AMR CORP
Form 10-Q
July 20, 2011
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the Quarterly Period Ended June 30, 2011.**

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the Transition Period From _____ to _____.**

**Commission file number 1-8400.**

# AMR Corporation

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **75-1825172** |
| **(State or other jurisdiction of** | **(I.R.S. Employer** |

**incorporation or organization)** **Identification No.)**

**4333 Amon Carter Blvd.**

**Fort Worth, Texas** **76155**
**(Address of principal executive offices)** **(Zip Code)**
**Registrant s telephone number, including area code (817) 963-1234**

**Not Applicable**

**(Former name, former address and former fiscal year , if changed since last report)**

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

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

Large Accelerated Filer x Accelerated Filer ¨

Non-accelerated Filer ¨ Smaller Reporting Company ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). x Yes ¨ No

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock, $1 par value 335,207,279 shares as of July 14, 2011.

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**AMR CORPORATION**


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**PART I: FINANCIAL INFORMATION**

**Item 1. Financial Statements**
**AMR CORPORATION**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited) (In millions, except per share amounts)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| **Revenues** | | | | |
| Passenger American Airlines | $ 4,557 | $ 4,279 | $ 8,691 | $ 8,110 |
| Regional Affiliates | 711 | 600 | 1,288 | 1,098 |
| Cargo | 187 | 170 | 356 | 324 |
| Other revenues | 659 | 625 | 1,312 | 1,210 |
| Total operating revenues | 6,114 | 5,674 | 11,647 | 10,742 |
| **Expenses** | | | | |
| Aircraft fuel | 2,202 | 1,655 | 4,044 | 3,131 |
| Wages, salaries and benefits | 1,764 | 1,714 | 3,486 | 3,417 |
| Other rentals and landing fees | 355 | 352 | 707 | 704 |
| Maintenance, materials and repairs | 334 | 340 | 639 | 691 |
| Depreciation and amortization | 266 | 267 | 542 | 534 |
| Commissions, booking fees and credit card expense | 268 | 248 | 524 | 482 |
| Aircraft rentals | 158 | 145 | 318 | 274 |
| Food service | 133 | 121 | 253 | 236 |
| Other operating expenses | 712 | 636 | 1,443 | 1,375 |
| Total operating expenses | 6,192 | 5,478 | 11,956 | 10,844 |
| **Operating Income (Loss)** | (78) | 196 | (309) | (102) |
| **Other Income (Expense)** | | | | |
| Interest income | 7 | 6 | 14 | 11 |
| Interest expense | (215) | (209) | (415) | (418) |
| Interest capitalized | 10 | 8 | 17 | 18 |
| Miscellaneous net | (10) | (12) | (29) | (25) |
| | (208) | (207) | (413) | (414) |
| **Loss Before Income Taxes** | (286) | (11) | (722) | (516) |
| Income tax | | | | |
| **Net Loss** | $ (286) | $ (11) | $ (722) | $ (516) |
| **Loss Per Share** | | | | |
| Basic | $ (0.85) | $ (0.03) | $ (2.16) | $ (1.55) |
| Diluted | $ (0.85) | $ (0.03) | $ (2.16) | $ (1.55) |

The accompanying notes are an integral part of these financial statements.

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**AMR CORPORATION**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited) (In millions)

| | June 30, 2011 | December 31, 2010 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash | $ 318 | $ 168 |
| Short-term investments | 4,858 | 4,328 |
| Restricted cash and short-term investments | 457 | 450 |
| Receivables, net | 945 | 738 |
| Inventories, net | 641 | 594 |
| Fuel derivative contracts | 364 | 269 |
| Other current assets | 414 | 291 |
| Total current assets | 7,997 | 6,838 |
| **Equipment and Property** | | |
| Flight equipment, net | 11,962 | 12,264 |
| Other equipment and property, net | 2,130 | 2,199 |
| Purchase deposits for flight equipment | 660 | 375 |
| | 14,752 | 14,838 |
| **Equipment and Property Under Capital Leases** | | |
| Flight equipment, net | 351 | 194 |
| Other equipment and property, net | 52 | 50 |
| | 403 | 244 |
| International slots and route authorities | 708 | 708 |
| Domestic slots and airport operating and gate lease rights, less accumulated amortization, net | 211 | 224 |
| Other assets | 1,716 | 2,236 |
| | $ 25,787 | $ 25,088 |

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**AMR CORPORATION**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited) (In millions)

| | June 30, 2011 | December 31, 2010 |
|---|---|---|
| **Liabilities and Stockholders Equity (Deficit)** | | |
| **Current Liabilities** | | |
| Accounts payable | $ 1,291 | $ 1,156 |
| Accrued liabilities | 2,011 | 2,085 |
| Air traffic liability | 4,634 | 3,656 |
| Current maturities of long-term debt | 1,741 | 1,776 |
| Current obligations under capital leases | 89 | 107 |
| Total current liabilities | 9,766 | 8,780 |
| Long-term debt, less current maturities | 9,428 | 8,756 |
| Obligations under capital leases, less current obligations | 624 | 497 |
| Pension and postretirement benefits | 7,969 | 7,877 |
| Other liabilities, deferred gains and deferred credits | 2,509 | 3,123 |
| **Stockholders Equity (Deficit)** | | |
| Preferred stock | | |
| Common stock | 341 | 339 |
| Additional paid-in capital | 4,459 | 4,445 |
| Treasury stock | (367) | (367) |
| Accumulated other comprehensive income (loss) | (2,613) | (2,755) |
| Accumulated deficit | (6,329) | (5,607) |
| | (4,509) | (3,945) |
| | $ 25,787 | $ 25,088 |

The accompanying notes are an integral part of these financial statements.

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**AMR CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited) (In millions)

| | Six Months Ended June 30, 2011 | 2010 |
|---|---|---|
| **Net Cash Provided by (used for) Operating Activities** | $ 653 | $ 1,173 |
| **Cash Flow from Investing Activities:** | | |
| Capital expenditures | (748) | (729) |
| Net (increase) decrease in short-term investments | (530) | (641) |
| Net (increase) decrease in restricted cash and short-term investments | (7) | (1) |
| Proceeds from sale of equipment and property | (13) | (3) |
| Net cash used for investing activities | (1,298) | (1,374) |
| **Cash Flow from Financing Activities:** | | |
| Payments on long-term debt and capital lease obligations | (1,184) | (467) |
| Proceeds from: | | |
| Issuance of debt | 1,717 | 239 |
| Sale leaseback transactions | 262 | 472 |
| Other | | 1 |
| Net cash provided by financing activities | 795 | 245 |
| Net increase (decrease) in cash | 150 | 44 |
| Cash at beginning of period | 168 | 153 |
| Cash at end of period | $ 318 | $ 197 |

The accompanying notes are an integral part of these financial statements.

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**AMR CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

1. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States (U.S.) generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, these financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position, results of operations and cash flows for the periods indicated. Results of operations for the periods presented herein are not necessarily indicative of results of operations for the entire year. The condensed consolidated financial statements include the accounts of AMR Corporation (AMR or the Company) and its wholly owned subsidiaries, including (i) its principal subsidiary American Airlines, Inc. (American) and (ii) its regional airline subsidiary, AMR Eagle Holding Corporation and its primary subsidiaries, American Eagle Airlines, Inc. and Executive Airlines, Inc. (collectively, AMR Eagle). The condensed consolidated financial statements also include the accounts of variable interest entities for which the Company is the primary beneficiary. For further information, refer to the consolidated financial statements and footnotes included in AMR s Annual Report on Form 10-K filed on February 16, 2011 (2010 Form 10-K).

2. As of June 30, 2011, American had aircraft purchase commitments as follows: (a) Boeing 737-800 aircraft 13 in 2011, 28 in 2012, and 14 in 2013 through 2016; (b) Boeing 777-200ER aircraft seven in 2013 through 2016; (c) Boeing 777-300ER aircraft two in 2012 and five in 2013. In 2008, American entered into a purchase agreement with Boeing (subject to certain reconfirmation rights) to acquire 42 Boeing 787-9 aircraft, with the right to acquire an additional 58 Boeing 787-9 aircraft. The first such Boeing 787-9 aircraft is currently scheduled to be delivered (subject to such reconfirmation rights) in 2014. American has selected GE Aviation as the exclusive provider of engines for its expected order of Boeing 787-9 aircraft.

As of June 30, 2011, payments for the above purchase commitments under these arrangements will approximate $705 million in the remainder of 2011, $1.4 billion in 2012, $786 million in 2013, $313 million in 2014, $192 million in 2015, and $103 million for 2016. These amounts are net of purchase deposits currently held by the manufacturers. American has granted Boeing a security interest in American s purchase deposits with Boeing. The Company s purchase deposits totaled $660 million at June 30, 2011.

As a result of the terrorist attacks of September 11, 2001 (the Terrorist Attacks) and the subsequent liability protections provided for by the Air Transportation Safety and System Stabilization Act, the Company recorded a liability for the Terrorist Attacks claims equal to the related insurance receivable due to American. In the second quarter of 2011, the Company received $576 million in insurance proceeds as partial settlement of claims related to the Terrorist Attacks. The Company used these funds to pay a portion of its share of the associated liability. Reflecting this settlement, the remaining liability, and the amount of the offsetting insurance receivable as of June 30, 2011, were each $1.1 billion.

In 2010, American and Japan Airlines (JAL) entered into a Joint Business Agreement (JBA) to enhance their scope of cooperation on routes between North America and Asia through adjustments to their respective networks, flight schedules, and other business activities. American and JAL began implementing the JBA on April 1, 2011. The JBA provides for expanded codesharing, enhanced frequent flyer program reciprocity, and cooperation in other areas.

American and JAL entered into a Revenue Sharing Agreement, effective April 1, 2011, as envisaged by the JBA. Under this agreement, American and JAL share certain revenues of their operations. In addition, American provided JAL a guarantee of certain minimum incremental revenue resulting from the successful operation of the joint business for the first three years following its implementation, subject to certain terms and conditions. The amount required to be paid by the Company under the guarantee in any one of such years may not exceed $100 million. Due to uncertainties as a result of the earthquake and tsunami that impacted Japan in March 2011, American and JAL are currently in discussions regarding this agreement and the effective date of the revenue guarantee. As a result of these uncertainties, the Company is still evaluating the fair value of the guarantee and the amount is not estimable at this time.

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**AMR CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

3. Accumulated depreciation of owned equipment and property at June 30, 2011 and December 31, 2010 was $11.3 billion and $11.1 billion, respectively. Accumulated amortization of equipment and property under capital leases at June 30, 2011 and December 31, 2010 was $530 million and $580 million, respectively.

4. The Company provides a valuation allowance for deferred tax assets when it is more likely than not that some portion, or all, of its deferred tax assets will not be realized. The Company s deferred tax asset valuation allowance increased from $3.0 billion as of December 31, 2010 to $3.2 billion as of June 30, 2011, including the impact of comprehensive income for the six months ended June 30, 2011 and changes from other adjustments.

Under current accounting rules, the Company is required to consider all items (including items recorded in other comprehensive income) in determining the amount of tax benefit that results from a loss from continuing operations and that should be allocated to continuing operations. The Company generally does not record any such tax benefit allocation in interim reporting periods as the Company concluded the potential benefit is not considered realizable because the change in the pension liability, a material component of other comprehensive income, is determined annually. Thus, any such interim tax benefit allocation may subsequently be subject to reversal.

5. Long-term debt consisted of (in millions):

| | June 30, 2011 | December 31, 2010 |
|---|---|---|
| Secured variable and fixed rate indebtedness due through 2021 (effective rates from 1.00% - 13.00% at June 30, 2011) | $ 4,844 | $ 5,114 |
| Enhanced equipment trust certificates due through 2021 (rates from 5.10% - 12.00% at June 30, 2011) | 1,946 | 2,002 |
| 6.00% - 8.50% special facility revenue bonds due through 2036 | 1,642 | 1,641 |
| 7.50% senior secured notes due 2016 | 1,000 | |
| AAdvantage Miles advance purchase (net of discount of $110 million) (effective rate 8.3%) | 890 | 890 |
| 6.25% senior convertible notes due 2014 | 460 | 460 |
| 9.0% - 10.20% debentures due through 2021 | 214 | 214 |
| 7.88% - 10.55% notes due through 2039 | 173 | 211 |
| | 11,169 | 10,532 |
| Less current maturities | 1,741 | 1,776 |
| Long-term debt, less current maturities | $ 9,428 | $ 8,756 |

The Company s future long-term debt and operating lease payments have changed as its ordered aircraft are delivered and such deliveries have been financed. As of June 30, 2011, maturities of long-term debt (including sinking fund requirements) for the next five years are: remainder of 2011 $1.3 billion, 2012 $1.8 billion, 2013 $1.0 billion, 2014 $1.5 billion, and 2015 $771 million. Future minimum lease payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of a year as of June 30, 2011, were: remainder of 2011 $569 million, 2012 $1.1 billion, 2013 $981 million, 2014 $840 million, 2015 $681 million, and 2016 and beyond $6.1 billion.

As of June 30, 2011, AMR had issued guarantees covering approximately $1.6 billion of American s tax-exempt bond debt (and interest thereon) and $2.0 billion of American s secured debt (and interest thereon). American had issued guarantees covering

approximately $848 million of AMR s unsecured debt (and interest thereon). In addition, as of June 30, 2011, AMR and American had issued guarantees covering approximately $193 million of AMR Eagle s secured debt (and interest thereon) and AMR has issued additional guarantees covering $2.2 billion of AMR Eagle s secured debt (and interest thereon). AMR also guarantees $125 million of American s leases of certain Super ATR aircraft, which are subleased to AMR Eagle.

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**AMR CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

On January 25, 2011, American closed on a $657 million offering of Class A and Class B Pass Through Trust Certificates (the Certificates). The equipment notes expected to be held by each pass through trust will be issued for each of (a) 15 Boeing 737-823 aircraft delivered new to American from 1999 to 2001, (b) six Boeing 757-223 aircraft delivered new to American in 1999 and 2001, (c) two Boeing 767-323ER aircraft delivered new to American in 1999 and (d) seven Boeing 777-223ER aircraft delivered new to American from 1999 to 2000. At closing, 27 of the aircraft were encumbered by either private mortgages or by liens to secure debt incurred in connection with the issuance of enhanced equipment trust certificates in 2001, all of which mature in 2011. As a result, the proceeds from the sale of the Certificates of each trust will initially be held in escrow with a depositary, pending the financing of each aircraft under an indenture relating to the Certificates. Interest of 5.25% and 7.00% per annum on the issued and outstanding Series A equipment notes and Series B equipment notes, respectively, will be payable semiannually on January 31 and July 31 of each year, commencing on July 31, 2011, and principal on such equipment notes is scheduled for payment on January 31 and July 31 of certain years, commencing on July 31, 2011. The payment obligations of American under the equipment notes will be fully and unconditionally guaranteed by AMR Corporation. Approximately $530 million of the proceeds from sale of the Certificates were received by American as of June 30, 2011, in exchange for equipment notes secured by (a) fifteen Boeing 737-823 aircraft, (b) two Boeing 767-323 aircraft and (c) six Boeing 777-223 aircraft. Approximately $68 million and $59 million from the sale of Certificates are expected to be received in the third and fourth quarter of 2011, respectively.

In March 2011, American issued $1 billion aggregate principal amount of senior secured notes due 2016 (the Senior Secured Notes) guaranteed by the Company. The Senior Secured Notes bear interest at a rate of 7.50% per annum, payable semi-annually on March 15 and September 15 of each year, beginning September 15, 2011. As is customary for financings of this nature, the indebtedness evidenced by the Senior Secured Notes may be accelerated upon the occurrence of events of default under the related indenture. The Senior Secured Notes are senior secured obligations of American and are unconditionally guaranteed on an unsecured basis by the Company. Subject to certain limitations and exceptions, the Senior Secured Notes are secured by certain route authorities, airport landing and takeoff slots, and rights to use or occupy space in airport terminals, in each case that American uses to operate non-stop services between certain airports in the United States and London s Heathrow Airport, and between certain airports in the United States and certain airports in Japan and China.

American, at its option, may redeem some or all of the Senior Secured Notes at any time on or after March 15, 2013, at specified redemption prices, plus accrued and unpaid interest, if any. In addition, at any time prior to March 15, 2013, American, at its option, may redeem some or all of the Senior Secured Notes at a redemption price equal to 100% of their principal amount plus a make-whole premium and accrued and unpaid interest, if any. In addition, at any time prior to March 15, 2014, American, at its option, may redeem (1) up to 35% of the aggregate principal amount of the Senior Secured Notes with the proceeds of certain equity offerings at a redemption price of 107.5% of their principal amount, plus accrued and unpaid interest, if any, and (2) during any 12-month period, up to 10% of the original aggregate principal amount of the Senior Secured Notes at a redemption price of 103% of their principal amount, plus accrued and unpaid interest, if any. If American sells certain assets or if a change of control (as defined in the indenture) occurs, American must offer to repurchase the Senior Secured Notes at prices specified in the indenture.

The indenture for the Senior Secured Notes includes covenants that, among other things, limit the ability of the Company and its subsidiaries to merge, consolidate, sell assets, incur additional indebtedness, issue preferred stock, make investments and pay dividends. In addition, if American fails to maintain a collateral ratio of 1.5 to 1.0, American must pay additional interest on the notes at the rate of 2% per annum until the collateral coverage ratio equals at least 1.5 to 1.0.

Almost all of the Company s aircraft assets (including aircraft eligible for the benefits of Section 1110 of the U.S. Bankruptcy Code) are encumbered.

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**AMR CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

6. The Company utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The Company s short-term investments classified as Level 2 primarily utilize broker quotes in a non-active market for valuation of these securities. The Company s fuel derivative contracts, which consist primarily of heating oil option and collar contracts, are valued using energy and commodity market data which is derived by combining raw inputs with quantitative models and processes to generate forward curves and volatilities. No changes in valuation techniques or inputs occurred during the six months ended June 30, 2011.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

| (in millions) | Fair Value Measurements as of June 30, 2011 | | | |
|---|---|---|---|---|
| Description | Total | Level 1 | Level 2 | Level 3 |
| Short-term investments [1, 2] | | | | |
| Money market funds | $ 207 | $ 207 | $ | $ |
| Government agency investments | 554 | | 554 | |
| Repurchase investments | 1,621 | | 1,621 | |
| Corporate obligations | 799 | | 799 | |
| Bank notes / Certificates of deposit / Time deposits | 1,677 | | 1,677 | |
| | 4,858 | 207 | 4,651 | |
| Restricted cash and short-term investments [1] | 457 | 457 | | |
| Fuel derivative contracts, net [1] | 362 | | 362 | |
| Total | $ 5,677 | $ 664 | $ 5,013 | $ |

1 Unrealized gains or losses on short-term investments, restricted cash and short-term investments and derivatives qualifying for hedge accounting are recorded in Accumulated other comprehensive income (loss) (OCI) at each measurement date.

2 The majority of the Company s short-term investments mature in one year or less except for $721 million of Bank notes/Certificates of deposit/Time deposits, $554 million of U.S. Government agency investments and $427 million of Corporate obligations which have maturity dates exceeding one year.

No significant transfers between Level 1 and Level 2 occurred during the six months ended June 30, 2011. The Company s policy regarding the recording of transfers between levels is to reflect any such transfers at the end of the reporting period.

The fair values of the Company s long-term debt were estimated using quoted market prices where available. For long-term debt not actively traded, fair values were estimated using discounted cash flow analyses, based on the Company s current estimated incremental borrowing rates for similar types of borrowing arrangements.

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**AMR CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

The carrying value and estimated fair values of the Company s long-term debt, including current maturities, were (in millions):

| | June 30, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Secured variable and fixed rate indebtedness | $ 4,844 | $ 4,581 | $ 5,114 | $ 4,562 |
| Enhanced equipment trust certificates | 1,946 | 2,013 | 2,002 | 2,127 |
| 6.0% - 8.5% special facility revenue bonds | 1,642 | 1,650 | 1,641 | 1,657 |
| 7.50% senior secured notes | 1,000 | 983 | | |
| AAdvantage Miles advance purchase | 890 | 907 | 890 | 903 |
| 6.25% senior convertible notes | 460 | 446 | 460 | 526 |
| 9.0% - 10.20% debentures | 214 | 206 | 214 | 207 |
| 7.88% - 10.55% notes | 173 | 169 | 211 | 209 |
| | $ 11,169 | $ 10,955 | $ 10,532 | $ 10,191 |

7. The following tables provide the components of net periodic benefit cost for the three and six months ended June 30, 2011 and 2010 (in millions):

| | Pension Benefits | | | |
|---|---|---|---|---|
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | 2011 | 2010 | 2011 | 2010 |
| Components of net periodic benefit cost | | | | |
| Service cost | $ 97 | $ 91 | $ 192 | $ 184 |
| Interest cost | 189 | 184 | 379 | 369 |
| Expected return on assets | (165) | (148) | (328) | (297) |
| Amortization of: | | | | |
| Prior service cost | 3 | 3 | 7 | 7 |
| Unrecognized net loss | 39 | 39 | 76 | 76 |
| Net periodic benefit cost | $ 163 | $ 169 | $ 326 | $ 339 |

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**AMR CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

| | Retiree Medical and Other Benefits | | | |
|---|---|---|---|---|
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | 2011 | 2010 | 2011 | 2010 |
| Components of net periodic benefit cost | | | | |
| Service cost | $ 15 | $ 15 | $ 30 | $ 30 |
| Interest cost | 44 | 41 | 88 | 83 |
| Expected return on assets | (5) | (5) | (10) | (9) |
| Amortization of: | | | | |
| Prior service cost | (7) | (5) | (14) | (10) |
| Unrecognized net (gain) loss | (2) | (3) | (4) | (5) |
| Net periodic benefit cost | $ 45 | $ 43 | $ 90 | $ 89 |

The Company is required to make minimum contributions to its defined benefit pension plans under the minimum funding requirements of the Employee Retirement Income Security Act (ERISA), the Pension Funding Equity Act of 2004, the Pension Protection Act of 2006, and the Pension Relief Act (Relief Act) of 2010. Under the Relief Act, the Company estimates its 2011 minimum required contribution to its defined benefit pension plans to be approximately $520 million. The Company contributed $188 million to its defined benefit pension plans during the first six months of 2011 and $99 million on July 15, 2011.

8. As a result of the revenue environment, high fuel prices and the Company s restructuring activities, including its capacity reductions, the Company has recorded a number of charges during the last few years. In 2008 and 2009, the Company announced capacity reductions due to unprecedented high fuel costs at that time and the other challenges facing the industry. In connection with these capacity reductions, the Company incurred special charges related to aircraft and certain other charges.

The following table summarizes the components of the Company s special charges, the remaining accruals for these charges and the capacity reduction related charges (in millions) as of June 30, 2011:

| | Aircraft Charges | Facility Exit Costs | Total |
|---|---|---|---|
| Remaining accrual at December 31, 2010 | $ 59 | $ 27 | $ 86 |
| Capacity reduction charges | | | |
| Non-cash charges | | | |
| Adjustments | (1) | | (1) |
| Payments | (29) | (2) | (31) |
| Remaining accrual at June 30, 2011 | $ 29 | $ 25 | $ 54 |

Cash outlays related to the accruals for aircraft charges and facility exit costs will occur through 2017 and 2018, respectively.

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**AMR CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

9. As part of the Company s risk management program, it uses a variety of financial instruments, primarily heating oil option and collar contracts, as cash flow hedges to mitigate commodity price risk. The Company does not hold or issue derivative financial instruments for trading purposes. As of June 30, 2011, the Company had fuel derivative contracts outstanding covering 27 million barrels of jet fuel that will be settled over the next 18 months. A deterioration of the Company s liquidity and financial position may negatively affect the Company s ability to hedge fuel in the future.

For the three and six months ended June 30, 2011, the Company recognized a decrease of approximately $136 million and $237 million, respectively, in fuel expense on the accompanying consolidated statements of operations related to its fuel hedging agreements, including the ineffective portion of the hedges. For the three and six months ended June 30, 2010, the Company recognized an increase of approximately $64 million and $114 million, respectively, in fuel expense on the accompanying consolidated statements of operations related to its fuel hedging agreements, including the ineffective portion of its hedges. The net fair value of the Company s fuel hedging agreements at June 30, 2011 and December 31, 2010, representing the amount the Company would receive upon termination of the agreements (net of settled contract assets), totaled $314 million and $257 million, respectively.

The impact of cash flow hedges on the Company s consolidated financial statements is depicted below (in millions):

Fair Value of Aircraft Fuel Derivative Instruments (all cash flow hedges)

| Asset Derivatives as of | | | | Liability Derivatives as of | | | |
|---|---|---|---|---|---|---|---|
| June 30, 2011 | | December 31, 2010 | | June 30, 2011 | | December 31, 2010 | |
| Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Fuel derivative contracts | $ 364 | Fuel derivative contracts | $ 269 | Accrued liabilities | $ 2 | Accrued liabilities | $ |

Effect of Aircraft Fuel Derivative Instruments on Statements of Operations (all cash flow hedges)

| Amount of Gain (Loss) Recognized in OCI on Derivative[1] as of June 30, | | Location of Gain (Loss) Reclassified from Accumulated OCI into Income [1] | Amount of Gain (Loss) Reclassified from Accumulated OCI into Income [1] for the six months ended June 30, | | Location of Gain (Loss) Recognized in Income on Derivative [2] | Amount of Gain (Loss) Recognized in Income on Derivative [2] for the six months ended June 30, | |
|---|---|---|---|---|---|---|---|
| 2011 | 2010 | | 2011 | 2010 | | 2011 | 2010 |
| $ 294 | $ (123) | Aircraft Fuel | $ 230 | $ (103) | Aircraft Fuel | $ 7 | $ (11) |

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**AMR CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

| Amount of Gain (Loss) Reclassified from Accumulated OCI into Income [1] for the three months ended June 30, | | Location of Gain (Loss) Recognized in Income on Derivative [2] | Amount of Gain (Loss) Recognized in Income on Derivative [2] for the three months ended June 30, | |
|---|---|---|---|---|
| 2011 | 2010 | | 2011 | 2009 |
| $ 132 | $ (52) | Aircraft Fuel | $ 4 | $ (12) |

[1] Effective portion of gain (loss)
[2] Ineffective portion of gain (loss)

The Company is also exposed to credit losses in the event of non-performance by counterparties to these financial instruments, and although no assurances can be given, the Company does not expect any counterparty to fail to meet its obligations. The credit exposure related to these financial instruments is represented by the fair value of contracts with a positive fair value at the reporting date, reduced by the effects of master netting agreements. To manage credit risks, the Company selects counterparties based on credit ratings, limits its exposure to a single counterparty under defined guidelines, and monitors the market position of the program and its relative market position with each counterparty. The Company also maintains industry-standard security agreements with a number of its counterparties which may require the Company or the counterparty to post collateral if the value of selected instruments exceeds specified mark-to-market thresholds or upon certain changes in credit ratings.

As of June 30, 2011, the Company had received cash collateral of $126 million which is included in short-term investments.

The Company includes changes in the fair value of certain derivative financial instruments that qualify for hedge accounting and unrealized gains and losses on available-for-sale securities in comprehensive income. For the three month periods ended June 30, 2011 and 2010, comprehensive income (loss) was $(566) million and $(50) million, respectively. For the six month periods ended June 30, 2011 and 2010, comprehensive income (loss) was $(580) million and $(466) million, respectively. The difference between net earnings (loss) and comprehensive income (loss) for the three month periods ended June 30, 2011 and 2010 is due primarily to the accounting for the Company s derivative financial instruments and the actuarial loss on the pension benefit obligation of the Company s pension plans.

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**AMR CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

10. The following table sets forth the computations of basic and diluted earnings (loss) per share (in millions, except per share data):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| **Numerator:** | | | | |
| Net loss - numerator for diluted loss per share | $ (286) | $ (11) | $ (722) | $ (516) |
| **Denominator:** | | | | |
| Denominator for basic loss per share weighted-average shares | 335 | 333 | 334 | 333 |
| Effect of dilutive securities: | | | | |
| Senior convertible notes | | | | |
| Employee options and shares | | | | |
| Assumed treasury shares purchased | | | | |
| Dilutive potential common shares | | | | |
| Denominator for basic and diluted loss per share - weighted-average shares | 335 | 333 | 334 | 333 |
| Basic loss per share | $ (0.85) | $ (0.03) | $ (2.16) | $ (1.55) |
| Diluted loss per share | $ (0.85) | $ (0.03) | $ (2.16) | $ (1.55) |
| The following were excluded from the calculation: | | | | |
| Senior convertible notes, employee stock options and deferred stock because inclusion would be anti-dilutive | 53 | 58 | 55 | 58 |
| Employee stock options because the options exercise prices were greater than the average market price of shares | 14 | 13 | 12 | 11 |

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**AMR CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

11. In connection with preparation of the consolidated financial statements and in accordance with U.S. GAAP, the Company evaluated subsequent events after the balance sheet date of June 30, 2011 and identified the following items.

On July 20, 2011, the Company entered into agreements with The Boeing Company (Boeing) under which American is to acquire 100 737 Next Generation aircraft scheduled to be delivered in the years 2013-2017, and under which American expects to acquire 100 737 family Next Generation re-engined aircraft (the NG Re-Engined Aircraft) which would be scheduled to be delivered in the years 2018-2022. American s acquisition of the NG Re-Engined Aircraft is subject to a number of conditions, including Boeing s approval of the launch of the 737 re-engined aircraft program, and entering into a definitive purchase agreement for such aircraft.

Also on July 20, 2011, the Company entered into an agreement with Airbus S.A.S. under which American committed to lease 130 Airbus A320 family aircraft scheduled to be delivered in the years 2013-2017, and to purchase 130 Airbus A320 family new engine option aircraft scheduled to be delivered in the years 2017-2022. As part of the agreement American has an option to acquire an additional 365 aircraft.

The firm aircraft commitments are scheduled for delivery as follows: 2013 40 aircraft, 2014 55 aircraft, 2015 50 aircraft, 2016 45 aircraft, 2017 50 aircraft, 2018 and beyond 120 aircraft. The manufacturers have committed financing to American of $13 billion through lease transactions, which covers the first 100 Boeing deliveries and first 130 Airbus deliveries.

The Company s total purchase commitments are expected to be approximately $10.3 billion at the end of the third quarter 2011, reflecting the firm orders from this transaction and aircraft purchase deliveries and purchase deposits paid during the quarter. Future minimum lease payments required under capital and operating leases that have initial or remaining non-cancelable lease terms in excess of a year as of the end of the third quarter are expected to be approximately $24.3 billion. In connection with the acceleration of the fleet renewal and replacement plan, the Company anticipates conducting an impairment analysis on certain long-lived assets, including aircraft, in the third quarter of 2011.

Also in July 2011, the Company exercised rights to acquire an eighth Boeing 777-300ER aircraft, which is scheduled for delivery in 2013.

Further, in July 2011, American entered into a sale-leaseback arrangement with a leasing company to finance up to 29 Boeing 737-800 aircraft scheduled to be delivered in 2011 through 2013 and 6 additional Boeing 737-800 aircraft that would be scheduled for delivery in 2013 and 2014, if acquired by American pursuant to the exercise of certain purchase rights with Boeing. The financing of each aircraft under this arrangement will be subject to certain terms and conditions.

AMR announced its intent to move forward with the divestiture of AMR Eagle. AMR currently expects the divestiture to take the form of a spin-off of AMR Eagle stock to AMR stockholders and currently expects to file a Form 10 registration statement in the near future with the Securities and Exchange Commission (the SEC ). It is expected that a spin-off of AMR Eagle would involve, among other things, (i) the restructuring of some or all of AMR Eagle s assets and liabilities, (ii) the assumption of certain of AMR Eagle s liabilities by American, (iii) the assignment of a portion of American s net operating loss carryforwards to AMR Eagle, (iv) the satisfaction or payment of certain intercompany payables and receivables and (v) a cash capital contribution by American to AMR Eagle.

It is anticipated that, following a spin-off, AMR Eagle would continue to feed passenger traffic to American pursuant to a capacity purchase agreement similar to the agreement already in place. Under such a capacity purchase agreement, American would continue to receive all passenger revenue from AMR Eagle flights and pay AMR Eagle a fee for each flight. The capacity purchase agreement would reflect what AMR believes are current market rates received by other regional carriers for similar flying. Amounts paid to AMR Eagle under the capacity purchase agreement would be available to pay for various operating expenses of AMR Eagle. AMR Eagle would also contract to provide ground handling services to American.

Consummation of a spin-off, and its timing, would be subject to AMR s Board of Directors approval and the resolution of a number of conditions. No prediction can be made as to whether a spin-off will be completed. AMR also continues to consider other possible forms of divestiture of AMR Eagle, including a sale of AMR Eagle.

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**Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations**

**Forward-Looking Information**

Statements in this report contain various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which represent the Company s expectations or beliefs concerning future events. When used in this document and in documents incorporated herein by reference, the words expects, estimates, plans, anticipates, indicates, believes, forecast, guidance, outlook, may, will, should, seeks, targets and similar expressions are intended to identify forward-looking statements. Similarly, statements that describe the Company s objectives, plans or goals, or actions the Company may take in the future, are forward-looking statements. Forward-looking statements include, without limitation, the Company s expectations concerning operations and financial conditions, including changes in capacity, revenues, and costs; future financing plans and needs; the amounts of its unencumbered assets and other sources of liquidity; fleet plans; overall economic and industry conditions; plans and objectives for future operations; a potential spin-off or other divestiture of AMR Eagle; regulatory approvals and actions; and the impact on the Company of its results of operations in recent years and the sufficiency of its financial resources to absorb that impact. Other forward-looking statements include statements which do not relate solely to historical facts, such as, without limitation, statements which discuss the possible future effects of current known trends or uncertainties, or which indicate that the future effects of known trends or uncertainties cannot be predicted, guaranteed or assured. All forward-looking statements in this report are based upon information available to the Company on the date of this report. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

Guidance given in this report regarding capacity, fuel consumption, fuel prices, fuel hedging and unit costs are forward-looking statements. Forward-looking statements are subject to a number of factors that could cause the Company s actual results to differ materially from the Company s expectations. The following factors, in addition to other possible factors not listed, could cause the Company s actual results to differ materially from those expressed in forward-looking statements: the materially weakened financial condition of the Company, resulting from its significant losses in recent years; weak demand for air travel and lower investment asset returns resulting from the severe global economic downturn; the Company s need to raise substantial additional funds and its ability to do so on acceptable terms; the potential requirement for the Company to maintain reserves under its credit card processing agreements, which could materially adversely impact the Company s liquidity; the ability of the Company to generate additional revenues and reduce its costs; continued high and volatile fuel prices and further increases in the price of fuel, and the availability of fuel; the resolution of pending litigation with certain global distribution systems and business discussions with certain on-line travel agents; the Company s substantial indebtedness and other obligations; the ability of the Company to satisfy certain covenants and conditions in certain of its financing and other agreements; changes in economic and other conditions beyond the Company s control, and the volatile results of the Company s operations; the fiercely and increasingly competitive business environment faced by the Company; potential industry consolidation and alliance changes; competition with reorganized carriers; low fare levels by historical standards and the Company s reduced pricing power; changes in the Company s corporate or business strategy; extensive government regulation of the Company s business; conflicts overseas or terrorist attacks; uncertainties with respect to the Company s international operations; outbreaks of a disease (such as SARS, avian flu or the H1N1 virus) that affects travel behavior; labor costs that are higher than those of the Company s competitors; uncertainties with respect to the Company s relationships with unionized and other employee work groups; increased insurance costs and potential reductions of available insurance coverage; the Company s ability to retain key management personnel; potential failures or disruptions of the Company s computer, communications or other technology systems; losses and adverse publicity resulting from any accident involving the Company s aircraft; interruptions or disruptions in service at one or more of the Company s primary market airports; the heavy taxation of the airline industry; and changes in the price of the Company s common stock. The Risk Factors contained in the Company s Securities and Exchange Commission filings, including the 2010 Form 10-K, could cause the Company s actual results to differ materially from historical results and from those expressed in forward-looking statements.

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**Recent Events**

For the second quarter, the Company continued its strategy outlined in FlightPlan 2020 by implementing its plans for a Joint Business Agreement (JBA) with JAL, proposing a JBA with Qantas Airways (Qantas), and continuing to execute its fleet renewal and replacement plan.

On April 1, 2011, American and JAL launched the JBA to enhance their scope of cooperation on routes between North America and Asia through adjustments to their respective networks, flight schedules, and other business activities. American and JAL entered into a Revenue Sharing Agreement, effective April 1, 2011, as envisaged by the JBA. Under this agreement, American and JAL share certain revenues of their operations. In addition, American provided JAL a guarantee of certain minimum incremental revenue resulting from the successful operation of the joint business for the first three years following implementation of the JBA, subject to certain terms and conditions. The amount required to be paid by the Company under the guarantee in any one of such years may not exceed $100 million. Due to uncertainties as a result of the earthquake and tsunami that impacted Japan in March 2011, American and JAL are currently in discussions to modify the terms of the agreement, including the effective date of the revenue guarantee. As a result of these uncertainties, the Company is still evaluating the fair value of the guarantee and the amount is not estimable at this time.

In May 2011, American and Qantas proposed a JBA to coordinate operations on routes between the U.S. and Australia/New Zealand, and on services that support these routes. Qantas received interim authorization from Australian regulators on June 9, 2011, which will allow Qantas and American to undertake a coordinated sales and marketing campaign in both Australia and the U.S. No assurances can be given as to any arrangements that may ultimately be implemented or any benefits that the Company may derive from such arrangements.

On July 20, 2011, the Company entered into agreements with The Boeing Company (Boeing) under which American is to acquire 100 737 Next Generation aircraft scheduled to be delivered in the years 2013-2017, and under which American expects to acquire 100 737 family Next Generation re-engined aircraft (the NG Re-Engined Aircraft) which would be scheduled to be delivered in the years 2018-2022. American s acquisition of the NG Re-Engined Aircraft is subject to a number of conditions, including Boeing s approval of the launch of the 737 re-engined aircraft program, and entering into a definitive purchase agreement for such aircraft.

Also on July 20, 2011, the Company entered into an agreement with Airbus S.A.S. under which American committed to lease 130 Airbus A320 family aircraft scheduled to be delivered in the years 2013-2017, and to purchase 130 Airbus A320 family new engine option aircraft scheduled to be delivered in the years 2017-2022. As part of the agreement American has an option to acquire an additional 365 aircraft.

The firm aircraft commitments are scheduled for delivery as follows: 2013 40 aircraft, 2014 55 aircraft, 2015 50 aircraft, 2016 45 aircraft, 2017 50 aircraft, 2018 and beyond 120 aircraft. The manufacturers have committed financing to American of $13 billion through lease transactions, which covers the first 100 Boeing deliveries and first 130 Airbus deliveries.

The Company s total purchase commitments are expected to be approximately $10.3 billion at the end of the third quarter 2011, reflecting the firm orders from this transaction and aircraft purchase deliveries and purchase deposits paid during the quarter. Future minimum lease payments required under capital and operating leases that have initial or remaining non-cancelable lease terms in excess of a year as of the end of the third quarter are expected to be approximately $24.3 billion. In connection with the acceleration of the fleet renewal and replacement plan, the Company anticipates conducting an impairment analysis on certain long-lived assets, including aircraft, in the third quarter of 2011.

Further, in July 2011, American entered into a sale-leaseback arrangement with a leasing company to finance up to 29 Boeing 737-800 aircraft scheduled to be delivered in 2011 through 2013 and 6 additional Boeing 737-800 aircraft that would be scheduled for delivery in 2013 and 2014, if acquired by American pursuant to the exercise of certain purchase rights with Boeing. The financing of each aircraft under this arrangement will be subject to certain terms and conditions.

**AMR Eagle Divestiture**

AMR announced its intent to move forward with the divestiture of AMR Eagle. AMR currently expects the divestiture to take the form of a spin-off of AMR Eagle stock to AMR stockholders and currently expects to file a Form 10 registration statement in the near future with the Securities and Exchange Commission (the SEC ). It is expected that a spin-off of AMR Eagle would involve, among other things, (i) the restructuring of some or all of AMR Eagle s assets and liabilities, (ii) the assumption of certain of AMR Eagle s liabilities by American, (iii) the assignment of a portion of American s net operating loss carryforwards to AMR Eagle, (iv) the satisfaction or payment of certain intercompany payables and receivables and (v) a cash capital contribution by American to AMR Eagle.

It is anticipated that, following a spin-off, AMR Eagle would continue to feed passenger traffic to American pursuant to a capacity purchase agreement similar to the agreement already in place. Under such a capacity purchase agreement, American would continue to

receive all passenger revenue from AMR Eagle flights and pay AMR Eagle a fee for each flight. The capacity purchase agreement would reflect what AMR believes are current market rates received by other regional carriers for similar flying. Amounts paid to AMR Eagle under the capacity purchase agreement would be available to pay for various operating expenses of AMR Eagle. AMR Eagle would also contract to provide ground handling services to American.

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Consummation of a spin-off, and its timing, would be subject to AMR s Board of Directors approval and the resolution of a number of conditions. No prediction can be made as to whether a spin-off will be completed. AMR also continues to consider other possible forms of divestiture of AMR Eagle, including a sale of AMR Eagle.

**Contingencies**

The Company has certain contingencies resulting from litigation and claims incident to the ordinary course of business. Management believes, after considering a number of factors, including (but not limited to) the information currently available, the views of legal counsel, the nature of contingencies to which the Company is subject and prior experience, that the ultimate disposition of the litigation (except as noted in Legal Proceedings in Part II, Item 1) and claims will not materially affect the Company s consolidated financial position or results of operations. When appropriate, the Company accrues for these contingencies based on its assessments of the likely outcomes of the related matters. The amounts of these contingencies could increase or decrease in the near term, based on revisions to those assessments.

**GDS Discussion**

Over the past several years, American has been developing a direct connection technology, designed to distribute its fare content and bookings capability directly to travel agents in order to achieve greater efficiencies, cost savings, and technological advances in the distribution of American s services. Historically, approximately 60% of American s bookings are booked through travel agencies, which typically use one or more global distribution systems, or GDSs, to view fare content from American and other industry participants. American is currently in litigation with two of the GDSs, Sabre and Travelport, and Orbitz, an online travel agency affiliated with Travelport.

To further these goals, on November 1, 2010 American notified Orbitz that American intended to terminate certain agreements with Orbitz. Following an order from an Illinois court denying a Travelport request for preliminary injunctive relief, American terminated its agreements with Orbitz on December 21, 2010. On June 1, 2011, the court reversed its decision, and American re-instated its agreements with Orbitz through September 1, 2011. American has appealed that decision. On December 3, 2010, Travelport increased the fees it charges American for some bookings. American has filed breach of contract and other claims against Travelport, and Travelport has filed additional claims against American.

Sabre is the largest non-direct source of American s bookings, with over $7 billion of American s passenger revenues generated from bookings made through the Sabre GDS in 2010. On January 5, 2011, Sabre biased its system by making it more difficult for travel agents to find American s fares in the Sabre GDS and doubled the fees it charges American for bookings through its GDS. American obtained a court order that temporarily enjoined Sabre from biasing against American s fares, and the parties subsequently entered into a Stand Down Agreement that eliminated the biasing, retracted the price increase, and suspended litigation between the two companies until June 1, 2011. Following the expiration of the Stand Down Agreement, on July 8, 2011 Sabre imposed new and substantially higher fees for some American bookings through the Sabre GDS. American is challenging these increases and has made other claims against Sabre in the same court action, and American has also added new Texas state antitrust claims.

On April 12, 2011, American also filed a federal antitrust lawsuit against Travelport and added Sabre as a defendant on June 1, 2011. The lawsuit alleges that the defendants have engaged in anticompetitive practices to preserve their monopoly power over American s ability to distribute its products through their subscribers. The lawsuit further alleges that these actions have prevented American from employing new competing technologies and has allowed the defendants to continue to charge American supracompetitive fees. Also on June 1, 2011, Sabre filed a request to intervene in this action and stated that it intended to file its own claims against American alleging that American violated the antitrust laws by withholding certain content from the Sabre GDS.

Certain pricing and other terms in American s GDS agreements with Sabre, Travelport and Amadeus expire by their terms in the summer of 2011. The pricing and other protections in American s Sabre GDS agreement expire on August 31, 2011. Sabre has also asserted that the entire GDS agreement terminates on August 31, 2011. American disagrees and has also filed breach of contract claims in Texas state court. While the Company is negotiating with each GDS to reach new agreements, the Company cannot predict the outcome of those negotiations. Failure to negotiate extensions of these agreements on reasonable terms with one or all of these GDSs could have a material adverse impact on the Company.

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While the Company believes that some of the bookings through Orbitz, Travelport and Sabre have transitioned or will transition to other distribution channels, such as other travel agencies, metasearch sites and American s AA.com web site, it is not possible at this time to estimate what the ultimate impact would be to the Company s business if the Company is unsuccessful in resolving one or more of these matters. If as a result of these matters it becomes more difficult for the Company s customers to find and book flights on American, the Company could be put at a competitive disadvantage and this may result in fewer bookings. If the Company is unable to sell American inventory through any or all of these channels, the Company s level of bookings, business and results of operations could be materially adversely affected. The Company also believes the actions taken by Travelport and Sabre described above are not permitted by the applicable contracts. The Company intends to vigorously pursue the Company s claims and defenses in the lawsuits described above, but there can be no assurance of the outcome of any such lawsuit.

**Financial Highlights**

The Company recorded a consolidated net loss of $286 million in the second quarter of 2011 compared to a net loss of $11 million in the same period last year. The Company s consolidated net loss reflects significant year-over-year increases in fuel prices, partially offset by higher operating revenues. Consolidated passenger revenue increased by $389 million to $5.3 billion for the second quarter of 2011 compared to the same period last year. Cargo and other revenues increased by $51 million to $846 million for the second quarter of 2011 compared to the same period last year. Mainline passenger unit revenues increased 4.3 percent in the second quarter of 2011 due to a 4.6 percent increase in passenger yield year-over-year. This also reflects a decrease in load factor of approximately 0.3 points compared to the second quarter of 2010. The Company s revenue results reflect approximately $60 million in lower revenue due to the extreme weather events during the quarter in Dallas-Fort Worth and the continued impact of the earthquake that struck Japan in March.

The increase in total operating revenue was offset by significantly higher year-over-year fuel prices. Fuel prices continued the trend set in the first quarter of 2011, rising even more dramatically in the second quarter with prices remaining high and extremely volatile. The Company paid an average of $3.12 per gallon in the second quarter of 2011 compared to an average of $2.37 per gallon in the second quarter of 2010, including the effects of hedging. As a result, fuel expense, taking into account the impact of fuel hedging, increased $546 million year-over-year to $2.2 billion. Hedging gains reduced fuel expense by approximately $136 million.

The Company s ability to become profitable and its ability to continue to fund its obligations on an ongoing basis will depend on a number of factors, many of which are largely beyond the Company s control. Certain risk factors that affect the Company s business and financial results are discussed in the Risk Factors listed in Item 1A of the 2010 Form 10-K.

In order to remain competitive and to improve its financial condition, the Company must continue to take steps to generate additional revenues and to reduce its costs. Although the Company has a number of initiatives underway to address its cost and revenue challenges, some of these initiatives involve changes to the Company s business which it may be unable to implement. It has become increasingly difficult to identify and implement significant revenue enhancement and cost savings initiatives. The adequacy and ultimate success of the Company s initiatives to generate additional revenues and reduce costs cannot be assured. Moreover, whether the Company s initiatives will be adequate or successful depends in large measure on factors beyond its control, notably the overall industry environment, including passenger demand, yield and industry capacity growth, and fuel prices. It will be very difficult for the Company to continue to fund its obligations on an ongoing basis, and to return to profitability, if the overall industry revenue environment does not continue to improve or if fuel prices were to increase and persist for an extended period at high levels.

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**LIQUIDITY AND CAPITAL RESOURCES**

**Cash, Short-Term Investments and Restricted Assets**

At June 30, 2011, the Company had $5.2 billion in unrestricted cash and short-term investments and $457 million in restricted cash and short-term investments, both at fair value, versus $4.5 billion in unrestricted cash and short-term investments and $450 million in restricted cash and short-term investments at December 31, 2010.

The Company s unrestricted short-term investment portfolio consists of a variety of what the Company believes are highly liquid, lower risk instruments including money market funds, government agency investments, repurchase investments, short-term obligations, corporate obligations, bank notes, certificates of deposit and time deposits. AMR s objectives for its investment portfolio are (1) the safety of principal, (2) liquidity maintenance, (3) yield maximization, and (4) the full investment of all available funds. The Company s risk management policy further emphasizes superior credit quality (primarily based on short-term ratings by nationally recognized statistical rating organizations) in selecting and maintaining investments in its portfolio and enforces limits on the proportion of funds invested with one issuer, one industry, or one type of instrument. The Company regularly assesses the market risks of its portfolio, and believes that its established policies and business practices adequately limit those risks. As a result, the Company does not anticipate any material adverse impact from these risks.

**Significant Indebtedness and Future Financing**

Indebtedness is a significant risk to the Company as discussed more fully in the Risk Factors included under Item 1A of the 2010 Form 10-K. During the last five years and through June 30, 2011, the Company raised substantial financing to fund operating losses, capital commitments (mainly for aircraft and ground properties), debt maturities, employee pension obligations and to bolster its liquidity. As of the date of this Form 10-Q, the Company believes that it should have sufficient liquidity to fund its operations, including repayment of debt and capital leases, capital expenditures and other contractual obligations; however, there can be no assurances to that effect.

On January 25, 2011, American closed on a $657 million offering of Class A and Class B Pass Through Trust Certificates (the Certificates). The equipment notes expected to be held by each pass through trust will be issued for each of (a) 15 Boeing 737-823 aircraft delivered new to American from 1999 to 2001, (b) six Boeing 757-223 aircraft delivered new to American in 1999 and 2001, (c) two Boeing 767-323ER aircraft delivered new to American in 1999 and (d) seven Boeing 777-223ER aircraft delivered new to American from 1999 to 2000. At closing, 27 of the aircraft were encumbered by either private mortgages or by liens to secure debt incurred in connection with the issuance of enhanced equipment trust certificates in 2001, all of which mature in 2011. As a result, the proceeds from the sale of the Certificates of each trust will initially be held in escrow with a depositary, pending the financing of each aircraft under an indenture relating to the Certificates. Interest of 5.25% and 7.00% per annum on the issued and outstanding Series A equipment notes and Series B equipment notes, respectively, will be payable semiannually on January 31 and July 31 of each year, commencing on July 31, 2011, and principal on such equipment notes is scheduled for payment on January 31 and July 31 of certain years, commencing on July 31, 2011. The payment obligations of American under the equipment notes will be fully and unconditionally guaranteed by AMR Corporation. Approximately $530 million of the proceeds from sale of the Certificates were received by American as of June 30, 2011, in exchange for equipment notes secured by (a) fifteen Boeing 737-823 aircraft, (b) two Boeing 767-323 aircraft and (c) six Boeing 777-223 aircraft. Approximately $68 million and $59 million from the sale of Certificates are expected to be received in the third and fourth quarter of 2011, respectively.

In the remainder of 2011, the Company is contractually required to make approximately $1.3 billion of principal payments on long-term debt and approximately $31 million in principal payments on capital leases, and the Company expects to spend approximately $1.0 billion on capital expenditures, including aircraft commitments. In addition, the fragile economy, rising fuel prices, the possibility of being required to post reserves under credit card processing agreements, and the obligation to post cash collateral on fuel hedging contracts and fund pension plan contributions, among other things, may in the future negatively impact the Company s liquidity. To maintain sufficient liquidity, and because the Company has significant debt, lease and other obligations in the next several years, including commitments to purchase aircraft, as well as significant pension funding obligations, the Company will need access to substantial additional funding. An inability to obtain necessary additional funding on acceptable terms would have a material adverse impact on the Company and on its ability to sustain its operations.

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The Company s substantial indebtedness and other obligations have important consequences. For example, they: (i) limit the Company s ability to obtain additional funding for working capital, capital expenditures, acquisitions, investments and general corporate purposes, as well as adversely affect the terms on which such funding could be obtained; (ii) require the Company to dedicate a substantial portion of its cash flow from operations to payments on its indebtedness and other obligations, thereby reducing the funds available for other purposes; (iii) make the Company more vulnerable to economic downturns and catastrophic external events; and (iv) limit the Company s ability to withstand competitive pressures and reduce its flexibility in responding to changing business and economic conditions.

The Company s possible financing sources include refinancing of currently encumbered aircraft as the debt against them is retired, the issuance of additional secured aircraft debt or sale leaseback transactions involving newly acquired aircraft, the issuance of debt secured by other assets, the sale or monetization of certain assets, the issuance of unsecured debt, and the issuance of equity or equity-like securities. Currently, almost all of the Company s aircraft assets (including aircraft eligible for the benefits of Section 1110 of the U.S. Bankruptcy Code) are encumbered, however borrowing capacity will become available as aircraft become un-encumbered. Also, the market value of these aircraft assets has declined in recent years, and may continue to decline. Some of the Company s assets may be difficult to finance, and the availability and level of the financing sources described above cannot be assured.

The Company has financing commitments covering all aircraft scheduled to be delivered to the Company in 2011 and 2012 except for the two Boeing 777-300ER aircraft scheduled for delivery in 2012. Such financing commitments are subject to certain terms and conditions, including in some instances a condition that the Company have at least a certain minimum amount of liquidity.

In the second quarter of 2011, the Company exercised rights to acquire three additional Boeing 737-800 aircraft and three additional Boeing 777-300ER aircraft. As of June 30, 2011, American had aircraft purchase commitments as follows: (a) Boeing 737-800 aircraft 13 in 2011, 28 in 2012, and 14 in 2013 through 2016; (b) Boeing 777-200ER aircraft seven in 2013 through 2016; (c) Boeing 777-300ER aircraft two in 2012 and five in 2013; (d) Boeing 787-9 aircraft 42 in 2014 through 2018. In July 2011, the Company exercised rights to acquire an eighth Boeing 777-300ER aircraft, which is scheduled for delivery in 2013. In July 2011, the Company also committed to acquire additional Boeing and Airbus aircraft. Refer to Recent Events for further information on these commitments and related financing agreements.

As of June 30, 2011, payments for the purchase commitments under these arrangements will approximate $705 million in the remainder of 2011, $1.4 billion in 2012, $786 million in 2013, $313 million in 2014, $192 million in 2015, and $103 million for 2016. These amounts are net of purchase deposits currently held by the manufacturers.

In 2008, the Company entered into a new purchase agreement with Boeing for the acquisition of 42 firm Boeing 787-9 aircraft and purchase rights to acquire up to 58 additional B787-9 aircraft. Per the purchase agreement, the first such aircraft was scheduled to be delivered in 2012, and the last firm aircraft was scheduled to be delivered in 2018 with deliveries of additional aircraft, if any, scheduled between 2015 and 2020. In July 2010, the Company and Boeing agreed upon a revised delivery schedule due to the impact of the overall Boeing 787 program delay on American s delivery positions. The first aircraft is currently scheduled to be delivered in 2014, and the last firm aircraft is scheduled to be delivered in 2018 with deliveries of additional aircraft, if any, scheduled between 2016 and 2021. Additionally, the revised delivery schedule includes terms and conditions consistent with the original agreement and allows the Company the confirmation rights described below.

Under the current 787-9 purchase agreement and supplemental agreement, except as described below, American will not be obligated to purchase a 787-9 aircraft unless it gives Boeing notice confirming its election to do so at least 18 months prior to the scheduled delivery date for that aircraft. If American does not give that notice with respect to an aircraft, the aircraft will no longer be subject to the 787-9 purchase agreement. These confirmation rights may be exercised until a specified date (May 1, 2014 under the current agreement) provided that those rights will terminate earlier if American reaches a collective bargaining agreement with its pilot union that includes provisions enabling American to utilize the 787-9 to American s satisfaction in the operations desired by American, or if American confirms its election to purchase any of the initial 42 787-9 aircraft. While there can be no assurances, American expects

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that it will have reached an agreement as described above with its pilots union prior to the first notification date. In either of those events, American would become obligated to purchase all of the initial 42 aircraft then subject to the purchase agreement. If neither of those events occurs prior to the specified date (May 1, 2014 under the current agreement) then on that date American may elect to purchase all of the initial 42 aircraft then subject to the purchase agreement, and if it does not elect to do so, the purchase agreement will terminate in its entirety.

**Credit Ratings**

AMR s and American s credit ratings are significantly below investment grade. Additional reductions in AMR s or American s credit ratings could further increase the Company s borrowing or other costs and further restrict the availability of future financing.

**Credit Card Processing and Other Reserves**

American has agreements with a number of credit card companies and processors to accept credit cards for the sale of air travel and other services. Under certain of these agreements, the related credit card processor may hold back a reserve from American s credit card receivables following the occurrence of certain events, including the failure of American to maintain certain levels of liquidity (as specified in each agreement).

Under such agreements, the amount of the reserve that may be required generally is based on the processor s exposure to the Company under the applicable agreement and, in the case a reserve is required because of American s failure to maintain a certain level of liquidity, the amount of such liquidity. As of June 30, 2011, the Company was not required to maintain any reserve under such agreements. If circumstances were to occur that would allow the credit card processor to require the Company to maintain a reserve, the Company s liquidity would be negatively impacted.

**Pension Funding Obligation**

The Company is required to make minimum contributions to its defined benefit pension plans under the minimum funding requirements of the Employee Retirement Income Security Act (ERISA), the Pension Funding Equity Act of 2004, the Pension Protection Act of 2006, and the Pension Relief Act of 2010 (Relief Act). Under the Relief Act, the Company estimates its 2011 minimum required contribution to its defined benefit pension plans to be approximately $520 million. The Company contributed $188 million to its defined benefit pension plans during the first six months of 2011 and $99 million on July 15, 2011.

**Cash Flow Activity**

At June 30, 2011, the Company had $5.2 billion in unrestricted cash and short-term investments, which is an increase of $0.7 billion from the balance as of December 31, 2010. Net cash provided by operating activities in the six-month period ended June 30, 2011 was $653 million, as compared to $1.2 billion over the same period in 2010, and which reflects an increase in the Company s consolidated net loss, increases in current assets, and decreases in current liabilities.

The Company made scheduled debt and capital lease payments of $1.2 billion and invested $748 million in capital expenditures in the first six months of 2011. Capital expenditures primarily consisted of new aircraft and certain aircraft modifications.

Under certain of the Company s derivative contracts, the related counterparties are currently required to deposit collateral with the Company due to the value of the contracts. As of June 30, 2011, the cash collateral held by the Company from such counterparties was $126 million as compared to $73 million held by such counterparties as of December 31, 2010. Cash held from counterparties as of June 30, 2011 is included in short-term investments. As a result of movements in fuel prices, the cash collateral amounts held by the Company or the counterparties to such contracts, as the case may be, can vary significantly.

As a result of the terrorist attacks of September 11, 2001 (the Terrorist Attacks) and the subsequent liability protections provided for by the Air Transportation Safety and System Stabilization Act, the Company recorded a liability for the Terrorist Attacks claims equal to the related insurance receivable due to American. In the second quarter of 2011, the Company received $576 million in insurance proceeds as partial settlement of claims related to the Terrorist Attacks. The Company used these funds to pay a portion of its share of the associated liability. Reflecting this settlement, the remaining liability, and the amount of the offsetting insurance receivable as of June 30, 2011, were each $1.1 billion.

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In the past, the Company has from time to time refinanced, redeemed or repurchased its debt and taken other steps to reduce its debt or lease obligations or otherwise improve its balance sheet. Going forward, depending on market conditions, its cash positions and other considerations, the Company may continue to take such actions.

Certain of the Company s debt financing agreements contain loan to value ratio covenants and require the Company to periodically appraise the collateral. Pursuant to such agreements, if the loan to value ratio exceeds a specified threshold, the Company may be required to subject additional qualifying collateral (which in some cases may include cash collateral) or, in the alternative, to pay down such financing, in whole or in part, with premium (if any).

**War-Risk Insurance**

The U.S. government has agreed to provide commercial war-risk insurance for U.S. based airlines through September 30, 2011, covering losses to employees, passengers, third parties and aircraft. If the U.S. government were to cease providing such insurance in whole or in part, it is likely that the Company could obtain comparable coverage in the commercial market, but the Company would incur substantially higher premiums and more restrictive terms, if such coverage is available at all. If the Company is unable to obtain adequate war-risk coverage at commercially reasonable rates, the Company would be adversely affected.

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**RESULTS OF OPERATIONS**

**For the Three Months Ended June 30, 2011 and 2010**

**REVENUES**

The Company s revenues increased approximately $440 million, or 7.8 percent, to $6.1 billion in the second quarter of 2011 from the same period last year. American s passenger revenues increased by 6.5 percent, or $278 million, on a 2.1 percent increase in capacity (available seat mile) (ASM). American s passenger load factor decreased 0.3 points while passenger yield increased by 4.6 percent to 13.90 cents. This resulted in an increase in passenger revenue per available seat mile (RASM) of 4.3 percent to 11.62 cents. American derived approximately 60 percent of its passenger revenues from domestic operations and approximately 40 percent from international operations (flights serving international destinations). Following is additional information regarding American s domestic and international RASM and capacity:

| | Three Months Ended June 30, 2011 | | | |
|---|---|---|---|---|
| | RASM (cents) | Y-O-Y Change | ASMs (billions) | Y-O-Y Change |
| DOT Domestic | 11.74 | 4.9% | 23.2 | (1.0)% |
| International | 11.44 | 3.5 | 16.0 | 7.0 |
| DOT Latin America | 12.75 | 17.0 | 7.2 | 0.2 |
| DOT Atlantic | 10.83 | (4.7) | 6.6 | 9.0 |
| DOT Pacific | 9.02 | (14.7) | 2.3 | 27.4 |

The Company s Regional Affiliates include two wholly owned subsidiaries, American Eagle Airlines, Inc. and Executive Airlines, Inc. (collectively, AMR Eagle), and an independent carrier with which American has a capacity purchase agreement, Chautauqua Airlines, Inc. (Chautauqua).

Regional Affiliates passenger revenues, which are based on industry standard proration agreements for flights connecting to American flights, increased $111 million, or 18.5 percent, to $711 million as a result of higher yield and increased traffic. Regional Affiliates traffic increased 15.9 percent to 2.6 billion revenue passenger miles (RPMs), on a capacity increase of 14.0 percent to 3.4 billion ASMs, resulting in a 1.3 point increase in passenger load factor to 75.8 percent.

Cargo revenues increased 9.6 percent, or $16 million, to $187 million primarily as a result of increased freight yields.

Other revenues increased 5.5 percent, or $34 million, to $659 million primarily due to increased revenue associated with the sale of mileage credits in the AAdvantage frequent flyer program and increases in certain passenger service charge volumes and fees.

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**Operating Expenses**

The Company s total operating expenses increased 13.0 percent, or $714 million, to $6.2 billion in the second quarter of 2011 compared to the same period in 2010. American s mainline operating expenses per ASM increased 9.7 percent to 13.85 cents. The increase in operating expense was largely due to a year-over-year increase in fuel prices from $2.37 per gallon in the second quarter of 2010 to $3.12 per gallon in the second quarter of 2011, including the impact of fuel hedging. Fuel expense was the Company s largest single expense category in the second quarter of 2011 and the price increase resulted in $524 million in incremental year-over-year fuel expense in the second quarter of 2011 (based on the year-over-year increase in the average price per gallon multiplied by gallons consumed, inclusive of the impact of fuel hedging). Further increases in fuel prices and/or disruptions in the supply of fuel would further materially adversely affect the Company s financial condition and results of operations. The remaining increase in operating expense was primarily due to revenue related expenses, such as credit card fees and booking fees and commissions, and increased aircraft rent related to the Company s fleet renewal plan.

(in millions)

| Operating Expenses | Three Months Ended June 30, 2011 | Change from 2010 | Percentage Change |
|---|---|---|---|
| Aircraft fuel | $ 2,202 | $ 547 | 33.1%(a) |
| Wages, salaries and benefits | 1,764 | 50 | 2.9 |
| Other rentals and landing fees | 355 | 3 | 0.9 |
| Depreciation and amortization | 266 | (1) | (0.4) |
| Maintenance, materials and repairs | 334 | (6) | (1.8) |
| Commissions, booking fees and credit card expense | 268 | 20 | 8.1(b) |
| Aircraft rentals | 158 | 13 | 9.0(c) |
| Food service | 133 | 12 | 9.9(d) |
| Other operating expenses | 712 | 76 | 11.9(e) |
| Total operating expenses | $ 6,192 | $ 714 | 13.0% |

(a) Aircraft fuel expense increased primarily due to a 31.3 percent increase in the Company s price per gallon of fuel (net of the impact of hedging gains of $136 million).
(b) Commissions, booking fees and credit card expenses increased due to a 7.8 percent increase in operating revenues.
(c) Aircraft rental expense increased primarily due to new aircraft deliveries in 2011 and 2010.
(d) Food service expense increased primarily due to increased international flying.
(e) Other operating expenses increased primarily due to increases in advertising expenses and sale/leaseback losses.

**Other Income (Expense)**

Other income (expense) consists of interest income and expense, interest capitalized and miscellaneous - net.

An increase in short-term investment balances caused an increase in interest income of $1 million, or 16.7 percent, to $7 million for the second quarter 2011 compared to the same period last year. Interest expense increased $6 million, or 2.8 percent, to $215 million primarily as a result of increases in the Company s long-term debt balance.

**Income Tax**

The Company did not record a net tax provision (benefit) associated with its net loss for the three months ended June 30, 2011 or June 30, 2010 due to the Company providing a valuation allowance, as discussed in Note 4 to the condensed consolidated financial statements.

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**Operating Statistics**

The following table provides statistical information for American and Regional Affiliates for the three months ended June 30, 2011 and 2010.

| | Three Months Ended June 30, | |
|---|---|---|
| | 2011 | 2010 |
| **American Airlines, Inc. Mainline Jet Operations** | | |
| Revenue passenger miles (millions) | 32,788 | 32,215 |
| Available seat miles (millions) | 39,228 | 38,413 |
| Cargo ton miles (millions) | 459 | 478 |
| Passenger load factor | 83.6% | 83.9% |
| Passenger revenue yield per passenger mile (cents) | 13.90 | 13.28 |
| Passenger revenue per available seat mile (cents) | 11.62 | 11.14 |
| Cargo revenue yield per ton mile (cents) | 40.76 | 35.67 |
| Operating expenses per available seat mile, excluding Regional Affiliates (cents) (*) | 13.85 | 12.62 |
| Fuel consumption (gallons, in millions) | 627 | 627 |
| Fuel price per gallon (dollars) | 3.11 | 2.37 |
| Operating aircraft at period-end | 612 | 619 |
| **Regional Affiliates** | | |
| Revenue passenger miles (millions) | 2,585 | 2,230 |
| Available seat miles (millions) | 3,412 | 2,994 |
| Passenger load factor | 75.8% | 74.5% |

(*) Excludes $793 million and $662 million of expense incurred related to Regional Affiliates in 2011 and 2010, respectively.

Operating aircraft at June 30, 2011, included:

| **American Airlines Aircraft** | | **AMR Eagle Aircraft** | |
|---|---|---|---|
| Boeing 737-800 | 154 | Bombardier CRJ-700 | 47 |
| Boeing 757-200 | 124 | Embraer 135 | 39 |
| Boeing 767-200 Extended Range | 15 | Embraer 140 | 59 |
| Boeing 767-300 Extended Range | 58 | Embraer 145 | 118 |
| Boeing 777-200 Extended Range | 47 | Super ATR | 39 |
| McDonnell Douglas MD-80 | 214 | Total | 302 |
| Total | 612 | | |

The average aircraft age for American s and AMR Eagle s aircraft is 14.9 years and 9.6 years, respectively.

Almost all of the Company s owned aircraft are encumbered by liens granted in connection with financing transactions entered into by the Company.

Of the operating aircraft listed above, 18 owned Embraer RJ-135 aircraft were in temporary storage as of June 30, 2011.

Owned and leased aircraft not operated by the Company at June 30, 2011, included:

| **American Airlines Aircraft** | | **AMR Eagle Aircraft** | |
|---|---|---|---|
| Boeing 737-800 | 1 | Saab 340B | 41 |
| Airbus A300-600R | 2 | Total | 41 |

| | |
|---|---|
| Fokker 100 | 4 |
| McDonnell Douglas MD-80 | 54 |
| Total | 61 |

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**For the Six Months Ended June 30, 2011 and 2010**

REVENUES

The Company s revenues increased approximately $905 million, or 8.4 percent, to $11.6 billion in the first six months of 2011 from the same period last year. American s passenger revenues increased by 7.2 percent, or $581 million, on a 2.4 percent increase in capacity (available seat mile) (ASM). American s passenger load factor decreased 0.6 points while passenger yield increased by 5.4 percent to 14.03 cents. This resulted in an increase in passenger revenue per available seat mile (RASM) of 4.6 percent to 11.28 cents. American derived approximately 60 percent of its passenger revenues from domestic operations and approximately 40 percent from international operations (flights serving international destinations). Following is additional information regarding American s domestic and international RASM and capacity:

| | Six Months Ended June 30, 2011 | | | |
|---|---|---|---|---|
| | RASM (cents) | Y-O-Y Change | ASMs (billions) | Y-O-Y Change |
| DOT Domestic | 11.32 | 5.5% | 46.0 | (0.6)% |
| International | 11.21 | 3.3 | 31.1 | 7.3 |
| DOT Latin America | 12.70 | 11.3 | 15.3 | 5.0 |
| DOT Atlantic | 10.07 | (3.5) | 11.6 | 4.6 |
| DOT Pacific | 8.98 | (9.3) | 4.3 | 25.4 |

Regional Affiliates passenger revenues, which are based on industry standard proration agreements for flights connecting to American flights, increased $191 million, or 17.4 percent, to $1.3 billion as a result of higher yield and increased traffic. Regional Affiliates traffic increased 15.3 percent to 4.7 billion revenue passenger miles (RPMs), on a capacity increase of 13.9 percent to 6.6 billion ASMs, resulting in a 0.9 point increase in passenger load factor to 71.9 percent.

Cargo revenues increased 9.8 percent, or $32 million, to $356 million primarily as a result of increased freight yields.

Other revenues increased 8.4 percent, or $101 million, to $1.3 billion primarily due to increased revenue associated with the sale of mileage credits in the AAdvantage frequent flyer program and increases in certain passenger service charge volumes and fees.

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**Operating Expenses**

The Company s total operating expenses increased 10.3 percent, or $1.1 billion, to $12.0 billion in the first six months of 2011 compared to the same period in 2010. American s mainline operating expenses per ASM increased 6.8 percent to 13.63 cents. The increase in operating expense was largely due to a year-over-year increase in fuel prices in the first half of 2011 compared to the same period in 2010. Fuel expense was the Company s largest single expense category in the first six months of 2011 and the price increase resulted in $876 million in incremental year-over-year fuel expense in the first six months of 2011 (based on the year-over-year increase in the average price per gallon multiplied by gallons consumed, inclusive of the impact of fuel hedging). Further increases in fuel prices and/or disruptions in the supply of fuel would further materially adversely affect the Company s financial condition and results of operations. The remaining increase in operating expense was primarily due to revenue related expenses, such as credit card fees and booking fees and commissions, and increased aircraft rent related to the Company s fleet renewal plan.

(in millions)

| Operating Expenses | Six Months Ended June 30, 2011 | Change from 2010 | Percentage Change |
|---|---|---|---|
| Aircraft fuel | $ 4,044 | $ 913 | 29.2%(a) |
| Wages, salaries and benefits | 3,486 | 69 | 2.0 |
| Other rentals and landing fees | 707 | 3 | 0.4 |
| Depreciation and amortization | 542 | 8 | 1.5 |
| Maintenance, materials and repairs | 639 | (52) | (7.5)(b) |
| Commissions, booking fees and credit card expense | 524 | 42 | 8.7(c) |
| Aircraft rentals | 318 | 44 | 16.1(d) |
| Food service | 253 | 17 | 7.2(e) |
| Other operating expenses | 1,443 | 68 | 4.9 |
| Total operating expenses | $ 11,956 | $ 1,112 | 10.3% |

(a) Aircraft fuel expense increased primarily due to a 27.6 percent increase in the Company s price per gallon of fuel (net of the impact of hedging gains of $237 million).
(b) Maintenance, materials and repairs decreased primarily due to timing of repairs in 2010.
(c) Commissions, booking fees and credit card expenses increased due to an 8.4 percent increase in operating revenues.
(d) Aircraft rental expense increased primarily due to new aircraft deliveries in 2011 and 2010.
(e) Food service expense increased primarily due to increased international flying.

**Other Income (Expense)**

Other income (expense) consists of interest income and expense, interest capitalized and miscellaneous - net.

An increase in short-term investment balances caused an increase in interest income of $2.9 million, or 25.6 percent, to $14.2 million for the first six months of 2011 compared to the same period last year. Interest expense decreased $2.7 million, or 0.6 percent, to $415 million primarily as a result of decreases in interest rates on the Company s long-term debt balance, partially offset by increases in the Company s long-term debt balance.

**Income Tax**

The Company did not record a net tax provision (benefit) associated with its net loss for the six months ended June 30, 2011 or June 30, 2010 due to the Company providing a valuation allowance, as discussed in Note 4 to the condensed consolidated financial statements.

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**Operating Statistics**

The following table provides statistical information for American and Regional Affiliates for the six months ended June 30, 2011 and 2010.

| | Six Months Ended June 30, | |
|---|---|---|
| | 2011 | 2010 |
| **American Airlines, Inc. Mainline Jet Operations** | | |
| Revenue passenger miles (millions) | 61,953 | 60,916 |
| Available seat miles (millions) | 77,078 | 75,259 |
| Cargo ton miles (millions) | 898 | 925 |
| Passenger load factor | 80.4% | 80.9% |
| Passenger revenue yield per passenger mile (cents) | 14.03 | 13.31 |
| Passenger revenue per available seat mile (cents) | 11.28 | 10.78 |
| Cargo revenue yield per ton mile (cents) | 39.66 | 35.04 |
| Operating expenses per available seat mile, excluding Regional Affiliates (cents) (*) | 13.63 | 12.76 |
| Fuel consumption (gallons, in millions) | 1,224 | 1,225 |
| Fuel price per gallon (dollars) | 2.93 | 2.30 |
| Operating aircraft at period-end | 612 | |
| **Regional Affiliates** | | |
| Revenue passenger miles (millions) | 4,720 | 4,093 |
| Available seat miles (millions) | 6,567 | 5,767 |
| Passenger load factor | 71.9% | 71.0% |

(*) Excludes $1.5 billion and $1.3 billion of expense incurred related to Regional Affiliates in 2011 and 2010, respectively.

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**Outlook**

The Company currently expects capacity for American s mainline jet operations to increase by approximately 1.0% in the third quarter of 2011 versus the third quarter of 2010. American s mainline capacity for the full year 2011 is expected to increase approximately 1.9% from 2010, with domestic capacity down 0.1% and international capacity up 5.0% compared to 2010 levels.

The Company expects third quarter 2011 mainline unit costs to increase approximately 13.1 percent year over year to 13.80 cents. The third quarter 2011 unit cost expectations reflect projected fuel prices.

The Company s results are significantly affected by the price of jet fuel. Fuel prices increased dramatically during the first half of 2011 and remain high and extremely volatile. Based on the Company s current forecast of full year 2011 jet fuel prices, the Company estimates that its full year 2011 jet fuel cost per gallon, taking hedging into account, will increase by approximately 30% over 2010. The Company s hedging approach has been and continues to be systematic and as of July 2011, the Company had cash flow hedges, primarily consisting of heating oil option and collar contracts, covering approximately 48 percent of its estimated 2011 fuel requirements.

The Company has also implemented a number of initiatives in an effort to offset this anticipated increase in fuel prices, including fare hikes and reductions in the Company s previously announced capacity growth. However, intense competition and other factors may limit the Company s ability to increase fares. Further, the catastrophic events in Japan in the first quarter and the ongoing GDS related dispute could have an adverse affect on the Company in future periods. In addition, continued increases in fuel prices may depress overall economic activity, which in turn could impact demand for air travel. Accordingly, while the Company expects that its operating results, cash flow and liquidity for the remainder of 2011 will continue to be materially and adversely impacted by high fuel prices, the magnitude of that adverse impact is subject to considerable uncertainty, as well as to numerous factors beyond the Company s control.

**Critical Accounting Policies and Estimates**

The preparation of the Company s financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Company believes its estimates and assumptions are reasonable; however, actual results and the timing of the recognition of such amounts could differ from those estimates. The Company has identified the following critical accounting policies and estimates used by management in the preparation of the Company s financial statements: long-lived assets, international slot and route authorities, passenger revenue, frequent flyer program, stock compensation, pensions and retiree medical and other benefits, income taxes and derivatives. These policies and estimates are described in the 2010 Form 10-K.

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**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

There have been no material changes in market risk from the information provided in Item 7A. Quantitative and Qualitative Disclosures About Market Risk of the Company s 2010 Form 10-K. The change in market risk for aircraft fuel is discussed below for informational purposes.

The risk inherent in the Company s market risk sensitive instruments and positions is the potential loss arising from adverse changes in the price of fuel, foreign currency exchange rates and interest rates as discussed below. The sensitivity analyses presented do not consider the effects that such adverse changes may have on overall economic activity, nor do they consider additional actions management may take to mitigate the Company s exposure to such changes. Therefore, actual results may differ. The Company does not hold or issue derivative financial instruments for trading purposes.

**Aircraft Fuel** The Company s earnings are substantially affected by changes in the price and availability of aircraft fuel. In order to provide a measure of control over price and supply, the Company trades and ships fuel and maintains fuel storage facilities to support its flight operations. The Company also manages the price risk of fuel costs primarily by using jet fuel and heating oil hedging contracts. Market risk is estimated as a hypothetical 10 percent increase in the June 30, 2011 cost per gallon of fuel. Based on projected fuel usage for the next twelve months, such an increase would result in an increase to Aircraft fuel expense of approximately $671 million, inclusive of the impact of effective fuel hedge instruments outstanding at June 30, 2011, and assumes the Company s fuel hedging program remains effective. Such an increase would have resulted in an increase to projected Aircraft fuel expense of approximately $499 million in the twelve months ended December 31, 2010, inclusive of the impact of fuel hedge instruments outstanding at December 31, 2009. As of July 2011, the Company had cash flow hedges, with collars and options, covering approximately 46 percent of its estimated remaining 2011 fuel requirements. Comparatively, as of June 30, 2010, the Company had hedged, with collars and options, approximately 42 percent of its estimated remaining 2010 fuel requirements. The consumption hedged for the remainder of 2011 by cash flow hedges is capped at an average price of approximately $2.92 per gallon of jet fuel, and the Company s collars have an average floor price of approximately $2.15 per gallon of jet fuel (both the capped and floor price exclude taxes and transportation costs). The Company s collars represent approximately 36 percent of its estimated remaining 2011 fuel requirements. A deterioration of the Company s liquidity and financial position could negatively affect the Company s ability to hedge fuel in the future.

Ineffectiveness is inherent in hedging jet fuel with derivative positions based in crude oil or other crude oil related commodities. The Company assesses, both at the inception of each hedge and on an ongoing basis, whether the derivatives that are used in its hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. In doing so, the Company uses a regression model to determine the correlation of the change in prices of the commodities used to hedge jet fuel (e.g., NYMEX Heating oil) to the change in the price of jet fuel. The Company also monitors the actual dollar offset of the hedges market values as compared to hypothetical jet fuel hedges. The fuel hedge contracts are generally deemed to be highly effective if the R-squared is greater than 80 percent and the dollar offset correlation is within 80 percent to 125 percent. The Company discontinues hedge accounting prospectively if it determines that a derivative is no longer expected to be highly effective as a hedge or if it decides to discontinue the hedging relationship.

**Item 4. Controls and Procedures**

The term disclosure controls and procedures is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, or the Exchange Act. This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission. An evaluation was performed under the supervision and with the participation of the Company s management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the Company s disclosure controls and procedures as of December 31, 2010. Based on that evaluation, the Company s management, including the CEO and CFO, concluded that the Company s disclosure controls and procedures were effective as of June 30, 2011. During the quarter ending on June 30, 2011, there was no change in the Company s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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**PART II: OTHER INFORMATION**

**Item 1. Legal Proceedings**

On February 14, 2006, the Antitrust Division of the United States Department of Justice (DOJ) served the Company with a grand jury subpoena as part of an ongoing investigation into possible criminal violations of the antitrust laws by certain domestic and foreign air cargo carriers. At this time, the Company does not believe it is a target of the DOJ investigation. The New Zealand Commerce Commission notified the Company on February 17, 2006 that it is investigating whether the Company and certain other cargo carriers entered into agreements relating to fuel surcharges, security surcharges, war-risk surcharges, and customs clearance surcharges. On February 22, 2006, the Company received a letter from the Swiss Competition Commission informing the Company that it is investigating whether the Company and certain other cargo carriers entered into agreements relating to fuel surcharges, security surcharges, war-risk surcharges, and customs clearance surcharges. On March 11, 2008, the Company received a request for information from the Swiss Competition Commission concerning, among other things, the scope and organization of the Company s activities in Switzerland. On June 27, 2007 and October 31, 2007, the Company received requests for information from the Australian Competition and Consumer Commission seeking information regarding fuel surcharges imposed by the Company on cargo shipments to and from Australia and regarding the structure of the Company s cargo operations. On September 1, 2008, the Company received a request from the Korea Fair Trade Commission seeking information regarding cargo rates and surcharges and the structure of the Company s activities in Korea. On January 23, 2007, the Brazilian competition authorities, as part of an ongoing investigation, conducted an unannounced search of the Company s cargo facilities in Sao Paulo, Brazil. On April 24, 2008, the Brazilian competition authorities charged the Company with violating Brazilian competition laws. On December 31, 2009, the Brazilian competition authorities made a non-binding recommendation to the Brazilian competition tribunal that it find the Company in violation of competition laws. The authorities are investigating whether the Company and certain other foreign and domestic air carriers violated Brazilian competition laws by illegally conspiring to set fuel surcharges on cargo shipments. The Company is vigorously contesting the allegations and the preliminary findings of the Brazilian competition authorities. On December 19, 2006 and June 12, 2007, the Company received requests for information from the European Commission seeking information regarding the Company s corporate structure, and revenue and pricing announcements for air cargo shipments to and from the European Union. On December 18, 2007, the European Commission issued a Statement of Objection (SO) against 26 airlines, including the Company. The SO alleges that these carriers participated in a conspiracy to set surcharges on cargo shipments in violation of EU law. On November 12, 2010, the EU Commission notified the Company that it was closing its proceedings against the Company without imposing any fine or finding any wrongdoing. The Company intends to cooperate fully with all pending investigations. In the event that any investigations uncover violations of the U.S. antitrust laws or the competition laws of some other jurisdiction, or if the Company were named and found liable in any litigation based on these allegations, such findings and related legal proceedings could have a material adverse impact on the Company. Forty-five purported class action lawsuits have been filed in the U.S. against the Company and certain foreign and domestic air carriers alleging that the defendants violated U.S. antitrust laws by illegally conspiring to set prices and surcharges on cargo shipments. These cases, along with other purported class action lawsuits in which the Company was not named, were consolidated in the United States District Court for the Eastern District of New York as In re Air Cargo Shipping Services Antitrust Litigation, 06-MD-1775 on June 20, 2006. Plaintiffs are seeking trebled money damages and injunctive relief. To facilitate a settlement on a class basis, the company agreed to be named in a separate class action complaint, which was filed on July 26, 2010. The settlement of that complaint, in which the company does not admit and denies liability, was approved by the court and final judgment was entered on April 6, 2011. Approximately 40 members of the class have elected to opt out, thereby preserving their rights to sue the Company separately. Any adverse judgment could have a material adverse impact on the Company. Also, on January 23, 2007, the Company was served with a purported class action complaint filed against the Company, American, and certain foreign and domestic air carriers in the Supreme Court of British Columbia in Canada (McKay v. Ace Aviation Holdings, et al.). The plaintiff alleges that the defendants violated Canadian competition laws by illegally conspiring to set prices and surcharges on cargo shipments. The complaint seeks compensatory and punitive damages under Canadian law. On June 22, 2007, the plaintiffs agreed to dismiss their claims against the Company. The dismissal is without prejudice and the Company could be brought back into the litigation at a future date. If litigation is recommenced against the Company in the Canadian courts, the Company will vigorously defend itself; however, any adverse judgment could have a material adverse impact on the Company.

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On June 20, 2006, DOJ served the Company with a grand jury subpoena as part of an ongoing investigation into possible criminal violations of the antitrust laws by certain domestic and foreign passenger carriers. At this time, the Company does not believe it is a target of the DOJ investigation. The Company intends to cooperate fully with this investigation. On September 4, 2007, the Attorney General of the State of Florida served the Company with a Civil Investigative Demand as part of its investigation of possible violations of federal and Florida antitrust laws regarding the pricing of air passenger transportation. In the event that this or other investigations uncover violations of the U.S. antitrust laws or the competition laws of some other jurisdiction, such findings and related legal proceedings could have a material adverse impact on the Company. Approximately 52 purported class action lawsuits have been filed in the U.S. against the Company and certain foreign and domestic air carriers alleging that the defendants violated U.S. antitrust laws by illegally conspiring to set prices and surcharges for passenger transportation. On October 25, 2006, these cases, along with other purported class action lawsuits in which the Company was not named, were consolidated in the United States District Court for the Northern District of California as In re International Air Transportation Surcharge Antitrust Litigation, Civ. No. 06-1793 (the Passenger MDL). On July 9, 2007, the Company was named as a defendant in the Passenger MDL. On August 25, 2008, the plaintiffs dismissed their claims against the Company in this action. On March 13, 2008, and March 14, 2008, an additional purported class action complaint, Turner v. American Airlines, et al., Civ. No. 08-1444 (N.D. Cal.), was filed against the Company, alleging that the Company violated U.S. antitrust laws by illegally conspiring to set prices and surcharges for passenger transportation in Japan and certain European countries, respectively. The Turner plaintiffs have failed to perfect service against the Company, and it is unclear whether they intend to pursue their claims. In the event that the Turner plaintiffs pursue their claims, the Company will vigorously defend these lawsuits, but any adverse judgment in these actions could have a material adverse impact on the Company.

On August 21, 2006, a patent infringement lawsuit was filed against American and American Beacon Advisors, Inc. (then a wholly-owned subsidiary of the Company) in the United States District Court for the Eastern District of Texas (Ronald A. Katz Technology Licensing, L.P. v. American Airlines, Inc., et al.). This case has been consolidated in the Central District of California for pre-trial purposes with numerous other cases brought by the plaintiff against other defendants. The plaintiff alleges that American infringes a number of the plaintiff s patents, each of which relates to automated telephone call processing systems. The plaintiff is seeking past and future royalties, injunctive relief, costs and attorneys fees. On December 1, 2008, the court dismissed with prejudice all claims against American Beacon. On May 22, 2009, following its granting of summary judgment to American based on invalidity and non-infringement, the court dismissed all claims against American. Plaintiff appealed, and on February 18, 2011, the Federal Circuit Court of Appeals issued a decision affirming in part and reversing in part and remanding the case back to the District Court for further proceedings. However, the plaintiff has filed a petition for a rehearing of the appeal en banc before the Federal Circuit and the parties are currently awaiting a decision on that petition. Although the Company believes that the plaintiff s claims are without merit and is vigorously defending the lawsuit, a final adverse court decision awarding substantial money damages or placing material restrictions on existing automated telephone call system operations would have a material adverse impact on the Company.

On January 10, 2011, the Company filed a lawsuit in Tarrant County, Texas State Court against Sabre alleging, among other claims, that Sabre s actions of introducing bias against the display of American s services in its global distribution system (GDS) and substantially increasing the rates that it would charge the Company for bookings made through the Sabre GDS breached its agreement with the Company. That same day, the Company successfully obtained a temporary restraining order that prohibited Sabre from continuing to bias the display of American s services. On January 23, 2011, the Company and Sabre entered into a Stand-Down Agreement, pursuant to which American agreed to suspend the litigation against Sabre, and Sabre agreed not to reintroduce biasing against American s services in its GDS and to return to the pricing in effect on January 4, 2011. The parties further agreed to enter into good faith negotiations. The Stand-Down Agreement expired on June 1, 2011. On June 8, 2011, Sabre filed counterclaims against the Company alleging that American has breached its agreement. On July 8, 2011, the Company filed new breach of contract and Texas antitrust claims in this action. The Company intends to vigorously pursue its claims, but there can be no assurance of the outcome, and if the Court does not further enjoin Sabre from introducing bias against American s services or allowing Sabre to remove American services from its system, actions taken by Sabre could have a material adverse effect on the Company.

On April 12, 2011, the Company filed an antitrust lawsuit against Travelport and Orbitz in Federal District Court for the Northern District of Texas. On June 1, 2011, the Company amended its lawsuit to add Sabre as a defendant. The lawsuit alleges that the

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defendants have engaged in anticompetitive practices to preserve their monopoly power over American s ability to distribute its products through their subscribers. The lawsuit further alleges that these actions have prevented American from employing new competing technologies and has allowed the defendants to continue to charge American supracompetitive fees. The lawsuit seeks both injunctive relief and money damages. On June 1, 2011, Sabre filed a request to intervene in this action and stated that it intended to file its own claims against American alleging that American violated the antitrust laws by withholding certain content from the Sabre GDS. In addition, all defendants have filed motions requesting that the court dismiss American s claims.

American intends to vigorously pursue these claims, but there can be no assurance of the outcome, and if the Court does not enjoin Sabre or other defendants from taking actions against American, including removing American s services from their systems, actions taken by the defendants could have a material adverse impact on the Company.

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**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 AMR s long-term debt agreements does not exceed 10 percent of AMR s assets, pursuant to paragraph (b) (4) of Item 601 of Regulation S-K, in lieu of filing such as an exhibit, AMR hereby agrees to furnish to the Commission upon request a copy of any agreement with respect to such long-term debt.

The following exhibits are included herein:

| | |
|---|---|
| 10.1 | Supplemental Agreement No. 23 to Purchase Agreement No. 1980 by and between American Airlines, Inc. and The Boeing Company dated as of April 29, 2011. Portions of this Exhibit have been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request under Rule 24b-2 of the Securities and Exchange Act of 1934, as amended. |
| 10.2 | Supplemental Agreement No. 24 to Purchase Agreement No. 1980 by and between American Airlines, Inc. and The Boeing Company dated as of May 25, 2011. Portions of this Exhibit have been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request under Rule 24b-2 of the Securities and Exchange Act of 1934, as amended. |
| 12 | Computation of ratio of earnings to fixed charges for the three and six months ended June 30, 2011 and 2010. |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a). |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a). |
| 32 | Certification pursuant to Rule 13a-14(b) and section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code). |
| 101 | The following materials from AMR Corporation s Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Operations, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.* |

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMR CORPORATION

Date: July 20, 2011

BY: /s/ Isabella D. Goren
Isabella D. Goren
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)