the Merger may be to create a monopoly in violation of Section 7 of the Clayton Antitrust Act, and sought injunctive relief and/or divestiture. On November 27, 2013, the Bankruptcy Court denied plaintiffs' motion to preliminarily enjoin the Merger. On August 29, 2018, the Bankruptcy Court denied in part defendants' motion for summary judgment, and fully denied plaintiffs' cross-motion for summary judgment. The parties' evidentiary cases were presented before the Bankruptcy Court in a bench trial in March 2019. The parties submitted proposed findings of fact and conclusions of law and made closing arguments in April 2019, and we are awaiting the Bankruptcy Court's decision. We believe this lawsuit is without merit and intend to vigorously defend against the allegations.

DOJ Investigation Related to the United States Postal Service. In April 2015, the Department of Justice (DOJ) informed us of an inquiry regarding American's 2009 and 2011 contracts with the United States Postal Service for the international transportation of mail by air. In October 2015, we received a Civil Investigative Demand from the DOJ seeking certain information relating to these contracts and the DOJ has also sought information concerning certain of the airlines that transport mail on a codeshare basis. The DOJ has indicated it is investigating potential violations of the False Claims Act or other statutes. We are cooperating fully with the DOJ with regard to its investigation.

General. In addition to the specifically identified legal proceedings, we and our subsidiaries are also engaged in other legal proceedings from time to time. Legal proceedings can be complex and take many months, or even years, to reach resolution, with the final outcome depending on a number of variables, some of which are not within our control. Therefore, although we will vigorously defend ourselves in each of the actions described above and such other legal proceedings, their ultimate resolution and potential financial and other impacts on us are uncertain but could be material. See Part II, Item 1A. Risk Factors – *"We may be a party to litigation in the normal course of business or otherwise, which could affect our financial position and liquidity"* for additional discussion.

ITEM 1A. RISK FACTORS

Below are certain risk factors that may affect our business, results of operations and financial condition, or the trading price of our common stock or other securities. We caution the reader that these risk factors may not be exhaustive. We operate in a continually changing business environment, and new risks and uncertainties emerge from time to time. Management cannot predict such new risks and uncertainties, nor can it assess the extent to which any of the risk factors below or any such new risks and uncertainties, or any combination thereof, may impact our business.

Downturns in economic conditions could adversely affect our business.

Due to the discretionary nature of business and leisure travel spending and the highly competitive nature of the airline industry, our revenues are heavily influenced by the condition of the U.S. economy and economies in other regions of the world. Unfavorable conditions in these broader economies have resulted, and may result in the future, in decreased passenger demand for air travel, changes in booking practices and related reactions by our competitors, all of which in turn have had, and may have in the future, a strong negative effect on our business. See also *"The airline industry is intensely competitive and dynamic"* below.

Our business is very dependent on the price and availability of aircraft fuel. Continued periods of high volatility in fuel costs, increased fuel prices or significant disruptions in the supply of aircraft fuel could have a significant negative impact on our operating results and liquidity.

Our operating results are materially impacted by changes in the availability, price volatility and cost of aircraft fuel, which represents one of the largest single cost items in our business. Market prices for jet fuel have fluctuated substantially over the past several years and prices continue to be highly volatile.

Because of the amount of fuel needed to operate our business, even a relatively small increase or decrease in the price of fuel can have a material effect on our operating results and liquidity. Due to the competitive nature of the airline industry and unpredictability of the market for air travel, we can offer no assurance that we may be able to increase our fares, impose fuel surcharges or otherwise increase revenues or decrease other operating costs sufficiently to offset fuel price increases. Similarly, we cannot predict actions that may be taken by our competitors in response to changes in fuel prices.

Although we are currently able to obtain adequate supplies of aircraft fuel, we cannot predict the future availability, price volatility or cost of aircraft fuel. Natural disasters (including hurricanes or similar events in the U.S. Southeast and on the Gulf Coast where a significant portion of domestic refining capacity is located), political disruptions or wars involving oil-producing countries, economic sanctions imposed against oil-producing countries or specific industry participants, changes in fuel-related governmental policy, the strength of the U.S. dollar against foreign currencies, changes in the cost to transport or store petroleum products, changes in access to petroleum product pipelines and terminals, speculation in the energy futures markets, changes in aircraft fuel production capacity, environmental concerns and other unpredictable events may result in fuel supply shortages, distribution challenges, additional fuel price volatility and cost increases in the future. For instance, effective January 1, 2020, rules adopted by the International Maritime Organization will restrict the sulfur content allowable in marine fuels from 3.5% to 0.5%, which is expected to cause increased demand by maritime shipping companies for low-sulfur fuel and lead to increased costs of jet fuel. Any of these factors or events could cause a disruption in or increased demands on oil production, refinery operations, pipeline capacity or terminal access and possibly result in significant increases in the price of aircraft fuel and diminished availability of aircraft fuel supply.

Our aviation fuel purchase contracts generally do not provide meaningful price protection against increases in fuel costs. Our current policy is not to enter into transactions to hedge our fuel consumption, although we review this policy from time to time based on market conditions and other factors. Accordingly, as of June 30, 2019, we did not have any fuel hedging contracts outstanding. As such, and assuming we do not enter into any future transactions to hedge our fuel consumption, we will continue to be fully exposed to fluctuations in fuel prices. See also the discussion in Part I, Item 3. Quantitative and Qualitative Disclosures About Market Risk – *"Aircraft Fuel."*

The airline industry is intensely competitive and dynamic.

Our competitors include other major domestic airlines and foreign, regional and new entrant airlines, as well as joint ventures formed by some of these airlines, many of which have more financial or other resources and/or lower cost structures than ours, as well as other forms of transportation, including rail and private automobiles. In many of our markets we compete with at least one low-cost carrier (including so-called ultra-low cost carriers). Our revenues are sensitive to the actions of other carriers in many areas including pricing, scheduling, capacity, amenities, loyalty benefits and promotions, which can have a substantial adverse impact not only on our revenues, but on overall industry revenues. These factors may become even more significant in periods when the industry experiences large losses, as airlines under financial stress, or in bankruptcy, may institute pricing structures intended to achieve near-term survival rather than long-term viability.

Low-cost carriers (including so-called ultra-low-cost carriers) have a profound impact on industry revenues. Using the advantage of low unit costs, these carriers offer lower fares in order to shift demand from larger, more established airlines, and represent significant competitors, particularly for customers who fly infrequently and are price sensitive and tend not to be loyal to any one particular carrier. While historically these carriers have provided competition in domestic markets, we have recently experienced new competition from low-cost carriers on international routes. A number of these low-cost carriers have announced growth strategies including commitments to acquire significant numbers of new aircraft for delivery in the next few years. These low-cost carriers are attempting to continue to increase their market share through growth and, potentially, consolidation, and are expected to continue to have an impact on our revenues and overall performance. We and several other large network carriers have implemented “Basic Economy” fares designed to more effectively compete against low-cost carriers, but we cannot predict whether these initiatives will be successful or the competitive reaction of the low-cost carriers. Competition is also increasing from low-cost airlines executing international long-haul expansion strategies, including, for example, Icelandair and Norwegian Air Shuttle. The actions of existing or future low-cost carriers, including those described above, could have a material adverse effect on our operations and financial performance.

We provide air travel internationally, directly as well as through joint business, alliance, codeshare and similar arrangements to which we are a party. While our network is comprehensive, compared to some of our key global competitors, we generally have somewhat greater relative exposure to certain regions (for example, Latin America) and somewhat lower relative exposures to others (for example, China and parts of Asia). Our financial performance relative to our key competitors will therefore be influenced significantly by macro-economic conditions in particular regions around the world and the relative exposure of our network to the markets in those regions.

In providing international air transportation, we compete to provide scheduled passenger and cargo service between the U.S. and various overseas locations with U.S. airlines, foreign investor-owned airlines and foreign state-owned or state-affiliated airlines. Competition is increasing from foreign state-owned and state-affiliated airlines in the Gulf region, including Emirates, Etihad Airways and Qatar Airways. These carriers have large numbers of international widebody aircraft in service and on order and are increasing service to the U.S. from locations both in and outside the Middle East. Service to and from locations outside of the Middle East is provided by some of these carriers under so-called “fifth freedom” rights permitted under international treaties which allow service to and from stopover points between an airline’s home country and the ultimate destination. Such flights, such as a stopover in Europe on flights to the United States, allow the carrier to sell tickets for travel between the stopover point and the United States in competition with service provided by us. Additionally, these carriers have made significant investments in a number of airlines located outside of the Middle East, such as Air Italy, providing these affiliated airlines with capital and aircraft to permit increases in service that compete with us. We believe these state-owned and state-affiliated carriers in the Gulf region, including their affiliated carriers, benefit from significant government subsidies, which have allowed them to grow quickly, reinvest in their product and expand their global presence. Competition is also increasing from low-cost airlines executing international long-haul expansion strategies, including, for example, Icelandair and Norwegian Air Shuttle.

Our international service exposes us to foreign economies and the potential for reduced demand, such as we have recently experienced in Venezuela, when any foreign country we serve suffers adverse local economic conditions. In addition, open skies agreements with an increasing number of countries around the world provide international airlines with open access to U.S. markets, potentially subjecting us to increased competition on our international routes. See also *“Our business is subject to extensive government regulation, which may result in increases in our costs, disruptions to our operations, limits on our operating flexibility, reductions in the demand for air travel, and competitive disadvantages.”*

Certain airline alliances, joint ventures and joint businesses have been, or may in the future be, granted immunity from antitrust regulations by governmental authorities for specific areas of cooperation, such as joint pricing decisions. To the extent alliances formed by our competitors can undertake activities that are not available to us, our ability to effectively compete may be hindered. Our ability to attract and retain customers is dependent upon, among other things, our ability to offer our customers convenient access to desired markets. Our business could be adversely affected if we are unable to maintain or obtain alliance and marketing relationships with other air carriers in desired markets.

American has established a transatlantic joint business agreement (JBA) with British Airways, Iberia and Finnair, and separately, a transpacific JBA with Japan Airlines, each of which has been granted antitrust immunity. In October 2017, American and its transatlantic partners executed an amended and restated JBA which, among other things, extends the term of the agreement. An application is pending with the U.S. Department of Transportation (DOT) to add Aer Lingus, which is now owned by the parent company of British Airways and Iberia, to the transatlantic JBA. This relationship benefits from a grant of antitrust immunity from the DOT and was reviewed by the European Commission (EC) in July 2010. In connection with this review, we provided certain commitments to the EC regarding, among other things, the availability of take-off and landing slots at London Heathrow (LHR) or London Gatwick (LGW) airports. The commitments accepted by the EC are binding for 10 years with the possibility of renewal by the EC. However, in light of Brexit and the related possibility that the EC would no longer have regulatory responsibility for the United Kingdom when the commitments expire in July 2020, the United Kingdom Competition and Markets Authority (CMA) in October 2018 opened an investigation into the transatlantic JBA. We are cooperating fully with the CMA. Also, we signed a JBA with Qantas Airways, which was approved by the competition law regulators in Australia and New Zealand, and in July 2019 the DOT granted its approval. In addition, in 2016, we signed JBAs with certain air carriers of the LATAM Airlines Group for travel to certain South American countries. In the United States, approval for the JBA with LATAM Airlines Group is pending. The JBA with LATAM Airlines Group has obtained required approvals in all other jurisdictions except Chile, where in May 2019, the Chilean Supreme Court rejected the joint business proposal. As a result of this decision, we and our proposed JBA partners are currently considering next steps in relation to the proposed Latin American joint business. This JBA has been approved in all other jurisdictions. The foregoing arrangements are important aspects of our international network and we are dependent on the performance and continued cooperation of the other airlines party to those agreements. No assurances can be given as to any benefits that we may derive from such arrangements or any other arrangements that may ultimately be implemented, or whether or not regulators will, or if granted continue to, approve or impose material conditions on our business activities.

Additional mergers and other forms of industry consolidation, including antitrust immunity grants, may take place and may not involve us as a participant. Depending on which carriers combine and which assets, if any, are sold or otherwise transferred to other carriers in connection with any such combinations, our competitive position relative to the post-combination carriers or other carriers that acquire such assets could be harmed. In addition, as carriers combine through traditional mergers or antitrust immunity grants, their route networks will grow, and that growth will result in greater overlap with our network, which in turn could result in lower overall market share and revenues for us. Such consolidation is not limited to the U.S., but could include further consolidation among international carriers in Europe and elsewhere.

Additionally, our AAdvantage loyalty program, which is an important element of our sales and marketing programs, faces significant and increasing competition from the loyalty programs offered by other travel companies, as well as from similar loyalty benefits offered by banks and other financial services companies. Competition among loyalty programs is intense regarding the rewards, fees, required usage, and other terms and conditions of these programs. These competitive factors affect our ability to attract and retain customers, increase usage of our loyalty program and maximize the revenue generated by our loyalty program.

Evolving data security and privacy requirements could increase our costs, and any significant data security incident could disrupt our operations, harm our reputation, expose us to legal risks and otherwise materially adversely affect our business, results of operations and financial condition.

Our business requires the secure processing and storage of sensitive information relating to our customers, employees, business partners and others. However, like any global enterprise operating in today's digital business environment, we are subject to threats to the security of our networks and data, including threats potentially involving criminal hackers, hacktivists, state-sponsored actors, corporate espionage, employee malfeasance, and human or technological error. These threats continue to increase as the frequency, intensity and sophistication of attempted attacks and intrusions increase around the world. We have been the target of cybersecurity attacks in the past and expect that we will continue to be in the future.

Furthermore, in response to these threats there has been heightened legislative and regulatory focus on data privacy and cybersecurity in the U.S., the European Union (EU) and elsewhere, particularly with respect to critical infrastructure providers, including those in the transportation sector. As a result, we must comply with a growing and fast-evolving set of legal requirements in this area, including substantive cybersecurity standards as well as requirements for notifying regulators and affected individuals in the event of a data security incident. This regulatory environment is increasingly challenging and may present material obligations and risks to our business, including significantly expanded compliance burdens, costs and enforcement risks. For example, in May 2018, the EU's new General Data Protection Regulation, commonly referred to as GDPR, came into effect, which imposes a host of new data privacy and security requirements, imposing significant costs on us and carrying substantial penalties for non-compliance.

In addition, many of our commercial partners, including credit card companies, have imposed data security standards that we must meet. In particular, we are required by the Payment Card Industry Security Standards Council, founded by the credit card companies, to comply with their highest level of data security standards. While we continue our efforts to meet these standards, new and revised standards may be imposed that may be difficult for us to meet and could increase our costs.

A significant cybersecurity incident could result in a range of potentially material negative consequences for us, including unauthorized access to, disclosure, modification, misuse, loss or destruction of company systems or data; theft of sensitive, regulated or confidential data, such as personal identifying information or our intellectual property; the loss of functionality of critical systems through ransomware, denial of service or other attacks; and business delays, service or system disruptions, damage to equipment and injury to persons or property. The methods used to obtain unauthorized access, disable or degrade service or sabotage systems are constantly evolving and may be difficult to anticipate or to detect for long periods of time. The constantly changing nature of the threats means that we may not be able to prevent all data security breaches or misuse of data. Similarly, we depend on the ability of our key commercial partners, including our regional carriers, distribution partners and technology vendors, to conduct their businesses in a manner that complies with applicable security standards and assures their ability to perform on a timely basis. A security failure, breach or other significant cybersecurity incident affecting one of our partners could result in potentially material negative consequences for us.

In addition, the costs and operational consequences of defending against, preparing for, responding to and remediating an incident of cybersecurity breach may be substantial. As cybersecurity threats become more frequent, intense and sophisticated, costs of proactive defense measures may increase. Further, we could be exposed to litigation, regulatory enforcement or other legal action as a result of an incident, carrying the potential for damages, fines, sanctions or other penalties, as well as injunctive relief and enforcement actions requiring costly compliance measures. A significant number of recent privacy and data security incidents, including those involving other large airlines, have resulted in very substantial adverse financial consequences to those companies. A cybersecurity incident could also impact our brand, harm our reputation and adversely impact our relationship with our customers, employees and stockholders. Accordingly, failure to appropriately address these issues could result in material financial and other liabilities and cause significant reputational harm to our company.

Our high level of debt and other obligations may limit our ability to fund general corporate requirements and obtain additional financing, may limit our flexibility in responding to competitive developments and cause our business to be vulnerable to adverse economic and industry conditions.

We have significant amounts of indebtedness and other obligations, including pension obligations, obligations to make future payments on flight equipment and property leases related to airport and other facilities, and substantial non-cancelable obligations under aircraft and related spare engine purchase agreements. Moreover, currently a substantial portion of our assets are pledged to secure our indebtedness. Our substantial indebtedness and other obligations, which are generally greater than the indebtedness and other obligations of our competitors, could have important consequences. For example, they:

- may make it more difficult for us to satisfy our obligations under our indebtedness;
- may limit our ability to obtain additional funding for working capital, capital expenditures, acquisitions, investments, integration costs, and general corporate purposes, and adversely affect the terms on which such funding can be obtained;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness and other obligations, thereby reducing the funds available for other purposes;

- make us more vulnerable to economic downturns, industry conditions and catastrophic external events, particularly relative to competitors with lower relative levels of financial leverage;
- contain covenants requiring us to maintain an aggregate of at least $2.0 billion of unrestricted cash and cash equivalents and amounts available to be drawn under revolving credit facilities; and
- contain restrictive covenants that could, among other things:
    - limit our ability to merge, consolidate, sell assets, incur additional indebtedness, issue preferred stock, make investments and pay dividends;
    - significantly constrain our ability to respond, or respond quickly, to unexpected disruptions in our own operations, the U.S. or global economies, or the businesses in which we operate, or to take advantage of opportunities that would improve our business, operations, or competitive position versus other airlines;
    - limit our ability to withstand competitive pressures and reduce our flexibility in responding to changing business and economic conditions; and
    - result in an event of default under our indebtedness.

These obligations could also impact our ability to obtain additional financing, if needed, and our flexibility in the conduct of our business, and could materially adversely affect our liquidity, results of operations and financial condition.

Further, a substantial portion of our long-term indebtedness bears interest at fluctuating interest rates, primarily based on the London interbank offered rate (LIBOR) for deposits of U.S. dollars. LIBOR tends to fluctuate based on general short-term interest rates, rates set by the U.S. Federal Reserve and other central banks, the supply of and demand for credit in the London interbank market and general economic conditions. We have not hedged our interest rate exposure with respect to our floating rate debt. Accordingly, our interest expense for any particular period will fluctuate based on LIBOR and other variable interest rates. To the extent the interest rates applicable to our floating rate debt increase, our interest expense will increase, in which event we may have difficulties making interest payments and funding our other fixed costs, and our available cash flow for general corporate requirements may be adversely affected.

On July 27, 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, is considering replacing U.S. dollar LIBOR with a newly created index, calculated based on repurchase agreements backed by treasury securities. It is not possible to predict the effect of these changes, other reforms or the establishment of alternative reference rates in the United Kingdom, the United States or elsewhere. See also the discussion of interest rate risk in Part I, Item 3. Quantitative and Qualitative Disclosures About Market Risk – *“Interest.”*

We will need to obtain sufficient financing or other capital to operate successfully.

Our business plan contemplates continued significant investments related to modernizing our fleet, improving the experience of our customers and updating our facilities. Significant capital resources will be required to execute this plan. We estimate that, based on our commitments as of June 30, 2019, our planned aggregate expenditures for aircraft purchase commitments and certain engines on a consolidated basis for calendar years 2019-2023 would be approximately $8.4 billion. We also require financing to refinance maturing obligations and to provide liquidity to fund other corporate requirements. Accordingly, we will need substantial financing or other capital resources to finance such aircraft and engines and meet such other liquidity needs. If we are unable to arrange such financing at customary advance rates and on terms and conditions acceptable to us, we may need to use cash from operations or cash on hand to purchase such aircraft and engines or may seek to negotiate deferrals for such aircraft and engines with the applicable aircraft and engine manufacturers or otherwise defer corporate obligations. Depending on numerous factors applicable at the time we seek capital, many of which are out of our control, such as the state of the domestic and global economies, the capital and credit markets’ view of our prospects and the airline industry in general, and the general availability of debt and equity capital, the financing or other capital resources that we will need may not be available to us, or may be available only on onerous terms and conditions. There can be no assurance that we will be successful in obtaining financing or other needed sources of capital to operate successfully. An inability to obtain necessary financing on acceptable terms would have a material adverse impact on our business, results of operations and financial condition.

We have significant pension and other postretirement benefit funding obligations, which may adversely affect our liquidity, results of operations and financial condition.

Our pension funding obligations are significant. The amount of these obligations will depend on the performance of investments held in trust by the pension plans, interest rates for determining liabilities and actuarial experience. The minimum funding obligation applicable to our pension plans was subject to favorable temporary funding rules that expired at the end of 2017 and, as a result, our minimum pension funding obligations increased materially beginning in 2019. In addition, we may have significant obligations for other postretirement benefits, retiree medical and other postretirement benefits.

If our financial condition worsens, provisions in our credit card processing and other commercial agreements may adversely affect our liquidity.

We have agreements with companies that process customer credit card transactions for the sale of air travel and other services. These agreements allow these credit card processing companies, under certain conditions (including, with respect to certain agreements, the failure of American to maintain certain levels of liquidity), to hold an amount of our cash (a holdback) equal to some or all of the advance ticket sales that have been processed by that credit card processor, but for which we have not yet provided the air transportation. These credit card processing companies are not currently entitled to maintain any holdbacks pursuant to these requirements. These holdback requirements can be modified at the discretion of the credit card processing companies upon the occurrence of specific events, including material adverse changes in our financial condition. An increase in the current holdbacks, up to and including 100% of relevant advanced ticket sales, would materially reduce our liquidity. Likewise, other of our commercial agreements contain provisions that allow other entities to impose less-favorable terms, including the acceleration of amounts due, in the event of material adverse changes in our financial condition.

Union disputes, employee strikes and other labor-related disruptions, or our inability to otherwise maintain labor costs at competitive levels may adversely affect our operations and financial performance.

Relations between air carriers and labor unions in the U.S. are governed by the Railway Labor Act (RLA). Under the RLA, collective bargaining agreements (CBAs) generally contain “amendable dates” rather than expiration dates, and the RLA requires that a carrier maintain the existing terms and conditions of employment following the amendable date through a multi-stage and usually lengthy series of bargaining processes overseen by the National Mediation Board (NMB). For the dates that the CBAs with our major work groups become amendable under the RLA, see Part I, Item 1. Business – *“Employees and Labor Relations”* in our 2018 Form 10-K.

In the case of a CBA that is amendable under the RLA, if no agreement is reached during direct negotiations between the parties, either party may request that the NMB appoint a federal mediator. The RLA prescribes no timetable for the direct negotiation and mediation processes, and it is not unusual for those processes to last for many months or even several years. If no agreement is reached in mediation, the NMB in its discretion may declare that an impasse exists and proffer binding arbitration to the parties. Either party may decline to submit to arbitration, and if arbitration is rejected by either party, a 30-day “cooling off” period commences. During or after that period, a Presidential Emergency Board (PEB) may be established, which examines the parties’ positions and recommends a solution. The PEB process lasts for 30 days and is followed by another 30-day “cooling off” period. At the end of a “cooling off” period, unless an agreement is reached or action is taken by Congress, the labor organization may exercise “self-help,” such as a strike, which could materially adversely affect our business, results of operations and financial condition.

None of the unions representing our employees presently may lawfully engage in concerted slowdowns or refusals to work, such as strikes, sick-outs or other similar activity, against us. Nonetheless, there is a risk that disgruntled employees, either with or without union involvement, could engage in one or more concerted refusals to work that could individually or collectively harm the operation of our airline and impair our financial performance. For example, we are currently engaged in litigation with the unions representing our mechanics and other ground workers alleging that these employees are engaged in an unlawful work action which is adversely affecting our operation. Additionally, some of our unions have brought and may continue to bring grievances to binding arbitration, including those related to wages. If successful, there is a risk these judicial or arbitral avenues could result in material additional costs that we did not anticipate. See also Part I, Item 1. Business – *“Employees and Labor Relations”* in our 2018 Form 10-K.

As of December 31, 2018, approximately 84% of our employees were represented for collective bargaining purposes by labor unions. Currently, we believe our labor costs are competitive relative to the other large network carriers. However, we cannot provide assurance that labor costs going forward will remain competitive because we are in negotiations for some new agreements now and other agreements may become amendable, competitors may significantly reduce their labor costs or we may agree to higher-cost provisions unilaterally or in connection with our current or future labor negotiations.

Interruptions or disruptions in service at one of our key facilities could have a material adverse impact on our operations.

We operate principally through our hubs and gateways in Charlotte, Chicago, Dallas/Fort Worth, London Heathrow, Los Angeles, Miami, New York, Philadelphia, Phoenix and Washington, D.C. Substantially all of our flights either originate at or fly into one of these locations. A significant interruption or disruption in service at one of our hubs, gateways or other airports where we have a significant presence, such as LHR, resulting from air traffic control (ATC) delays, weather conditions, natural disasters, growth constraints, performance by third-party service providers (such as electric utility or telecommunications providers), failure of computer systems, disruptions at airport facilities or other key facilities used by us to manage our operations (such as occurred in the United Kingdom at LGW on December 20, 2018 and LHR on January 8, 2019 due to unauthorized drone activity), labor relations, power supplies, fuel supplies, terrorist activities, or otherwise could result in the cancellation or delay of a significant portion of our flights and, as a result, could have a severe impact on our business, results of operations and financial condition. We have limited control, particularly in the short term, over the operation, quality or maintenance of many of the services on which our operations depend and over whether vendors of such services will improve or continue to provide services that are essential to our business.

If we are unable to obtain and maintain adequate facilities and infrastructure throughout our system and, at some airports, adequate slots, we may be unable to operate our existing flight schedule and to expand or change our route network in the future, which may have a material adverse impact on our operations.

In order to operate our existing and proposed flight schedule and, where desirable, add service along new or existing routes, we must be able to maintain and/or obtain adequate gates, check-in counters, operations areas, operations control facilities and administrative support space. As airports around the world become more congested, it may not be possible for us to ensure that our plans for new service can be implemented in a commercially viable manner, given operating constraints at airports throughout our network, including those imposed by inadequate facilities at desirable airports.

In light of constraints on existing facilities, there is presently a significant amount of capital spending underway at major airports in the United States, including large projects underway at a number of airports where we have significant operations, such as Chicago O'Hare International Airport (ORD), Los Angeles International Airport (LAX), La Guardia Airport (LGA) and Ronald Reagan Washington National Airport (DCA). This spending is expected to result in increased costs to airlines and the traveling public that use those facilities as the airports seek to recover their investments through increased rental, landing and other facility costs. In some circumstances, such costs could be imposed by the relevant airport authority without our approval. Accordingly, our operating costs are expected to increase significantly at many airports at which we operate, including a number of our hubs and gateways, as a result of capital spending projects currently underway and additional projects that we expect to commence over the next several years.

In addition, operations at three major domestic airports, certain smaller domestic airports and many foreign airports served by us are regulated by governmental entities through the use of slots or similar regulatory mechanisms that limit the rights of carriers to conduct operations at those airports. Each slot represents the authorization to land at or take off from the particular airport during a specified time period and may have other operational restrictions as well. In the U.S., the DOT and the FAA currently regulate the allocation of slots or slot exemptions at DCA and two New York City airports: John F. Kennedy International Airport (JFK) and LGA. Our operations at these airports generally require the allocation of slots or similar regulatory authority. In addition to slot restrictions, operations at LGA and DCA are also limited based on a so-called "perimeter rule" which generally limits the stage length of the flights that can be operated from those airports to 1,500 and 1,250 miles, respectively. Similarly, our operations at LHR, international airports in Beijing, Frankfurt, Paris, Tokyo and other airports outside the U.S. are regulated by local slot authorities pursuant to the International Airline Trade Association (IATA) Worldwide Scheduling Guidelines and/or applicable local law. Termination of slot controls at some or all of the foregoing airports could affect our operational performance and competitive position. We currently have sufficient slots or analogous authorizations to operate our existing flights and we have generally, but not always, been able to obtain the rights to expand our operations and to change our schedules. However, there is no assurance that we will be able to obtain sufficient slots or analogous authorizations in the future or as to the cost of acquiring such rights because, among other reasons, such allocations are often sought after by other airlines and are subject to changes in governmental policies.

We cannot provide any assurance that regulatory changes regarding the allocation of slots, the continued enforcement of a perimeter rule or similar regulatory authority will not have a material adverse impact on our operations.

Our ability to provide service can also be impaired at airports, such as ORD and LAX where the airport gate and other facilities are currently inadequate to accommodate all of the service that we would like to provide, or airports such as Dallas Love Field Airport where we have no access to gates at all.

Any limitation on our ability to acquire or maintain adequate gates, ticketing facilities, operations areas, operations control facilities, slots (where applicable), or office space could have a material adverse effect on our business, results of operations and financial condition.

If we encounter problems with any of our third-party regional operators or third-party service providers, our operations could be adversely affected by a resulting decline in revenue or negative public perception about our services.

A significant portion of our regional operations are conducted by third-party operators on our behalf, substantially all of which are provided for under capacity purchase agreements. Due to our reliance on third parties to provide these essential services, we are subject to the risk of disruptions to their operations, which may result from many of the same risk factors disclosed in this report, such as the impact of adverse economic conditions, the inability of third parties to hire or retain skilled personnel, including pilots and mechanics, and other risk factors, such as an out-of-court or bankruptcy restructuring of any of our regional operators. Many of these third-party regional operators provide significant regional capacity that we would be unable to replace in a short period of time should that operator fail to perform its obligations to us. Disruptions to capital markets, shortages of skilled personnel and adverse economic conditions in general have subjected certain of these third-party regional operators to significant financial pressures, which have in the past and may in the future lead to bankruptcies among these operators. We may also experience disruption to our regional operations if we terminate the capacity purchase agreement with one or more of our current operators and transition the services to another provider. Any significant disruption to our regional operations would have a material adverse effect on our business, results of operations and financial condition.

In addition, our reliance upon others to provide essential services on behalf of our operations may result in our relative inability to control the efficiency and timeliness of contract services. We have entered into agreements with contractors to provide various facilities and services required for our operations, including distribution and sale of airline seat inventory, reservations, provision of information technology and services, regional operations, aircraft maintenance, ground services and facilities and baggage handling. Similar agreements may be entered into in any new markets we decide to serve. These agreements are generally subject to termination after notice by the third-party service provider. We are also at risk should one of these service providers cease operations, and there is no guarantee that we could replace these providers on a timely basis with comparably priced providers, or at all. Any material problems with the efficiency and timeliness of contract services, resulting from financial hardships or otherwise, could have a material adverse effect on our business, results of operations and financial condition.

The commercial relationships that we have with airlines, including any related equity investment, may not produce the returns or results we expect.

An important part of our strategy to expand our network has been to expand our commercial relationships with other airlines, such as by entering into global alliance, joint business and codeshare relationships, and, in one recent instance involving China Southern Airlines, by making a significant equity investment in another airline in connection with initiating such a commercial relationship. We may explore similar non-controlling investments in, and joint ventures and strategic alliances with, other carriers as part of our global business strategy. We face competition in forming these commercial relationships since there are a limited number of potential arrangements and other airlines are looking to enter into similar relationships, and our inability to form these relationships or inability to form as many of these relationships as our competitors may have an adverse effect on our business. Any such existing or future investment could involve significant challenges and risks, including that we may not realize a satisfactory return on our investment or that they may not generate the expected revenue synergies. These events could have a material adverse effect on our business, results of operations and financial condition.

We rely on third-party distribution channels and must manage effectively the costs, rights and functionality of these channels.

We rely on third-party distribution channels, including those provided by or through global distribution systems (GDSs) (e.g., Amadeus, Sabre and Travelport), conventional travel agents, travel management companies and online travel agents (OTAs) (e.g., Expedia, including its booking sites Orbitz and Travelocity, and The Priceline Group), to distribute a significant portion of our airline tickets, and we expect in the future to continue to rely on these channels. We are also dependent upon the ability and willingness of these distribution channels to expand their ability to distribute and collect revenues for ancillary products (e.g., fees for selective seating). These distribution channels are more expensive and at present have less functionality in respect of ancillary product offerings than those we operate ourselves, such as our website at *www.aa.com*. Certain of these distribution channels also effectively restrict the manner in which we distribute our products generally. To remain competitive, we will need to manage successfully our distribution costs and rights, increase our distribution flexibility and improve the functionality of our distribution channels, while maintaining an industry-competitive cost structure. Further, as distribution technology changes we will need to continue to update our technology by acquiring new technology from third parties, building the functionality ourselves, or a combination, which in any event will likely entail significant technological and commercial risk and involve potentially material investments. These imperatives may affect our relationships with conventional travel agents, travel management companies, GDSs and OTAs, including if consolidation of conventional travel agents, travel management companies, GDSs or OTAs continues, or should any of these parties seek to acquire other technology providers thereby potentially limiting our technology alternatives, such as the proposed acquisition of Farelogix by Sabre. Any inability to manage our third-party distribution costs, rights and functionality at a competitive level or any material diminishment or disruption in the distribution of our tickets could have a material adverse effect on our business, results of operations and financial condition.

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

Airlines are subject to extensive domestic and international regulatory requirements. In the last several years, Congress has passed laws, and the DOT, the FAA, the Transportation Security Administration (TSA) and the Department of Homeland Security have issued a number of directives and other regulations, that affect the airline industry. These requirements impose substantial costs on us and restrict the ways we may conduct our business.

For example, the FAA from time to time issues directives and other regulations relating to the maintenance and operation of aircraft that require significant expenditures or operational restrictions. These requirements can be issued with little or no notice, or can otherwise impact our ability to efficiently or fully utilize our aircraft, and in some instances have resulted in the temporary grounding of aircraft types altogether (including the March 2019 grounding of all Boeing 737 MAX aircraft, including the 24 aircraft in our fleet, which remains in place as of the date of this filing), or otherwise caused substantial disruption and resulted in material costs to us and lost revenues. The FAA also exercises comprehensive regulatory authority over nearly all technical aspects of our operations. Our failure to comply with such requirements has in the past and may in the future result in fines and other enforcement actions by the FAA or other regulators. In the future, any new regulatory requirements, particularly requirements that limit our ability to operate or price our products, could have a material adverse effect on us and the industry.

DOT consumer rules dictate procedures for customer handling during long onboard delays, further regulate airline interactions with passengers, including passengers with disabilities, through the ticketing process, at the airport, and onboard the aircraft, and require disclosures concerning airline fares and ancillary fees such as baggage fees. Other DOT rules apply to post-ticket purchase price increases and an expansion of tarmac delay regulations to international airlines.

The Aviation and Transportation Security Act mandates the federalization of certain airport security procedures and imposes additional security requirements on airports and airlines, most of which are funded by a per-ticket tax on passengers and a tax on airlines. Present and potential future security requirements can have the effect of imposing costs and inconvenience on travelers, potentially reducing the demand for air travel.

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

- changes in law that affect the services that can be offered by airlines in particular markets and at particular airports, or the types of fares offered or fees that can be charged to passengers;
- the granting and timing of certain governmental approvals (including antitrust or foreign government approvals) needed for codesharing alliances, joint businesses and other arrangements with other airlines;
- restrictions on competitive practices (for example, court orders, or agency regulations or orders, that would curtail an airline’s ability to respond to a competitor);
- the adoption of new passenger security standards or regulations that impact customer service standards;

- restrictions on airport operations, such as restrictions on the use of slots at airports or the auction or reallocation of slot rights currently held by us; and
- the adoption of more restrictive locally-imposed noise restrictions.

Each additional regulation or other form of regulatory oversight increases costs and adds greater complexity to airline operations and, in some cases, may reduce the demand for air travel. There can be no assurance that our compliance with new rules, anticipated rules or other forms of regulatory oversight will not have a material adverse effect on us.

Any significant reduction in air traffic capacity at and in the airspace serving key airports in the U.S. or overseas could have a material adverse effect on our business, results of operations and financial condition. In addition, the United States National Airspace System (the ATC system) is not successfully modernizing to meet the growing demand for U.S. air travel. Air traffic controllers rely on outdated procedures and technologies that routinely compel airlines to fly inefficient routes or take significant delays on the ground. The ATC system's inability to manage existing travel demand has led government agencies to implement short-term capacity constraints during peak travel periods or adverse weather conditions in certain markets, resulting in delays and disruptions of air traffic. The outdated technologies also cause the ATC system to be less resilient in the event of a failure. For example, an automation failure and an evacuation, in 2015 and 2017, respectively, at the Washington Air Route Control Center resulted in cancellations and delays of hundreds of flights traversing the greater Washington, D.C. airspace.

In the early 2000s, the FAA embarked on a path to modernize the national airspace system, including migration from the current radar-based ATC system to a GPS-based system. This modernization of the ATC system, generally referred to as "NextGen," has been plagued by delays and cost overruns, and it remains uncertain when the full array of benefits expected from this modernization will be available to the public and the airlines. Failure to update the ATC system in a timely manner and the substantial costs that may be imposed on airlines in order to fund a modernized ATC system may have a material adverse effect on our business.

Further, our business has been adversely impacted when government agencies have ceased to operate as expected including due to partial shut-downs, sequestrations or similar events. These events have resulted in, among other things, reduced demand for air travel, an actual or perceived reduction in ATC and security screening resources and related travel delays, as well as disruption in the ability of the FAA to grant required regulatory approvals, such as are involved when a new aircraft is first placed into service.

Our operating authority in international markets is subject to aviation agreements between the U.S. and the respective countries or governmental authorities, such as the EU, and in some cases, fares and schedules require the approval of the DOT and/or the relevant foreign governments. Moreover, alliances with international carriers may be subject to the jurisdiction and regulations of various foreign agencies. The U.S. government has negotiated "open skies" agreements with many countries, which allow unrestricted route authority access between the U.S. and the foreign markets. While the U.S. has worked to increase the number of countries with which open skies agreements are in effect, a number of markets important to us, including China, do not have open skies agreements. For example, the open skies air services agreement between the U.S. and the EU, which took effect in March 2008, provides airlines from the U.S. and EU member states open access to each other's markets, with freedom of pricing and unlimited rights to fly from the U.S. to any airport in the EU, including LHR. As a result of the agreement and a subsequent open skies agreement involving the U.S. and the United Kingdom, which was agreed in anticipation of Brexit, we face increased competition in these markets, including LHR. Bilateral and multilateral agreements among the U.S. and various foreign governments of countries we serve but which are not covered by an open skies treaty are subject to periodic renegotiation. We currently operate a number of international routes under government arrangements that limit the number of airlines permitted to operate on the route, the capacity of the airlines providing services on the route, or the number of airlines allowed access to particular airports. If an open skies policy were to be adopted for any of these markets, it could have a material adverse impact on us and could result in the impairment of material amounts of our related tangible and intangible assets. In addition, competition from foreign airlines, revenue-sharing joint ventures, JBAs, and other alliance arrangements by and among other airlines could impair the value of our business and assets on the open skies routes.

The pending withdrawal of the United Kingdom from the EU, commonly referred to as Brexit, is currently scheduled to occur on November 1, 2019 but could take place before or after that date dependent on the outcome of ongoing negotiations between the United Kingdom's government and Members of the United Kingdom Parliament as well as with the EU. Brexit will mandate further modification in the current regulatory regime. We face risks associated with the United Kingdom's exit from the EU, notably given the extent of our passenger and cargo traffic and that of our joint business partners that flows through LHR in the United Kingdom. Absent an approved withdrawal agreement between the United Kingdom and the EU (resulting in the so-called "No Deal Brexit" scenario), our expectation is that air services (including those involving our joint business and code share partners) will continue substantially as we currently conduct them, at least for a transition period, in reliance on “basic connectivity” traffic rights adopted by the EU and the United Kingdom's agreement to grant reciprocal rights to EU airlines as well as a new air services agreement between the U.S. and United Kingdom concluded on November 29, 2018. However, the precise scope of traffic rights between the EU and the United Kingdom remains uncertain and therefore the continuation of our current services is not assured and could be subject to disruption. If Brexit is accomplished pursuant to a withdrawal agreement consistent with the agreement presently being discussed between the United Kingdom and the EU, but which has yet to be approved by the United Kingdom, our current air services would continue as we currently conduct them during a transition period running through the end of 2020, with a potential extension of up to two years. During that transition period, the United Kingdom and the EU would seek to implement a new air services agreement. We cannot predict the terms of any such successor air services agreement or whether changes in the relationship between the United Kingdom and the EU, including whether or not the United Kingdom withdraws from the EU with or without an agreement, could materially adversely affect our business, results of operations and financial condition. More generally, changes in U.S. or foreign government aviation policies could result in the alteration or termination of such agreements, diminish the value of route authorities, slots or other assets located abroad, or otherwise adversely affect our international operations.

The airline industry is heavily taxed.

The airline industry is subject to extensive government fees and taxation that negatively impact our revenue and profitability. The U.S. airline industry is one of the most heavily taxed of all industries. These fees and taxes have grown significantly in the past decade for domestic flights, and various U.S. fees and taxes also are assessed on international flights. For example, as permitted by federal legislation, most major U.S. airports impose a per-passenger facility charge on us. In addition, the governments of foreign countries in which we operate impose on U.S. airlines, including us, various fees and taxes, and these assessments have been increasing in number and amount in recent years. Moreover, we are obligated to collect a federal excise tax, commonly referred to as the “ticket tax,” on domestic and international air transportation. We collect the excise tax, along with certain other U.S. and foreign taxes and user fees on air transportation (such as passenger security fees), and pass along the collected amounts to the appropriate governmental agencies. Although these taxes and fees are not our operating expenses, they represent an additional cost to our customers. There are continuing efforts in Congress and in other countries to raise different portions of the various taxes, fees, and charges imposed on airlines and their passengers, including the passenger facility charge, and we may not be able to recover all of these charges from our customers. Increases in such taxes, fees and charges could negatively impact our business, results of operations and financial condition.

Under DOT regulations, all governmental taxes and fees must be included in the prices we quote or advertise to our customers. Due to the competitive revenue environment, many increases in these fees and taxes have been absorbed by the airline industry rather than being passed on to the customer. Further increases in fees and taxes may reduce demand for air travel, and thus our revenues.

Recent U.S. tax legislation may adversely affect our financial condition, results of operations and cash flows.

Recently enacted U.S. tax legislation has significantly changed the U.S. federal income taxation of U.S. corporations, including by reducing the U.S. corporate income tax rate, limiting interest deductions, permitting immediate expensing of certain capital expenditures, adopting elements of a territorial tax system, revising the rules governing NOLs and the rules governing foreign tax credits and introducing new anti-base erosion provisions. Many of these changes became effective immediately, without any transition periods or grandfathering for existing transactions. The legislation is unclear in many respects and could be subject to potential amendments and technical corrections, as well as interpretations and implementation regulations by the Treasury and Internal Revenue Service, any of which could materially affect the impacts of the legislation. In addition, it is unclear how these U.S. federal income tax changes will affect state and local taxation, which often uses federal taxable income as a starting point for computing state and local tax liabilities. While some of the changes made by the tax legislation may adversely affect us in one or more reporting periods and prospectively, other changes may be beneficial on a going forward basis.

See Note 7 to AAG’s Condensed Consolidated Financial Statements in Part I, Item 1A and Note 5 to American’s Condensed Consolidated Financial Statements in Part I, Item 1B for additional information on income taxes.

Changes to our business model that are designed to increase revenues may not be successful and may cause operational difficulties or decreased demand.

We have recently instituted, and intend to institute in the future, changes to our business model designed to increase revenues and offset costs. These measures include further segmentation of the classes of services we offer, such as Premium Economy service and Basic Economy service, enhancements to our AAdvantage loyalty program, charging separately for services that had previously been included within the price of a ticket, increasing other pre-existing fees, reconfiguration of our aircraft cabins, and efforts to optimize our network including by focusing growth on a limited number of large hubs. We may introduce additional initiatives in the future; however, as time goes on, we expect that it will be more difficult to identify and implement additional initiatives. We cannot assure that these measures or any future initiatives will be successful in increasing our revenues. Additionally, the implementation of these initiatives may create logistical challenges that could harm the operational performance of our airline or result in decreased demand. Also, our implementation of any new or increased fees might reduce the demand for air travel on our airline or across the industry in general, particularly if weakened economic conditions make our customers more sensitive to increased travel costs or provide a significant competitive advantage to other carriers that determine not to institute similar charges.

The loss of key personnel upon whom we depend to operate our business or the inability to attract additional qualified personnel could adversely affect our business.

We believe that our future success will depend in large part on our ability to retain or attract highly qualified management, technical and other personnel. We may not be successful in retaining key personnel or in attracting other highly qualified personnel. Any inability to retain or attract significant numbers of qualified management and other personnel would have a material adverse effect on our business, results of operations and financial condition.

We may be adversely affected by conflicts overseas or terrorist attacks; the travel industry continues to face ongoing security concerns.

Acts of terrorism or fear of such attacks, including elevated national threat warnings, wars or other military conflicts, may depress air travel, particularly on international routes, and cause declines in revenues and increases in costs. The attacks of September 11, 2001 and continuing terrorist threats, attacks and attempted attacks materially impacted and continue to impact air travel. Increased security procedures introduced at airports since the attacks of September 11, 2001 and any other such measures that may be introduced in the future generate higher operating costs for airlines. The Aviation and Transportation Security Act mandated improved flight deck security, deployment of federal air marshals on board flights, improved airport perimeter access security, airline crew security training, enhanced security screening of passengers, baggage, cargo, mail, employees and vendors, enhanced training and qualifications of security screening personnel, additional provision of passenger data to the U.S. Customs and Border Protection Agency and enhanced background checks. A concurrent increase in airport security charges and procedures, such as restrictions on carry-on baggage, has also had and may continue to have a disproportionate impact on short-haul travel, which constitutes a significant portion of our flying and revenue. Implementation of and compliance with increasingly-complex security and customs requirements will continue to result in increased costs for us and our passengers, and have caused and likely will continue to cause periodic service disruptions and delays. We have at times found it necessary or desirable to make significant expenditures to comply with security-related requirements while seeking to reduce their impact on our customers, such as expenditures for automated security screening lines at airports. As a result of competitive pressure, and the need to improve security screening throughput to support the pace of our operations, it is unlikely that we will be able to capture all security-related costs through increased fares. In addition, we cannot forecast what new security requirements may be imposed in the future, or their impact on our business.

We operate a global business with international operations that are subject to economic and political instability and have been, and in the future may continue to be, adversely affected by numerous events, circumstances or government actions beyond our control.

We operate a global business with significant operations outside of the U.S. Our current international activities and prospects have been and in the future could be adversely affected by government policies, reversals or delays in the opening of foreign markets, increased competition in international markets, the performance of our alliance, joint business and codeshare partners in a given market, exchange controls or other restrictions on repatriation of funds, currency and political risks (including changes in exchange rates and currency devaluations), environmental regulation, increases in taxes and fees and changes in international government regulation of our operations, including the inability to obtain or retain needed route authorities and/or slots. Fluctuations in foreign currencies, including devaluations, exchange controls and other restrictions on the repatriation of funds, have significantly affected and may continue to significantly affect our operating performance, liquidity and the value of any cash held outside the U.S. in local currency.

Such fluctuations in foreign currencies, including devaluations, cannot be predicted by us and can significantly affect the value of our assets located outside the United States. These conditions, as well as any further delays, devaluations or imposition of more stringent repatriation restrictions, may materially adversely affect our business, results of operations and financial condition.

More generally, our industry may be affected by a deterioration in global trade relations or shifts in the trade policies of individual nations. For example, much of the demand for international air travel is the result of business travel in support of global trade. Should protectionist governmental policies, such as increased tariff barriers, travel limitation and other actions, have the effect of reducing global commercial activity, the result could be a material decrease in the demand for international air travel. Additionally, certain of the products and services that we purchase, including certain of our aircraft and related parts, are sourced from suppliers located in foreign countries, and the imposition of new tariffs, or any increase in existing tariffs, by the U.S. government in respect of the importation of such products or services could materially increase the amounts we pay for them. In particular, in April 2019, the U.S. government, as part of an ongoing dispute with the European Union before the World Trade Organization (WTO) over, among other things, government aircraft subsidies, announced its intention to levy tariffs on certain imports from the European Union, including commercial aircraft and related parts, and the scope of these tariffs would include products that we are already contractually obligated to purchase. While the scope and rate of any such tariffs remain subject to the approval of a WTO arbitrator, the implementation of these tariffs would substantially increase the cost of, among other things, new Airbus aircraft and parts required to service our Airbus fleet, which in turn could have a material adverse effect on our financial condition or results of operations.

The United Kingdom held a referendum in June 2016 regarding its membership in the EU in which a majority of the United Kingdom electorate voted in favor of the British government taking the necessary action for the United Kingdom to leave the EU, an event commonly referred to as Brexit. In March 2017, the United Kingdom served notice of its decision to withdraw from the EU, formally initiating the withdrawal process. Serving this notice began the two-year period for the United Kingdom to negotiate the terms for its withdrawal from the EU, which was originally scheduled to occur on March 29, 2019. The United Kingdom's exit from the EU is now scheduled to occur on November 1, 2019, but could take place before or after that date dependent on the outcome of ongoing negotiations between the United Kingdom's government and Members of the United Kingdom's Parliament as well as with the EU. We face risks associated with the uncertainty following the referendum and the consequences that may flow from the decision to exit the EU, notably given the extent of our passenger and cargo traffic and that of our joint business partners that flows through LHR in the United Kingdom. Absent an approved withdrawal agreement between the United Kingdom and the EU (resulting in the so-called “No Deal Brexit” scenario), our expectation is that air services (including those involving our joint business and code share partners) will continue substantially as we currently conduct them, at least for a transition period, in reliance on “basic connectivity” traffic rights adopted by the EU and the United Kingdom's agreement to grant reciprocal rights to EU airlines as well as the new air services agreements between the U.S. and United Kingdom concluded on November 29, 2018. However, the precise scope of traffic rights between the EU and the United Kingdom remains uncertain and therefore the continuation is not assured and could be subject to disruption. If Brexit is accomplished pursuant to a withdrawal agreement consistent with the agreement presently being discussed between the United Kingdom and the EU, but which has yet to be approved by the United Kingdom, our current air services would continue as we currently conduct them during a transition period running through the end of 2020, with a potential extension of up to two years. During that transition period, the United Kingdom and the EU would seek to implement a new air services agreement. We cannot predict the terms of any such successor air services agreement or whether changes in the relationship between the United Kingdom and the EU, including whether or not the United Kingdom withdraws from the EU with or without an agreement, could materially adversely affect our business, results of operations and financial condition.

Moreover, the exit of the United Kingdom from the EU could adversely affect European or worldwide economic or market conditions and could contribute to further instability in global financial markets. In addition, the exit of the United Kingdom from the EU has created uncertainty as to the future trade relationship between the EU and the United Kingdom, including air traffic services. LHR is presently a very important element of our international network, however it may become less desirable as a destination or as a hub location after Brexit when compared to other airports in Europe. The exit of the United Kingdom from the EU could also lead to legal and regulatory uncertainty such as the identity of the relevant regulators, new regulatory action and/or potentially divergent treaties, laws and regulations as the United Kingdom determines which EU treaties, laws and regulations to replace or replicate, including those governing aviation, labor, environmental, data protection/privacy, competition and other matters applicable to the provision of air transportation services by us or our alliance, joint business or codeshare partners. For example, in light of Brexit and the related possibility that the EC would no longer have regulatory responsibility for the United Kingdom when existing regulatory commitments are scheduled to expire in 2020, the United Kingdom CMA in October 2018 opened an investigation into our transatlantic JBA. We are cooperating fully with the CMA. The impact on our business of any treaties, laws and regulations that replace the existing EU counterparts, or other governmental or regulatory actions taken by the United Kingdom or the EU in connection with or subsequent to Brexit, cannot be predicted, including whether or not regulators will continue to approve or impose material conditions on our business activities. Any of these effects, and others we cannot anticipate, could materially adversely affect our business, results of operations and financial condition.

We are subject to many forms of environmental and noise regulation and may incur substantial costs as a result.

We are subject to increasingly stringent federal, state, local and foreign laws, regulations and ordinances relating to the protection of the environment and noise reduction, including those relating to emissions to the air, discharges to surface and subsurface waters, safe drinking water, and the management of hazardous substances, oils and waste materials. Compliance with environmental laws and regulations can require significant expenditures, and violations can lead to significant fines and penalties.

We are also subject to other environmental laws and regulations, including those that require us to investigate and remediate soil or groundwater to meet certain remediation standards. Under federal law, generators of waste materials, and current and former owners or operators of facilities, can be subject to liability for investigation and remediation costs at locations that have been identified as requiring response actions. Liability under these laws may be strict, joint and several, meaning that we could be liable for the costs of cleaning up environmental contamination regardless of fault or the amount of waste directly attributable to us. We have liability for investigation and remediation costs at various sites, although such costs currently are not expected to have a material adverse effect on our business.

We have various leases and agreements with respect to real property, tanks and pipelines with airports and other operators. Under these leases and agreements, we have agreed to indemnify the lessor or operator against environmental liabilities associated with the real property or operations described under the agreement, in some cases even if we are not the party responsible for the initial event that caused the environmental damage. We also participate in leases with other airlines in fuel consortiums and fuel committees at airports, where such indemnities are generally joint and several among the participating airlines.

Governmental authorities in several U.S. and foreign cities are also considering, or have already implemented, aircraft noise reduction programs, including the imposition of nighttime curfews and limitations on daytime take offs and landings. We have been able to accommodate local noise restrictions imposed to date, but our operations could be adversely affected if locally-imposed regulations become more restrictive or widespread.

Our intellectual property rights, particularly our branding rights, are valuable, and any inability to protect them may adversely affect our business and financial results.

We consider our intellectual property rights, particularly our branding rights such as our trademarks applicable to our airline and AAdvantage loyalty program, to be a significant and valuable aspect of our business. We protect our intellectual property rights through a combination of trademark, copyright and other forms of legal protection, contractual agreements and policing of third-party misuses of our intellectual property. Our failure to obtain or adequately protect our intellectual property or any change in law that lessens or removes the current legal protections of our intellectual property may diminish our competitiveness and adversely affect our business and financial results. Any litigation or disputes regarding intellectual property may be costly and time-consuming and may divert the attention of our management and key personnel from our business operations, either of which may adversely affect our business and financial results.

We are subject to risks associated with climate change, including increased regulation to reduce emissions of greenhouse gases.

There is increasing global regulatory focus on climate change and greenhouse gas (GHG) emissions. Efforts by the EU in 2009 to regulate flights arriving from or departing for airports outside of the EU have been postponed as members of the International Civil Aviation Organization (ICAO) implement a global agreement on GHG emissions from the aviation sector. In 2016, ICAO passed a resolution adopting the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), which is a global, market-based emissions offset program intended to achieve carbon-neutral growth beyond 2020. CORSIA was supported by the board of Airlines for America (the principal U.S. airline trade association) and IATA (the principal international airline trade association), along with American and many other U.S. and foreign airlines. On June 27, 2018, ICAO adopted standards pertaining to the collection and sharing of information on international aviation emissions beginning in 2019. In furtherance of these standards, on March 6, 2019, the FAA issued a notice of a CORSIA program permitting U.S. carriers to submit emissions data on a voluntary basis. The emissions monitoring plans American and its wholly-owned regional carriers submitted to the FAA have been approved by the FAA and the airlines have begun monitoring their GHG emissions. After data collection, CORSIA is expected to be implemented in phases, with a pilot phase beginning in 2021, the first phase beginning in 2024, and the mandatory second phase beginning in 2027. Certain details still need to be developed, but in early 2019, ICAO reached agreement on general criteria governing the eligibility of emissions units that may be used to comply with CORSIA. At this time, the impact of CORSIA cannot be fully predicted. CORSIA will increase operating costs for American and most other airlines, including other U.S. airlines that operate internationally, but the implementation of a global program, as compared to regional emission reduction schemes, should ensure that these costs will be more evenly applied to American and its competitors since there will be a common global regulatory regime. While we do not anticipate any significant expenditures in 2019, compliance with CORSIA or similar emissions-related requirements could significantly increase our operating costs beginning in 2021 and beyond when CORSIA's pilot phase begins. Additionally, in 2017, ICAO adopted new aircraft certification standards to reduce carbon dioxide emissions from aircraft, which will apply to new aircraft type designs in 2020, and to aircraft type designs in production as of 2023.

Separately, the EU has established the Emissions Trading System (ETS) to regulate GHG emissions in the EU. The EU adopted a directive in 2008 under which each EU member state is required to extend the ETS to aviation operations. However, the EU ETS has never fully been imposed, in large part due to the effort to adopt CORSIA. The EU has extended its stay on the extra-territorial application of the EU ETS as applied to international flights to/from the EEA through year-end 2023, contingent on successful implementation of CORSIA. Thereafter, the EU will assess CORSIA implementation and decide the future status of the EU ETS as applied to international aviation to/from the EEA. The potential impact of CORSIA or other emissions-related requirements on our costs will ultimately depend on a number of factors, including baseline emissions, the price of emission allowances or offsets that American would need to acquire, the GHG efficiency of the American fleet, and the number of future American flights subject to such emissions-related requirements. These costs have not been completely defined and could fluctuate.

In 2019, the Environmental Protection Agency (EPA) could finalize a rule implementing aircraft engine GHG emission standards developed initially through ICAO. It is anticipated that the EPA rule will closely align with recent ICAO carbon dioxide emission standards. The new standards, which were supported by the airline industry and manufacturers, would apply to new type aircraft certified beginning in 2020, and would be phased in for newly manufactured existing aircraft type designs starting in 2023.

Additionally, several states have adopted or are considering initiatives to regulate GHG emissions, primarily through the planned development of GHG emissions inventories, regional GHG cap and trade programs or low carbon fuels programs. Depending on the scope of such regulation, certain of our facilities and operations, or the operations of our suppliers, may be subject to additional operating and other permit requirements, likely resulting in increased operating costs.

In addition, in December 2015, at the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change, over 190 countries, including the United States, reached an agreement (the Paris Agreement) to reduce GHG emissions. While the United States has since announced that it will withdraw from the Paris Agreement and there is no express reference to aviation in the Paris Agreement, to the extent countries implement the Paris Agreement or impose other climate change regulations, either with respect to the aviation industry or with respect to related industries such as the aviation fuel industry, it could have an adverse direct or indirect effect on our business.

These regulatory efforts, both internationally and in the U.S. at the federal and state levels, are still developing, and we cannot yet determine what the final regulatory programs or their impact will be in the U.S., the EU or in other areas in which we do business. However, such climate change-related regulatory activity in the future may adversely affect our business and financial results by requiring us to reduce our emissions, purchase allowances/offsets or otherwise pay for our emissions. Such activity may also impact us indirectly by increasing our operating costs, including fuel costs.

Any damage to our reputation or brand image could adversely affect our business or financial results.

Maintaining a good reputation globally is critical to our business. Our reputation or brand image could be adversely impacted by any failure to maintain high ethical, social and environmental sustainability practices for all of our operations and activities, our impact on the environment, public pressure from investors or policy groups to change our policies, such as movements to institute a "living wage," customer perceptions of our advertising campaigns, sponsorship arrangements or marketing programs, customer perceptions of our use of social media, or customer perceptions of statements made by us, our employees and executives, agents or other third parties. Damage to our reputation or brand image or loss of customer confidence in our services could adversely affect our business and financial results, as well as require additional resources to rebuild our reputation.

We face challenges in integrating our computer, communications and other technology systems.

Among the principal risks of integrating our businesses and operations are the risks relating to integrating various computer, communications and other technology systems that are necessary to operate US Airways and American as a single integrated business and to achieve cost synergies by eliminating redundancies. While we have to date successfully integrated many of our systems, including our customer reservations system and our pilot, flight attendant and fleet scheduling system, we still have to complete several additional important system integration or replacement projects. In a number of prior airline mergers, the integration of these systems or deployment of replacement systems has taken longer, been more disruptive and cost more than originally forecasted. The implementation process to integrate or replace these various systems will involve a number of risks that could adversely impact our business, results of operations and financial condition. New systems will replace multiple legacy systems and the related implementation will be a complex and time-consuming project involving substantial expenditures for implementation consultants, system hardware, software and implementation activities, as well as the transformation of business and financial processes.

We cannot assure that our security measures, change control procedures or disaster recovery plans will be adequate to prevent disruptions or delays in connection with systems integration or replacement. Disruptions in or changes to these systems could result in a disruption to our business and the loss of important data. Any of the foregoing could result in a material adverse effect on our business, results of operations and financial condition.

We rely heavily on technology and automated systems to operate our business, and any failure of these technologies or systems could harm our business, results of operations and financial condition.

We are highly dependent on existing and emerging technology and automated systems to operate our business. These technologies and systems include our computerized airline reservation system, flight operations systems, financial planning, management and accounting systems, telecommunications systems, website, maintenance systems and check-in kiosks. In order for our operations to work efficiently, our website and reservation system must be able to accommodate a high volume of traffic, maintain secure information and deliver flight information, as well as issue electronic tickets and process critical financial information in a timely manner. Substantially all of our tickets are issued to passengers as electronic tickets. We depend on our reservation system, which is hosted and maintained under a long-term contract by a third-party service provider, to be able to issue, track and accept these electronic tickets. If our technologies or automated systems are not functioning or if our third-party service providers were to fail to adequately provide technical support, system maintenance or timely software upgrades for any one of our key existing systems, we could experience service disruptions or delays, which could harm our business and result in the loss of important data, increase our expenses and decrease our revenues. In the event that one or more of our primary technology or systems vendors goes into bankruptcy, ceases operations or fails to perform as promised, replacement services may not be readily available on a timely basis, at competitive rates or at all, and any transition time to a new system may be significant.

Our technologies and automated systems cannot be completely protected against events that are beyond our control, including natural disasters, power failures, terrorist attacks, cyber-attacks, data theft, equipment and software failures, computer viruses or telecommunications failures. Substantial or sustained system failures could cause service delays or failures and result in our customers purchasing tickets from other airlines. We cannot assure that our security measures, change control procedures or disaster recovery plans are adequate to prevent disruptions or delays. Disruption in or changes to these technologies or systems could result in a disruption to our business and the loss of important data. Any of the foregoing could result in a material adverse effect on our business, results of operations and financial condition.

We are at risk of losses and adverse publicity stemming from any public incident involving our company, our people or our brand, including any accident or other public incident involving our personnel or aircraft, or the personnel or aircraft of our regional, codeshare or joint business operators.

In a modern world where news can be captured and travel rapidly, we are at risk of adverse publicity stemming from any public incident involving our company, our people or our brand. Such an incident could involve the actual or alleged behavior of any of our more than 130,000 employees. Further, if our personnel or one of our aircraft, or personnel of, or an aircraft that is operated under our brand by, one of our regional operators or an airline with which we have a marketing alliance, joint business or codeshare relationship, were to be involved in a public incident, accident, catastrophe or regulatory enforcement action, we could be exposed to significant reputational harm and potential legal liability. The insurance we carry may be inapplicable or inadequate to cover any such incident, accident, catastrophe or action. In the event that our insurance is inapplicable or not adequate, we may be forced to bear substantial losses from an incident or accident. In addition, any such incident, accident, catastrophe or action involving our personnel or one of our aircraft (or personnel and aircraft of our regional operators and our codeshare partners) could create an adverse public perception, which could harm our reputation, result in air travelers being reluctant to fly on our aircraft or those of our regional operators or codeshare partners, and adversely impact our business, results of operations and financial condition.

Delays in scheduled aircraft deliveries or other loss of anticipated fleet capacity, and failure of new aircraft to perform as expected, may adversely impact our business, results of operations and financial condition.

The success of our business depends on, among other things, effectively managing the number and types of aircraft we operate. If for any reason we are unable to accept or secure deliveries of new aircraft on contractually scheduled delivery dates, this could have a negative impact on our business, results of operations and financial condition. Our failure to integrate newly purchased aircraft into our fleet as planned might require us to seek extensions of the terms for some leased aircraft or otherwise delay the exit of certain aircraft from our fleet. Such unanticipated extensions or delays may require us to operate existing aircraft beyond the point at which it is economically optimal to retire them, resulting in increased maintenance costs. If new aircraft orders are not filled on a timely basis, we could face higher financing and operating costs than planned. In addition, if the aircraft we receive do not meet expected performance or quality standards, including with respect to fuel efficiency and reliability, our business, results of operations and financial condition could be adversely impacted.

We depend on a limited number of suppliers for aircraft, aircraft engines and parts.

We depend on a limited number of suppliers for aircraft, aircraft engines and many aircraft and engine parts. For example, under our current fleet plan, by 2020 all of our mainline aircraft will have been manufactured by either Airbus or Boeing and all of our regional aircraft will have been manufactured by either Bombardier or Embraer. Further, our supplier base continues to consolidate as evidenced by the recent acquisition of Rockwell Collins by United Technologies, the recently completed transaction involving Airbus and Bombardier and the pending transactions involving Boeing and Embraer, and Bombardier and Mitsubishi. Due to the limited number of these suppliers, we are vulnerable to any problems associated with the performance of their obligation to supply key aircraft, parts and engines, including design defects, mechanical problems, contractual performance by suppliers, adverse perception by the public that would result in customer avoidance of any of our aircraft or any action by the FAA or any other regulatory authority resulting in an inability to operate our aircraft, even temporarily.

Our business has been and will continue to be affected by many changing economic and other conditions beyond our control, including global events that affect travel behavior, and our results of operations could be volatile and fluctuate due to seasonality.

Our business, results of operations and financial condition have been and will continue to be affected by many changing economic and other conditions beyond our control, including, among others:

- actual or potential changes in international, national, regional and local economic, business and financial conditions, including recession, inflation, higher interest rates, wars, terrorist attacks and political instability;
- changes in consumer preferences, perceptions, spending patterns and demographic trends;
- changes in the competitive environment due to industry consolidation, changes in airline alliance affiliations, and other factors;
- actual or potential disruptions to the ATC systems;
- increases in costs of safety, security, and environmental measures;
- outbreaks of diseases that affect travel behavior; and
- weather and natural disasters, including increases in such disasters and related costs caused by more severe weather due to climate change.

In particular, an outbreak of a contagious disease such as the Ebola virus, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, H1N1 influenza virus, avian flu, Zika virus or any other similar illness, if it were to become associated with air travel or persist for an extended period, could materially affect the airline industry and us by reducing revenues and adversely impacting our operations and passengers' travel behavior. As a result of these or other conditions beyond our control, our results of operations could be volatile and subject to rapid and unexpected change. In addition, due to generally weaker demand for air travel during the winter, our revenues in the first and fourth quarters of the year could be weaker than revenues in the second and third quarters of the year.

A higher than normal number of pilot retirements, more stringent duty time regulations, increased flight hour requirement for commercial airline pilots, reductions in the number of military pilots entering the commercial workforce and other factors have caused a shortage of pilots that could materially adversely affect our business.

We currently have a higher than normal number of pilots eligible for retirement. Large numbers of pilots in the industry are approaching the FAA's mandatory retirement age of 65. Our pilots and other employees are subject to rigorous certification standards, and our pilots and other crew members must adhere to flight time and rest requirements. Commencing in 2013, the minimum flight hour requirement to achieve a commercial pilot's license in the United States (an Air Transport Pilot's certificate) increased from 250 to 1,500 hours, thereby significantly increasing the time and cost commitment required to become licensed to fly commercial aircraft. Additionally, the number of military pilots being trained by the U.S. armed forces and available as commercial pilots upon their retirement from military service has been decreasing. These and other factors have contributed to a shortage of qualified, entry-level pilots and increased compensation costs, particularly for our regional subsidiaries and our other regional partners who are being required by market conditions to pay significantly increased wages and large signing bonuses to their pilots in an attempt to achieve desired staffing levels. The foregoing factors have also led to increased competition from large, mainline carriers attempting to meet their hiring needs. We believe that this industry-wide pilot shortage is becoming an increasing problem for airlines in the United States. Our regional partners have recently been unable to hire adequate numbers of pilots to meet their needs, resulting in a reduction in the number of flights offered, disruptions, increased costs of operations, financial difficulties and other adverse effects, and these circumstances may become more severe in the future and thereby cause a material adverse effect on our business.

Increases in insurance costs or reductions in insurance coverage may adversely impact our operations and financial results.

The terrorist attacks of September 11, 2001 led to a significant increase in insurance premiums and a decrease in the insurance coverage available to commercial air carriers. Accordingly, our insurance costs increased significantly, and our ability to continue to obtain insurance even at current prices remains uncertain. If we are unable to maintain adequate insurance coverage, our business could be materially and adversely affected. Additionally, severe disruptions in the domestic and global financial markets could adversely impact the claims paying ability of some insurers. Future downgrades in the ratings of enough insurers could adversely impact both the availability of appropriate insurance coverage and its cost. Because of competitive pressures in our industry, our ability to pass along additional insurance costs to passengers is limited. As a result, further increases in insurance costs or reductions in available insurance coverage could have an adverse impact on our financial results.

We may be a party to litigation in the normal course of business or otherwise, which could affect our financial position and liquidity.

From time to time, we are a party to or otherwise involved in legal proceedings, claims and government inspections or investigations and other legal matters, both inside and outside the United States, arising in the ordinary course of our business or otherwise. We are currently involved in various legal proceedings and claims that have not yet been fully resolved, and additional claims may arise in the future. Legal proceedings can be complex and take many months, or even years, to reach resolution, with the final outcome depending on a number of variables, some of which are not within our control. Litigation is subject to significant uncertainty and may be expensive, time-consuming, and disruptive to our operations. Although we will vigorously defend ourselves in such legal proceedings, their ultimate resolution and potential financial and other impacts on us are uncertain. For these and other reasons, we may choose to settle legal proceedings and claims, regardless of their actual merit. If a legal proceeding is resolved against us, it could result in significant compensatory damages, and in certain circumstances punitive or trebled damages, disgorgement of revenue or profits, remedial corporate measures or injunctive relief imposed on us. If our existing insurance does not cover the amount or types of damages awarded, or if other resolution or actions taken as a result of the legal proceeding were to restrain our ability to operate or market our services, our consolidated financial position, results of operations or cash flows could be materially adversely affected. In addition, legal proceedings, and any adverse resolution thereof, can result in adverse publicity and damage to our reputation, which could adversely impact our business. Additional information regarding certain legal matters in which we are involved can be found in Part II, Item 1. Legal Proceedings.

Our ability to utilize our NOL Carryforwards may be limited.

Under the Internal Revenue Code of 1986, as amended (the Code), a corporation is generally allowed a deduction for NOLs carried over from prior taxable years (NOL Carryforwards). As of December 31, 2018, we had available NOL Carryforwards of approximately $10.2 billion for regular federal income tax purposes that will expire, if unused, beginning in 2022, and approximately $3.2 billion for state income tax purposes that will expire, if unused, between 2019 and 2038. Our NOL Carryforwards are subject to adjustment on audit by the Internal Revenue Service and the respective state taxing authorities.

A corporation's ability to deduct its federal NOL Carryforwards and to utilize certain other available tax attributes can be substantially constrained under the general annual limitation rules of Section 382 of the Code (Section 382) if it undergoes an "ownership change" as defined in Section 382 (generally where cumulative stock ownership changes among material stockholders exceed 50 percent during a rolling three-year period). We experienced an ownership change in connection with our emergence from the Chapter 11 Cases and US Airways Group experienced an ownership change in connection with the Merger. The general limitation rules for a debtor in a bankruptcy case are liberalized where the ownership change occurs upon emergence from bankruptcy. We elected to be covered by certain special rules for federal income tax purposes that permitted approximately $9.0 billion (with $8.4 billion of unlimited NOL still remaining at December 31, 2018) of our federal NOL Carryforwards to be utilized without regard to the annual limitation generally imposed by Section 382. If the special rules are determined not to apply, our ability to utilize such federal NOL Carryforwards may be subject to limitation. Substantially all of our remaining federal NOL Carryforwards attributable to US Airways Group and its subsidiaries are subject to limitation under Section 382 as a result of the Merger; however, our ability to utilize such NOL Carryforwards is not anticipated to be effectively constrained as a result of such limitation. Similar limitations may apply for state income tax purposes.

Notwithstanding the foregoing, an ownership change subsequent to our emergence from the Chapter 11 Cases may severely limit or effectively eliminate our ability to utilize our NOL Carryforwards and other tax attributes. To reduce the risk of a potential adverse effect on our ability to utilize our NOL Carryforwards, our Certificate of Incorporation contains transfer restrictions applicable to certain substantial stockholders. These restrictions may adversely affect the ability of certain holders of AAG common stock to dispose of or acquire shares of AAG common stock. Although the purpose of these transfer restrictions is to prevent an ownership change from occurring, no assurance can be given that an ownership change will not occur even with these restrictions in place.

Our ability to use our NOL Carryforwards also will depend on the amount of taxable income generated in future periods. The NOL Carryforwards may expire before we can generate sufficient taxable income to use them.

We have a significant amount of goodwill, which is assessed for impairment at least annually. In addition, we may never realize the full value of our intangible assets or long-lived assets, causing us to record material impairment charges.

Goodwill and indefinite-lived intangible assets are not amortized, but are assessed for impairment at least annually, or more frequently if conditions indicate that an impairment may have occurred. In accordance with applicable accounting standards, we first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test. In addition, we are required to assess certain of our other long-lived assets for impairment if conditions indicate that an impairment may have occurred.

Future impairment of goodwill or other long-lived assets could be recorded in results of operations as a result of changes in assumptions, estimates, or circumstances, some of which are beyond our control. There can be no assurance that a material impairment charge of goodwill or tangible or intangible assets will be avoided. The value of our aircraft could be impacted in future periods by changes in supply and demand for these aircraft. Such changes in supply and demand for certain aircraft types could result from grounding of aircraft by us or other airlines. An impairment charge could have a material adverse effect on our business, results of operations and financial condition.

The price of AAG common stock has recently been and may in the future be volatile.

The market price of AAG common stock has fluctuated in the past, and may fluctuate substantially in the future, due to a variety of factors, many of which are beyond our control, including:

- macro-economic conditions, including the price of fuel;
- changes in market values of airline companies as well as general market conditions;
- our operating and financial results failing to meet the expectations of securities analysts or investors;
- changes in financial estimates or recommendations by securities analysts;
- changes in our level of outstanding indebtedness and other obligations;
- changes in our credit rating;
- material announcements by us or our competitors;
- expectations regarding our capital deployment program, including any existing or potential future share repurchase programs and any future dividend payments that may be declared by our Board of Directors, or any determination to cease repurchasing stock or paying dividends;
- new regulatory pronouncements and changes in regulatory guidelines;
- general and industry-specific economic conditions;
- changes in our key personnel;
- public sales of a substantial number of shares of AAG common stock or issuances of AAG common stock upon the exercise or conversion of restricted stock unit awards, stock appreciation rights, or other securities that may be issued from time to time;
- increases or decreases in reported holdings by insiders or other significant stockholders; and
- fluctuations in trading volume.

We cannot guarantee that we will continue to repurchase our common stock or pay dividends on our common stock or that our capital deployment program will enhance long-term stockholder value. Our capital deployment program could increase the volatility of the price of our common stock and diminish our cash reserves.

Since July 2014, as part of our capital deployment program, our Board of Directors has approved seven share repurchase programs aggregating $13.0 billion of authority. As of June 30, 2019, there was $1.1 billion of remaining authority to repurchase shares under our share repurchase programs. Share repurchases under our repurchase programs may be made through a variety of methods, which may include open market purchases, privately negotiated transactions, block trades or accelerated share repurchase transactions. These share repurchase programs do not obligate us to acquire any specific number of shares or to repurchase any specific number of shares for any fixed period, and may be suspended at any time at our discretion and without prior notice. The timing and amount of repurchases, if any, will be subject to market and economic conditions, applicable legal requirements and other relevant factors. Our repurchase of AAG common stock may be limited, suspended or discontinued at any time at our discretion and without prior notice.

Our Board of Directors commenced declaring quarterly cash dividends in July 2014 as part of our capital deployment program. However, any future dividends that may be declared and paid from time to time will be subject to market and economic conditions, applicable legal requirements and other relevant factors. We are not obligated to continue a dividend for any fixed period, and the payment of dividends may be suspended or discontinued at any time at our discretion and without prior notice. We will continue to retain future earnings to develop our business, as opportunities arise, and evaluate on a quarterly basis the amount and timing of future dividends based on our operating results, financial condition, capital requirements and general business conditions. The amount and timing of any future dividends may vary, and the payment of any dividend does not assure that we will pay dividends in the future.

In addition, any future repurchases of AAG common stock or payment of dividends, or any determination to cease repurchasing stock or paying dividends, could affect our stock price and increase its volatility. The existence of a share repurchase program and any future dividends could cause our stock price to be higher than it would otherwise be and could potentially reduce the market liquidity for our stock. Additionally, any future repurchases of AAG common stock or payment of dividends will diminish our cash reserves, which may impact our ability to finance future growth and to pursue possible future strategic opportunities and acquisitions. Further, our repurchase of AAG common stock may fluctuate such that our cash flow may be insufficient to fully cover our share repurchases. Although our share repurchase programs are intended to enhance long-term stockholder value, there is no assurance that it will do so because the market price of our common stock may decline below the levels at which we repurchased shares of stock and short-term stock price fluctuations could reduce the program's effectiveness.

Certain provisions of AAG's Certificate of Incorporation and Bylaws make it difficult for stockholders to change the composition of our Board of Directors and may discourage takeover attempts that some of our stockholders might consider beneficial.

Certain provisions of our Certificate of Incorporation and Bylaws, as currently in effect, may have the effect of delaying or preventing changes in control if our Board of Directors determines that such changes in control are not in our best interest and the best interest of our stockholders. These provisions include, among other things, the following:

- advance notice procedures for stockholder proposals to be considered at stockholders' meetings;
- the ability of our Board of Directors to fill vacancies on the board;
- a prohibition against stockholders taking action by written consent;
- stockholders are restricted from calling a special meeting unless they hold at least 20% of our outstanding shares and follow the procedures provided for in the amended Bylaws;
- a requirement that holders of at least 80% of the voting power of the shares entitled to vote in the election of directors approve any amendment of our Bylaws submitted to stockholders for approval; and
- super-majority voting requirements to modify or amend specified provisions of our Certificate of Incorporation.

These provisions are not intended to prevent a takeover, but are intended to protect and maximize the value of the interests of our stockholders. While these provisions have the effect of encouraging persons seeking to acquire control of our company to negotiate with our Board of Directors, they could enable our Board of Directors to prevent a transaction that some, or a majority, of our stockholders might believe to be in their best interest and, in that case, may prevent or discourage attempts to remove and replace incumbent directors. In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, which prohibits business combinations with interested stockholders. Interested stockholders do not include stockholders whose acquisition of our securities is approved by the Board of Directors prior to the investment under Section 203.

AAG's Certificate of Incorporation and Bylaws include provisions that limit voting and acquisition and disposition of our equity interests.

Our Certificate of Incorporation and Bylaws include provisions that limit voting and ownership and disposition of our equity interests, as described in Part II, Item 5. Market for American Airlines Group's Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities - "*Ownership Restrictions*" in our 2018 10-K. These restrictions may adversely affect the ability of certain holders of AAG common stock and our other equity interests to vote such interests and adversely affect the ability of persons to acquire shares of AAG common stock and our other equity interests.

ITEM 6. EXHIBITS

Exhibits required to be filed by Item 601 of Regulation S-K: Where the amount of securities authorized to be issued under any of our long-term debt agreements does not exceed 10 percent of our assets, pursuant to paragraph (b)(4) of Item 601 of Regulation S-K, in lieu of filing such as an exhibit, we hereby agree to furnish to the Commission upon request a copy of any agreement with respect to such long-term debt.

Exhibit Number	Description
4.1	Indenture, dated as of May 20, 2019, by and among American Airlines Group Inc., the Guarantor (as defined therein) and Wilmington Trust, National Association, as trustee (incorporated by reference to Exhibit 4.1 to AAG's Current Report on Form 8-K filed on May 21, 2019 (Commission File No. 1-8400)).
4.2	Form of 5.000% Senior Notes due 2022 (incorporated by reference to Exhibit A to Exhibit 4.1 to AAG's Current Report on Form 8-K filed on May 21, 2019 (Commission File No. 1-8400)).
10.1	Supplemental Agreement No. 12, dated as of May 29, 2019, to Purchase Agreement No. 3219 dated as of October 15, 2008, by and between American Airlines, Inc. and The Boeing Company.*
10.2	Amendment No. 11, dated as of June 19, 2019, to the A320 Family Aircraft Purchase Agreement, dated as of July 20, 2011, between American Airlines, Inc. and Airbus S.A.S.*
31.1	Certification of AAG Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of AAG Chief Financial Officer pursuant to Rule 13a-14(a).
31.3	Certification of American Chief Executive Officer pursuant to Rule 13a-14(a).
31.4	Certification of American Chief Financial Officer pursuant to Rule 13a-14(a).
32.1	AAG 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).
32.2	American 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).
101.1	Interactive data files pursuant to Rule 405 of Regulation S-T.

* Certain confidential information contained in this agreement has been omitted because it (i) is not material and (ii) would be competitively harmful if publicly disclosed.

SIGNATURES

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.

American Airlines Group Inc.

Date: July 25, 2019

By: /s/ Derek J. Kerr

Derek J. Kerr
Executive Vice President and Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

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.

American Airlines, Inc.

Date: July 25, 2019

By: /s/ Derek J. Kerr

Derek J. Kerr
Executive Vice President and Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)