

Edgar Filing: AMR CORP - Form 10-Q

AMR CORP  
Form 10-Q  
October 20, 2006

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934  
For the Quarterly Period Ended September 30, 2006.

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 (State or other jurisdiction of incorporation or organization)	75-1825172 (I.R.S. Employer Identification No.)
-------------------------------------------------------------------------------------	-------------------------------------------------------

4333 Amon Carter Blvd. Fort Worth, Texas (Address of principal executive offices)	76155 (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.  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

Edgar Filing: AMR CORP - Form 10-Q

accelerated filer" in Rule 12b-2 of the Exchange Act.

x Large Accelerated Filer Accelerated Filer  
Non-accelerated Filer

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 - 214,415,972 shares as of October 13, 2006.

INDEX

AMR CORPORATION

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Statements of Operations -- Three and nine months  
ended September 30, 2006 and 2005

Condensed Consolidated Balance Sheets -- September 30, 2006 and  
December 31, 2005

Condensed Consolidated Statements of Cash Flows -- Nine months  
ended September 30, 2006 and 2005

Notes to Condensed Consolidated Financial Statements -- September  
30, 2006

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Item 4. Controls and Procedures

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

Item 6. Exhibits

SIGNATURE

# Edgar Filing: AMR CORP - Form 10-Q

## PART I: FINANCIAL INFORMATION

### Item 1. Financial Statements

#### AMR CORPORATION

#### CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
<b>Revenues</b>				
Passenger - American Airlines	\$4,657	\$4,428	\$13,621	\$12,534
- Regional Affiliates	644	570	1,915	1,582
Cargo	213	193	605	573
Other revenues	333	294	1,025	855
Total operating revenues	5,847	5,485	17,166	15,544
<b>Expenses</b>				
Wages, salaries and benefits	1,694	1,664	5,103	4,979
Aircraft fuel	1,771	1,582	4,952	4,030
Other rentals and landing fees	317	337	967	956
Depreciation and amortization	290	292	868	868
Commissions, booking fees and credit card expense	284	292	839	849
Maintenance, materials and repairs	252	269	726	761
Aircraft rentals	154	148	449	443
Food service	133	136	386	388
Other operating expenses	668	726	2,001	1,979
Total operating expenses	5,563	5,446	16,291	15,253
Operating Income	284	39	875	291
<b>Other Income (Expense)</b>				
Interest income	80	40	201	104
Interest expense	(259)	(240)	(780)	(697)
Interest capitalized	7	12	21	59
Miscellaneous - net	(97)	(4)	(103)	(14)
	(269)	(192)	(661)	(548)
Income (Loss) Before Income Taxes	15	(153)	214	(257)
Income tax	-	-	-	-
Net Earnings (Loss)	\$ 15	\$ (153)	\$ 214	\$ (257)
<b>Earnings (Loss) Per Share</b>				
Basic	\$ 0.07	\$ (0.93)	\$ 1.07	\$ (1.58)
Diluted	\$ 0.06	\$ (0.93)	\$ 0.91	\$ (1.58)

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

Edgar Filing: AMR CORP - Form 10-Q

-1-

AMR CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited) (In millions)

	September 30, 2006	December 31, 2005
Assets		
Current Assets		
Cash	\$ 114	\$ 138
Short-term investments	4,940	3,676
Restricted cash and short-term investments	464	510
Receivables, net	1,160	991
Inventories, net	506	515
Other current assets	289	334
Total current assets	7,473	6,164
Equipment and Property		
Flight equipment, net	14,614	14,843
Other equipment and property, net	2,359	2,406
Purchase deposits for flight equipment	179	278
	17,152	17,527
Equipment and Property Under Capital Leases		
Flight equipment, net	784	916
Other equipment and property, net	104	103
	888	1,019
Route acquisition costs and airport operating and gate lease rights, net		
	1,174	1,194
Other assets	3,441	3,591
	\$ 30,128	\$ 29,495
Liabilities and Stockholders' Equity (Deficit)		
Current Liabilities		
Accounts payable	\$ 1,087	\$ 1,078
Accrued liabilities	2,015	2,388
Air traffic liability	4,067	3,615
Current maturities of long-term debt	1,400	1,077
Current obligations under capital leases	106	162
Total current liabilities	8,675	8,320
Long-term debt, less current maturities	11,571	12,530
Obligations under capital leases, less current obligations	836	926
Pension and postretirement benefits	5,460	4,998
Other liabilities, deferred gains and deferred credits	4,100	4,199
Stockholders' Equity (Deficit)		
Preferred stock	-	-
Common stock	220	195
Additional paid-in capital	2,585	2,258
Treasury stock	(367)	(779)
Accumulated other comprehensive loss	(993)	(979)
Accumulated deficit	(1,959)	(2,173)
	(514)	(1,478)

Edgar Filing: AMR CORP - Form 10-Q

\$ 30,128

\$ 29,495

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

-2-

AMR CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited) (In millions)

	Nine Months Ended 2006	September 30, 2005
Net Cash Provided by Operating Activities	\$ 1,729	\$ 1,032
Cash Flow from Investing Activities:		
Capital expenditures	(348)	(586)
Net increase in short-term investments	(1,264)	(476)
Net (increase) decrease in restricted cash and short-term investments	46	(21)
Proceeds from sale of equipment and property	11	25
Other	(8)	-
Net cash used by investing activities	(1,563)	(1,058)
Cash Flow from Financing Activities:		
Payments on long-term debt and capital lease obligations	(831)	(881)
Proceeds from:		
Issuance of common stock, net of issuance costs	400	-
Reimbursement from construction reserve account	107	-
Exercise of stock options	134	19
Issuance of long-term debt	-	697
DFW Bond Remarketing	-	198
Net cash provided (used) by financing activities	(190)	33
Net increase (decrease) in cash	(24)	7
Cash at beginning of period	138	120
Cash at end of period	\$ 114	\$ 127

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

-3-

AMR CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, these financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position, results of operations and cash flows for the periods indicated. Results of operations for the periods presented herein are not necessarily indicative of results of operations for the entire year. The condensed consolidated financial statements include the accounts of AMR Corporation (AMR or the Company) and its wholly owned subsidiaries, including (i) its principal subsidiary American Airlines, Inc. (American) and (ii) its regional airline subsidiary, AMR Eagle Holding Corporation and its primary subsidiaries, American Eagle Airlines, Inc. 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 thereto included in the AMR Annual Report on Form 10-K for the year ended December 31, 2005, as amended on July 17, 2006 (2005 Form 10-K).

Cargo fuel and security surcharge revenues of \$41 million and \$113 million for the three months and nine months ended September 30, 2005 have been reclassified from Other revenues to Cargo revenues in the consolidated statement of operations to conform to the current year presentation.

2. Under the 1998 Long Term Incentive Plan, as amended (the 1998 LTIP), officers and key employees of AMR and its subsidiaries may be granted stock options, stock appreciation rights (SARs), restricted stock, deferred stock, stock purchase rights, other stock-based awards and/or performance-related awards, including cash bonuses. The total number of common shares authorized for distribution under the 1998 Long Term Incentive Plan is 23.7 million shares (after giving effect to a one-for-one stock dividend

## Edgar Filing: AMR CORP - Form 10-Q

in 1998 and the dividend of shares of The Sabre Group, Inc. via a spin-off in 2000). The 1998 LTIP, the successor to the 1988 Long Term Incentive Plan (1988 LTIP), will terminate no later than May 21, 2008.

In 2003, the Company established the 2003 Employee Stock Incentive Plan (the 2003 Plan) to provide, among other things, equity awards to employees as part of the 2003 restructuring process. Under the 2003 Plan, employees may be granted stock options, restricted stock and deferred stock. As of April 19, 2006, no additional shares were available for distribution under the 2003 Plan.

Options granted under the 1988 LTIP, 1998 LTIP and the 2003 Plan are awarded with an exercise price equal to the fair market value of the stock on date of grant, become exercisable in equal annual installments over periods ranging from two to five years following the date of grant and expire no later than ten years from the date of grant. As of September 30, 2006, approximately 4.0 million options/SARs outstanding under the 1998 LTIP and 2003 Plan had not vested.

Prior to January 1, 2006, the Company accounted for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations. Under APB 25, no compensation expense was recognized for stock option grants if the exercise price of the Company's stock option grants was at or above the fair market value of the underlying stock on the date of grant. Effective January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" (SFAS 123(R)) using the modified-prospective transition method. Under this transition method, compensation cost recognized in 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant-date fair value used for pro forma disclosures and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Results for prior periods have not been restated.

-4-

AMR CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
(Unaudited)

As a result of adopting SFAS 123(R), the Company's net income for the three months and nine months ended September 30, 2006, was \$5 million and \$21 million lower than if the Company had continued to account for share-based compensation for stock options under APB 25. Basic and diluted earnings per share for the three months ended September 30, 2006 were \$0.02 lower than if the Company had continued to account for share-based compensation for stock options under APB 25. Basic and diluted earnings per share for the nine months ended September 30, 2006 were \$0.10 and \$0.08 lower, respectively, than if the Company had continued to account for share-based compensation for stock options under APB 25.

Prior to January 1, 2006, the Company had adopted the pro forma

## Edgar Filing: AMR CORP - Form 10-Q

disclosure features of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), as amended by Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." The following table illustrates the effect on net earnings (loss) and earnings (loss) per share amounts if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation (in millions, except per share amounts):

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net earnings (loss), as reported	\$ (153)	\$ (257)
Add: Stock-based employee compensation expense included in reported net earnings (loss)	8	26
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards	(22)	(70)
Pro forma net earnings (loss)	\$ (167)	\$ (301)
Loss per share:		
Basic and diluted - as reported	\$(0.93)	\$(1.58)
Basic and diluted - pro forma	\$(1.02)	\$(1.85)

On March 29, 2006, the AMR Board of Directors amended and restated the 2003-2005 Performance Share Plan for Officers and Key Employees, the 2004-2006 Performance Share Plan for Officers and Key Employees, and the 2004 Agreements for Deferred Shares (collectively, the Amended Plans). Before amendment, the plans allowed for settlement only in cash. The plans were amended to permit settlement in a combination of cash and/or stock; however, the amendments did not impact the fair value of the obligations under the three Amended Plans. The Company anticipates using all currently available shares under the 1998 LTIP and the 2003 Plan to satisfy obligations under the three Amended Plans, but, based on current estimates, a portion of the obligations will be settled in cash. The Company will account for these obligations prospectively as a combination of liability and equity grants. In accordance with SFAS 123(R), the Company reclassified \$187 million from Accrued liabilities to Additional paid-in capital, representing the vested portions of the current estimated fair value of obligations under all three of the Amended Plans that have been settled or are expected to be settled with stock.



## Edgar Filing: AMR CORP - Form 10-Q

AMR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

3. As of September 30, 2006, the Company had commitments to acquire an aggregate of 47 Boeing 737-800s and seven Boeing 777-200ERs in 2013 through 2016. Future payments for all aircraft, including the estimated amounts for price escalation, will be approximately \$2.8 billion in 2011 through 2016.
4. Accumulated depreciation of owned equipment and property at September 30, 2006 and December 31, 2005 was \$11.0 billion and \$10.4 billion, respectively. Accumulated amortization of equipment and property under capital leases was \$1.1 billion at September 30, 2006 and December 31, 2005.
5. As discussed in Note 8 to the consolidated financial statements in the 2005 Form 10-K, the Company has a valuation allowance against the full amount of its net deferred tax asset. The Company's deferred tax asset valuation allowance decreased \$72 million during the nine months ended September 30, 2006 to \$1.3 billion as of September 30, 2006.
6. As of September 30, 2006, AMR has issued guarantees covering approximately \$1.7 billion of American's tax-exempt bond debt and American's fully drawn \$751 million credit facility. American has issued guarantees covering approximately \$1.1 billion of AMR's unsecured debt. In addition, as of September 30, 2006, AMR and American have issued guarantees covering approximately \$388 million of AMR Eagle's secured debt and AMR has issued guarantees covering an additional \$2.7 billion of AMR Eagle's secured debt.

On March 27, 2006, American refinanced its bank credit facility. In general, the new credit facility adjusted the amounts borrowed under the senior secured revolving credit facility and the senior secured term loan facility, reduced the overall interest rate on the combined credit facility and favorably modified certain debt covenant requirements.

-6-

AMR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

7. The following tables provide the components of net periodic benefit cost for the three and nine months ended September 30, 2006 and 2005 (in millions):

		Pension Benefits	
		Three Months Ended	Nine Months Ended
		September 30,	September 30,
		2006	2005
		2006	2005

Components of net periodic benefit cost

Edgar Filing: AMR CORP - Form 10-Q

Service cost	\$ 100	\$ 93	\$ 299	\$ 278
Interest cost	160	152	481	457
Expected return on assets	(167)	(164)	(502)	(493)
Amortization of:				
Prior service cost	4	4	12	12
Unrecognized net loss	20	13	60	39
Net periodic benefit cost	\$ 117	\$ 98	\$ 350	\$ 293

Other Postretirement Benefits				
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2006		2005	

Components of net periodic benefit cost

Service cost	\$ 20	\$ 19	\$ 58	\$ 56
Interest cost	49	49	145	148
Expected return on assets	(3)	(3)	(11)	(10)
Amortization of:				
Prior service cost	(2)	(2)	(7)	(7)
Unrecognized net loss	-	-	1	1
Net periodic benefit cost	\$ 64	\$ 63	\$ 186	\$ 188

The Company contributed \$184 million to its defined benefit pension plans during the nine month period ended September 30, 2006, and completed its required 2006 calendar year funding by contributing an additional \$39 million on October 13, 2006.

The Company expects to contribute approximately \$364 million to its defined benefit pension plans in 2007. The Company's estimates of its defined benefit pension plan contributions reflect the provisions of the Pension Funding Equity Act of 2004 and the Pension Protection Act of 2006.

-7-

AMR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
(Unaudited)

8. As a result of the events of September 11, 2001, the depressed revenue environment, high fuel prices and the Company's restructuring activities, the Company has recorded a number of charges during the last few years. The following table summarizes the changes since December 31, 2005 in the remaining accruals for these charges (in millions):

	Aircraft Charges	Facility Exit Costs	Total
Remaining accrual at December 31, 2005	\$ 152	\$ 36	\$ 188
Adjustments	(6)	(16)	(22)
Payments	(18)	(1)	(19)
Remaining accrual at			

Edgar Filing: AMR CORP - Form 10-Q

September 30, 2006      \$ 128                      \$ 19                      \$ 147

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

9. The Company includes changes in the fair value of certain derivative financial instruments that qualify for hedge accounting, changes in minimum pension liabilities and unrealized gains and losses on available-for-sale securities in comprehensive income (loss). For the three months ended September 30, 2006 and 2005, comprehensive income (loss) was \$(31) million and \$(121) million, respectively, and for the nine months ended September 30, 2006 and 2005, comprehensive income (loss) was \$200 million and \$(168) million, respectively. The difference between net earnings (loss) and comprehensive income (loss) for the three and nine months ended September 30, 2006 and 2005 is due primarily to the accounting for the Company's derivative financial instruments.

Ineffectiveness is inherent in hedging jet fuel with derivative positions based in crude oil or other crude oil related commodities. As required by Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), the Company assesses, both at the inception of each hedge and on an on-going basis, whether the derivatives that are used in its hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. The Company discontinues hedge accounting prospectively if it determines that a derivative is no longer expected to be highly effective as a hedge or if it decides to discontinue the hedging relationship. As a result of its second quarter effectiveness assessment, the Company determined that the majority of its derivatives settling during the remainder of 2006 and in 2007 are no longer expected to be highly effective in offsetting changes in forecasted jet fuel purchases. As a result, effective on July 1, 2006, all subsequent changes in the fair value of those particular derivative contracts are being recognized directly in earnings rather than being deferred in Accumulated other comprehensive loss. For the three month period ended September 30, 2006, a charge of \$99 million was recognized in Other income (expense) reflecting the change in market value of the derivative contracts that no longer qualify for hedge accounting. While no longer deemed highly effective, on an economic basis, these derivatives will continue to largely offset potential changes in the price of jet fuel. Hedge accounting will continue to be applied to derivatives used to hedge forecasted jet fuel purchases that are expected to remain highly effective.

-8-

## Edgar Filing: AMR CORP - Form 10-Q

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		Nine Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Numerator:				
Net earnings (loss) - numerator for basic earnings (loss) per share	\$ 15	\$(153)	\$ 214	\$(257)
Interest on senior convertible notes	-	-	20	-
Net earnings (loss) adjusted for interest on senior convertible notes - numerator for diluted earnings (loss) per share	\$ 15	\$(153)	\$ 234	\$(257)
Denominator:				
Denominator for basic earnings (loss) per share - weighted-average shares	213	164	201	163
Effect of dilutive securities:				
Senior convertible notes	-	-	32	-
Employee options and shares	41	-	44	-
Assumed treasury shares purchased	(17)	-	(18)	-
Dilutive potential common shares	24	-	58	-
Denominator for diluted earnings (loss) per share - adjusted weighted-average shares	237	164	259	163
Basic earnings (loss) per share	\$ 0.07	\$(0.93)	\$ 1.07	\$(1.58)
Diluted earnings (loss) per	\$ 0.06	\$(0.93)	\$ 0.91	\$(1.58)

Approximately 13 million shares related to employee stock options were not added to the denominator for the three months ended September 30, 2006 because the options' exercise prices were greater than the average market price of the common shares. Additionally, approximately 32 million shares related to convertible notes were not added to the denominator for the three months ended September 30, 2006 because inclusion of such shares would be antidilutive. Approximately 82 million shares issuable upon conversion of the Company's convertible notes, employee stock options and deferred stock were not added to the denominator for the three months ended September 30, 2005 because inclusion of such shares would be antidilutive.

For the nine months ended September 30, 2006, approximately 12 million shares related to employee stock options were not added to the denominator because the options' exercise prices were greater than the average market price of the common shares. Approximately 82 million shares issuable upon conversion of the Company's convertible notes, employee stock options and deferred stock were not added to the denominator for the nine months ended September

## Edgar Filing: AMR CORP - Form 10-Q

30, 2005 because inclusion of such shares would be antidilutive.

-9-

AMR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
(Unaudited)

11. On September 29, 2006, the Financial Accounting Standards Board (FASB) issued FASB Standard No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)". The standard, among other things, requires the Company to:
- Recognize the funded status of the Company's defined benefit plans in its consolidated financial statements.
  - Recognize as a component of Other comprehensive loss the actuarial gains and losses and the prior service costs and credits that arise during the period but are not immediately recognized as components of net periodic benefit cost.

The standard is effective for fiscal years ending after December 15, 2006. As of December 31, 2005, the required adjustment to the Company's balance sheet would increase the liability for pension and postretirement benefits and increase Accumulated other comprehensive loss by approximately \$1.0 billion.

On September 8, 2006, the FASB issued FASB Staff Position AUG AIR-1 (the FSP), "Accounting for Planned Major Maintenance Activities", that reduces the number of acceptable methods of accounting for planned major maintenance activities. Under the FSP, AMR Eagle would be required to change its method of accounting for some planned maintenance activities for certain aircraft types by eliminating a \$52 million accrual for future maintenance costs. The FSP is applicable to fiscal years beginning after December 15, 2006 and requires retrospective application to all financial statements presented in the Company's filings.

-10-

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

Forward-Looking Information

Statements in this report contain various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which represent the Company's expectations or beliefs concerning future events. When used in this document and in documents incorporated herein by reference, the words "expects," "plans,"

## Edgar Filing: AMR CORP - Form 10-Q

"anticipates," "indicates," "believes," "forecast," "guidance," "outlook," "may," "will," "should," and similar expressions are intended to identify forward-looking statements. Similarly, statements that describe the Company's objectives, plans or goals 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, overall economic and industry conditions, plans and objectives for future operations, and the impact on the Company of its results of operations in recent years and the sufficiency of its financial resources to absorb that impact. Other forward-looking statements include statements which do not relate solely to historical facts, such as, without limitation, statements which discuss the possible future effects of current known trends or uncertainties, or which indicate that the future effects of known trends or uncertainties cannot be predicted, guaranteed or assured. All forward-looking statements in this report are based upon information available to the Company on the date of this report. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

Forward-looking statements are subject to a number of factors that could cause the Company's actual results to differ materially from the Company's expectations. The following factors, in addition to other possible factors not listed, could cause the Company's actual results to differ materially from those expressed in forward-looking statements: the materially weakened financial condition of the Company, resulting from its significant losses in recent years; the ability of the Company to generate additional revenues and significantly reduce its costs; changes in economic and other conditions beyond the Company's control, and the volatile results of the Company's operations; the Company's substantial indebtedness and other obligations; the ability of the Company to satisfy existing financial or other covenants in certain of its credit agreements; continued high fuel prices and further increases in the price of fuel, and the availability of fuel; the fiercely competitive business environment faced by the Company, and historically low fare levels; competition with reorganized and reorganizing carriers; the Company's reduced pricing power; the Company's likely need to raise additional funds and its ability to do so on acceptable terms; changes in the Company's business strategy; 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 or avian flu) that affects travel behavior; 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; changes in the price of the Company's common stock; and the ability of the Company to reach acceptable agreements with third parties. Additional information concerning these and other factors is contained in the Company's Securities and Exchange Commission filings, including but not limited to the Company's 2005 Form 10-K (see in particular Item 1A "Risk Factors" in the 2005 Form 10-K).

### Overview

The Company recorded net earnings of \$15 million during the third quarter of 2006 compared to a loss of \$153 million in the same period

## Edgar Filing: AMR CORP - Form 10-Q

last year. The Company's third quarter 2006 results were impacted by an improvement in unit revenues (passenger revenue per available seat mile), offset by the continuing year-over-year increase in fuel prices (although fuel prices moderated toward the end of the quarter) and a \$99 million charge to mark to market certain derivatives that no longer qualify for hedge accounting under SFAS 133 (see Note 9 to the condensed consolidated financial statements and the discussion below).

-11-

Mainline passenger unit revenues increased 7.7 percent for the third quarter due to a 0.5 point load factor increase and a 7.0 percent increase in passenger yield (passenger revenue per passenger mile) compared to the same period in 2005. Passenger yield showed significant year-over-year improvement as American has been successful in implementing limited fare increases to partially offset the continuing rise in the cost of fuel; however, passenger yield remains depressed by historical standards. The Company believes this depressed passenger yield is due in large part to a corresponding decline in the Company's pricing power. The Company's reduced pricing power is the product of several factors, including: greater cost sensitivity on the part of travelers (particularly business travelers); pricing transparency resulting from the use of the Internet; greater competition from low-cost carriers and from carriers that have recently reorganized or are reorganizing, including under the protection of Chapter 11 of the U.S. Bankruptcy Code; other carriers that are better hedged against rising fuel costs and able to better absorb the current high jet fuel prices; and fare simplification efforts by certain carriers. The Company believes that its reduced pricing power will persist indefinitely and possibly permanently.

The price of jet fuel increased by 28.2 cents per gallon compared to the third quarter of 2005. This price increase negatively impacted fuel expense by \$231 million during the quarter based on fuel consumption of 817 million gallons. Continuing high fuel prices, additional increases in the price of fuel, and/or disruptions in the supply of fuel would further adversely affect the Company's financial condition and its results of operations.

As a result of its second quarter effectiveness assessment, the Company determined that more than 65 percent of its derivatives, based on market value, settling during the remainder of 2006 and in 2007 are no longer expected to be highly effective in offsetting changes in forecasted jet fuel purchases. These contracts had previously risen significantly in value and on June 30, 2006 had a market value of approximately \$133 million. As a result of the ineffectiveness assessment on these derivatives, changes in market value subsequent to June 30, 2006 are recognized directly in earnings (\$99 million charge as a component of Other income (expense) in the third quarter of 2006), while previously deferred gains in Other comprehensive loss will continue to be deferred and recognized as a component of fuel expense when the originally hedged jet fuel is used in operations. While no longer deemed highly effective, on an economic basis, these derivatives will continue to largely offset potential changes in the price of jet fuel.

The Company's ability to become consistently profitable and its

## Edgar Filing: AMR CORP - Form 10-Q

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. Some of the risk factors that affect the Company's business and financial results are referred to under "Forward-Looking Information" above and are discussed in the Risk Factors listed in Item 1A (on pages 11-16) in the 2005 Form 10-K. As the Company seeks to improve its financial condition, it must continue to take steps to generate additional revenues and to significantly reduce its costs. Although the Company has a number of initiatives underway to address its cost and revenue challenges, the ultimate success of these initiatives is not known at this time and cannot be assured. It will be very difficult, absent continued restructuring of its operations, for the Company to continue to fund its obligations on an ongoing basis, or to become consistently profitable, if the overall industry revenue environment does not continue to improve and fuel prices remain at historically high levels for an extended period.

On October 13, 2006, the Wright Amendment Reform Act of 2006 (the Act) was signed into law by the President. The Act is based on an agreement by the cities of Dallas and Fort Worth, Texas, DFW International Airport, Southwest Airlines, Inc., and the Company to modify the Wright Amendment, which authorizes certain flight operations at Dallas Love Field within limited geographic areas. Among other things, the Act eventually eliminates domestic geographic restrictions on operations while limiting the maximum number of gates at Love Field. The Company believes the Act is a pragmatic resolution of the issues related to the Wright Amendment and the use of Love Field.

-12-

### LIQUIDITY AND CAPITAL RESOURCES

#### Significant Indebtedness and Future Financing

The Company remains heavily indebted and has significant obligations (including substantial pension funding obligations), as described more fully under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2005 Form 10-K. As of the date of this Form 10-Q, the Company believes it should have sufficient liquidity to fund its operations for the foreseeable future, including repayment of debt and capital leases, capital expenditures and other contractual obligations. However, to maintain sufficient liquidity as the Company continues to implement its restructuring and cost reduction initiatives, and because the Company has significant debt, lease and other obligations in the next several years, as well as substantial pension funding obligations, the Company will likely need access to additional funding. The Company's possible financing sources primarily include: (i) a limited amount of additional secured aircraft debt (a very large majority of the Company's owned aircraft, including virtually all of the Company's Section 1110-eligible aircraft, are encumbered) or sale-leaseback transactions involving owned aircraft; (ii) debt secured by new aircraft deliveries; (iii) debt secured by other assets; (iv) securitization of future operating receipts; (v) the sale or monetization of certain assets; (vi) unsecured debt; and (vii) equity and/or equity-like securities. However, the availability and level of these financing sources cannot be assured, particularly in light of the Company's and American's recent financial results,



## Edgar Filing: AMR CORP - Form 10-Q

substantial indebtedness, reduced credit ratings, high fuel prices, historically weak revenues and the financial difficulties being experienced in the airline industry. The inability of the Company to obtain any necessary funding on acceptable terms would have a material adverse impact on the ability of the Company to sustain its operations over the long-term.

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

### Credit Facility Covenants

American has a credit facility (the Credit Facility) consisting of a fully drawn \$305 million senior secured revolving credit facility with a final maturity on June 17, 2009 and a fully drawn \$446 million term loan facility with a final maturity on December 17, 2010. The Credit Facility contains a covenant (the Liquidity Covenant) requiring American to maintain, as defined, unrestricted cash, unencumbered short term investments and amounts available for drawing under committed revolving credit facilities of not less than \$1.25 billion for each quarterly period through the life of the Credit Facility. In addition, the Credit Facility contains a covenant (the EBITDAR Covenant) requiring AMR to maintain a ratio of cash flow (defined as consolidated net income, before interest expense (less capitalized interest), income taxes, depreciation and amortization and rentals, adjusted for certain gains or losses and non-cash items) to fixed charges (comprising interest expense (less capitalized interest) and rentals). The required ratio was 1.10 to 1.00 for the four quarter period ending September 30, 2006 and will increase gradually to 1.50 to 1.00 for the four quarter period ending June 30, 2009 and for each four quarter period ending on each fiscal quarter thereafter. AMR and American were in compliance with the Liquidity Covenant and the EBITDAR covenant as of September 30, 2006 and expect to be able to continue to comply with these covenants. However, given the historically high price of fuel and the volatility of fuel prices and revenues, it is difficult to assess whether AMR and American will, in fact, be able to continue to comply with the Liquidity Covenant and, in particular, the EBITDAR Covenant, and there are no assurances that AMR and American will be able to comply with these covenants. Failure to comply with these covenants would result in a default under the Credit Facility which - - if the Company did not take steps to obtain a waiver of, or otherwise mitigate, the default - - could result in a default under a significant amount of the Company's other debt and lease obligations and otherwise adversely affect the Company.

#### Pension Funding Obligation

The Company contributed \$184 million to its defined benefit pension plans during the nine months ended September 30, 2006 and completed its required 2006 calendar year funding by contributing an additional \$39 million on October 13, 2006.

The Company expects to contribute approximately \$364 million to its defined benefit pension plans in 2007. The Company's estimates of its defined benefit pension plan contributions reflect the provisions of the Pension Funding Equity Act of 2004 and the Pension Protection Act of 2006.

#### Cash Flow Activity

At September 30, 2006, the Company had \$5.1 billion in unrestricted cash and short-term investments, an increase of \$1.2 billion from December 31, 2005. Net cash provided by operating activities in the nine-month period ended September 30, 2006 was \$1.7 billion, an increase of \$697 million over the same period in 2005. The increase was primarily the result of improved economic conditions which allowed the industry to increase fare levels. The Company contributed \$184 million to its defined benefit pension plans in the first nine months of 2006 compared to \$288 million during the first nine months of 2005.

Capital expenditures for the first nine months of 2006 were \$348 million and primarily included the acquisition of two Boeing 777-200ER aircraft and the cost of improvements at New York's John F. Kennedy airport (JFK). Substantially all of the Company's construction costs at JFK are being reimbursed through a fund established from a previous financing transaction.

During the second quarter of 2006, the Company completed a public offering of 15,002,091 shares of its common stock. The Company realized \$400 million from the equity sale.

-14-

#### RESULTS OF OPERATIONS

For the Three Months Ended September 30, 2006 and 2005

##### Revenues

The Company's revenues increased approximately \$362 million, or 6.6 percent, to \$5.8 billion in the third quarter of 2006 compared to the same period in 2005. American's passenger revenues increased by 5.2 percent, or \$229 million, on a capacity (available seat mile) (ASM)

## Edgar Filing: AMR CORP - Form 10-Q

decrease of 2.4 percent. American's passenger load factor increased 0.5 points to 81.7 percent and passenger revenue yield per passenger mile increased by 7.0 percent to 12.80 cents. This resulted in an increase in American's passenger revenue per available seat mile (RASM) of 7.7 percent to 10.46 cents. Following is additional information regarding American's domestic and international RASM and capacity based on geographic areas defined by the Department of Transportation (DOT):

	Three Months Ended September 30, 2006			
	RASM	Y-O-Y	ASMs	Y-O-Y
	(cents)	Change	(billions)	Change
DOT Domestic	10.2	7.8%	28.2	(5.0)%
International	11.0	7.1	16.4	2.5
DOT Latin America	11.2	13.1	7.3	(3.1)
DOT Atlantic	11.4	1.9	6.9	3.6
DOT Pacific	9.0	8.0	2.2	21.3

The Company's Regional Affiliates include two wholly owned subsidiaries, American Eagle Airlines, Inc. and Executive Airlines, Inc. (collectively, AMR Eagle), and two independent carriers with which American has capacity purchase agreements, Trans States Airlines, Inc. (Trans States) and Chautauqua Airlines, Inc. (Chautauqua).

Regional Affiliates' passenger revenues, which are based on industry standard proration agreements for flights connecting to American flights, increased \$74 million, or 13.0 percent, to \$644 million as a result of increased capacity, load factors and passenger yield. Regional affiliates' traffic increased 8.0 percent to 2.6 billion revenue passenger miles (RPMs), while capacity increased 4.5 percent to 3.5 billion ASMs, resulting in a 2.5 point increase in the passenger load factor to 74.2 percent.

Cargo revenues increased 10.4 percent, or \$20 million, to \$213 million primarily as a result of a \$13 million increase in mail revenue and an \$8 million increase in fuel surcharges.

Other revenues increased 13.3 percent, or \$39 million, to \$333 million due in part to increased third-party maintenance contracts obtained by the Company's maintenance and engineering group and increases in certain passenger fees.

### Operating Expenses

The Company's total operating expenses increased 2.1 percent, or \$117 million, to \$5.6 billion in the third quarter of 2006 compared to the third quarter of 2005. American's mainline operating expenses per ASM in the third quarter of 2006 increased 3.8 percent compared to the third quarter of 2005 to 11.02 cents. These increases are due primarily to a 15.0 percent increase in American's price per gallon of fuel in the third quarter of 2006 relative to the third quarter of 2005. The Company's operating and financial results are significantly affected by the price of jet fuel. Continuing high fuel prices, additional increases in the price of fuel, or disruptions in the supply of fuel, would further adversely affect the Company's financial condition and results of operations.

The Company's 2005 third quarter operating expenses were impacted by an \$80 million charge for the termination of a contract and a \$22 million credit for the reversal of an insurance reserve.

-15-

(in millions)	Three Months Ended September 30, 2006	Increase/ (Decrease) from 2005	Percentage Change	
Operating Expenses				
Wages, salaries and benefits	\$ 1,694	\$ 30	1.8%	
Aircraft fuel	1,771	189	11.9	(a)
Other rentals and landing fees	317	(20)	(5.9)	
Depreciation and amortization	290	(2)	(0.7)	
Commissions, booking fees and credit card expense	284	(8)	(2.7)	
Maintenance, materials and repairs	252	(17)	(6.3)	
Aircraft rentals	154	6	4.1	
Food service	133	(3)	(2.2)	
Other operating expenses	668	(58)	(8.0)	(b)
Total operating expenses	\$ 5,563	\$ 117	2.1%	

(a) Aircraft fuel expense increased primarily due to a 15.0 percent increase in American's price per gallon of fuel (including the impact of fuel hedging), partially offset by a 2.9 percent decrease in American's fuel consumption.

(b) Other operating expenses decreased primarily due to a 2005 charge of \$80 million related to the termination of a contract, which was partially offset by a \$22 million credit for the reversal of an insurance reserve.

#### Other Income (Expense)

Other income (expense), historically a net expense, increased \$77 million due primarily to the impact of the Company's ineffective fuel derivatives as discussed in Note 9 to the condensed consolidated financial statements. Both interest income and interest expense increased during 2006 versus 2005. Interest income increased due to increases in interest rates and cash and short-term investment balances. Interest expense increased due to an increase in interest rates on variable rate debt instruments.

#### Income Tax

The Company did not record a net tax provision (benefit) associated with its third quarter 2006 and 2005 earnings (losses) due to the Company providing a valuation allowance, as discussed in Note 5 to the condensed consolidated financial statements.

-16-

## Edgar Filing: AMR CORP - Form 10-Q

### Operating Statistics

The following table provides statistical information for American and Regional Affiliates for the three months ended September 30, 2006 and 2005.

	Three Months Ended September 30,	
	2006	2005
American Airlines, Inc. Mainline Jet Operations		
Revenue passenger miles (millions)	36,382	37,025
Available seat miles (millions)	44,532	45,613
Cargo ton miles (millions)	557	539
Passenger load factor	81.7%	81.2%
Passenger revenue yield per passenger mile (cents)	12.80	11.96
Passenger revenue per available seat mile (cents)	10.46	9.71
Cargo revenue yield per ton mile (cents)	38.32	36.03
Operating expenses per available seat mile, excluding Regional Affiliates (cents) (*)	11.02	10.62
Fuel consumption (gallons, in millions)	741	763
Fuel price per gallon (cents)	215.8	187.6
Operating aircraft at period-end	699	727
Regional Affiliates		
Revenue passenger miles (millions)	2,578	2,386
Available seat miles (millions)	3,475	3,326
Passenger load factor	74.2%	71.7%

(\*) Excludes \$702 million and \$650 million of expense incurred related to Regional Affiliates in 2006 and 2005, respectively.

Operating aircraft at September 30, 2006, included:

American Airlines Aircraft		AMR Eagle Aircraft	
Airbus A300-600R	34	Bombardier CRJ-700	25
Boeing 737-800	77	Embraer 135	39
Boeing 757-200	142	Embraer 140	59
Boeing 767-200 Extended Range	15	Embraer 145	108
Boeing 767-300 Extended Range	58	Super ATR	41
Boeing 777-200 Extended Range	46	Saab 340B/340B Plus	37
McDonnell Douglas MD-80	327	Total	309
Total	699		

The average aircraft age for American's and AMR Eagle's aircraft is 13.7 years and 7.2 years, respectively.

Of the operating aircraft listed above, 24 McDonnell Douglas MD-80 aircraft - - 12 owned and 12 operating leased - - and eleven operating leased Saab 340B Plus aircraft were in temporary storage as of September 30, 2006.

## Edgar Filing: AMR CORP - Form 10-Q

Owned and leased aircraft not operated by the Company at September 30, 2006, included:

American Airlines Aircraft		AMR Eagle Aircraft	
Boeing 777-200 Extended Range	1	Embraer 145	10
Boeing 757-200	1	Saab 340B	37
Boeing 767-200	2	Total	47
Boeing 767-200 Extended Range	3		
Fokker 100	4		
McDonnell Douglas MD-80	26		
Total	37		

American leased its Boeing 777-200ER not operated by the Company to The Boeing Company through January 2007.

AMR Eagle has leased its 10 owned Embraer 145s that are not operated by AMR Eagle to Trans States Airlines, Inc.

For the Nine Months Ended September 30, 2006 and 2005

### Revenues

The Company's revenues increased approximately \$1.6 billion, or 10.4 percent, to \$17.2 billion for the nine months ended September 30, 2006 from the same period last year. American's passenger revenues increased 8.7 percent, or \$1.1 billion, while capacity (ASM) decreased by 1.2 percent. American's passenger load factor increased 1.8 points to 80.6 percent and passenger revenue yield per passenger mile increased by 7.5 percent to 12.82 cents. This resulted in an increase in American's passenger RASM of 10.0 percent to 10.33 cents. Following is additional information regarding American's domestic and international RASM and capacity based on geographic areas defined by the DOT:

	Nine Months Ended September 30, 2006			
	RASM (cents)	Y-O-Y Change	ASMs (billions)	Y-O-Y Change
DOT Domestic	10.3	11.4%	84.2	(3.6)%
International	10.3	7.4	47.7	3.3
DOT Latin America	10.7	13.8	22.3	(2.9)
DOT Atlantic	10.5	2.7	19.1	5.4
DOT Pacific	8.4	1.3	6.3	23.1

Regional Affiliates' passenger revenues, which are based on industry standard proration agreements for flights connecting to American flights, increased \$333 million, or 21.0 percent, to \$1.9 billion as a result of increased capacity, load factors and passenger yield. Regional Affiliates' traffic increased 14.2 percent to 7.5 billion revenue passenger miles (RPMs), while capacity increased 7.6 percent to 10.2 billion ASMs, resulting in a 4.3 point increase in the passenger load factor to 74.0 percent.

Cargo revenues increased 5.6 percent, or \$32 million, to \$605 million as a result of a \$28 million increase in fuel surcharges.

Other revenues increased 19.9 percent, or \$170 million, to \$1.0 billion due in part to increased third-party maintenance contracts obtained by the Company's maintenance and engineering group and

## Edgar Filing: AMR CORP - Form 10-Q

increases in certain passenger fees.

-18-

### Operating Expenses

The Company's total operating expenses increased 6.8 percent, or \$1.0 billion, to \$16.3 billion for the nine months ended September 30, 2006 compared to the same period in 2005. American's mainline operating expenses per ASM in the nine months ended September 30, 2006 increased 7.3 percent compared to the same period in 2005 to 10.90 cents. These increases are due primarily to a 25.8 percent increase in American's price per gallon of fuel in 2006 relative to the same period in 2005, including the impact of a \$55 million fuel excise tax refund received in March 2005.

(in millions)	Nine Months Ended September 30, 2006	Increase/ (Decrease) from 2005	Percentage Change
Operating Expenses			
Wages, salaries and benefits	\$ 5,103	\$ 124	2.5%
Aircraft fuel	4,952	922	22.9 (a)
Other rentals and landing fees	967	11	1.2
Depreciation and amortization	868	-	-
Commissions, booking fees and credit card expense	839	(10)	(1.2)
Maintenance, materials and repairs	726	(35)	(4.6)
Aircraft rentals	449	6	1.4
Food service	386	(2)	(0.5)
Other operating expenses	2,001	22	1.1
Total operating expenses	\$ 16,291	\$1,038	6.8%

(a) Aircraft fuel expense increased primarily due to a 25.8 percent increase in American's price per gallon of fuel (including the benefit of a \$55 million fuel excise tax refund received in March 2005 and the impact of fuel hedging), partially offset by a 2.6 percent decrease in American's fuel consumption.

### Other Income (Expense)

Other income (expense), historically a net expense, increased \$113 million due primarily to the impact of the Company's ineffective fuel derivatives as discussed in Note 9 to the condensed consolidated financial statements. Both interest income and interest expense increased during 2006 versus 2005. Interest income increased due to increases in interest rates and cash and short-term investment balances. Interest expense increased due to an increase in interest rates on variable rate debt instruments.

### Income Tax

## Edgar Filing: AMR CORP - Form 10-Q

The Company did not record a net tax provision (benefit) associated with its earnings (losses) for the nine months ended September 30, 2006 and 2005 due to the Company providing a valuation allowance, as discussed in Note 5 to the condensed consolidated financial statements.

-19-

### Operating Statistics

The following table provides statistical information for American and Regional Affiliates for the nine months ended September 30, 2006 and 2005.

	Nine Months Ended September 30,	
	2006	2005
<b>American Airlines, Inc. Mainline Jet Operations</b>		
Revenue passenger miles (millions)	106,253	105,147
Available seat miles (millions)	131,883	133,485
Cargo ton miles (millions)	1,640	1,636
Passenger load factor	80.6%	78.8%
Passenger revenue yield per passenger mile (cents)	12.82	11.92
Passenger revenue per available seat mile (cents)	10.33	9.39
Cargo revenue yield per ton mile (cents)	36.88	35.02
Operating expenses per available seat mile, excluding Regional Affiliates (cents) (*)	10.90	10.16
Fuel consumption (gallons, in millions)	2,183	2,242
Fuel price per gallon (cents) (**)	205.0	162.9
<b>Regional Affiliates</b>		
Revenue passenger miles (millions)	7,522	6,588
Available seat miles (millions)	10,168	9,452
Passenger load factor	74.0%	69.7%

(\*) Excludes \$2.0 billion and \$1.9 billion of expense incurred related to Regional Affiliates in 2006 and 2005, respectively.

(\*\*) Includes the benefit of 2.5 cents per gallon impact from the \$55 million fuel excise tax refund in 2005.

### Outlook

The Company currently expects fourth quarter mainline unit costs to decrease more than four percent year over year. Capacity for American's mainline jet operations in the fourth quarter is expected to decrease approximately 0.5 percent year over year.

-20-

### 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 2005 Form 10-K. The



## Edgar Filing: AMR CORP - Form 10-Q

change in market risk for aircraft fuel is discussed below for informational purposes due to the sensitivity of the Company's financial results to changes in fuel prices.

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

**Aircraft Fuel** The Company's earnings are affected by changes in the price and availability of aircraft fuel. In order to provide a measure of control over price and supply, the Company trades and ships fuel and maintains fuel storage facilities to support its flight operations. The Company also manages the price risk of fuel costs primarily by using jet fuel, heating oil, and crude oil hedging contracts. Market risk is estimated as a hypothetical 10 percent increase in the September 30, 2006 cost per gallon of fuel. Based on projected 2006 and 2007 fuel usage through September 30, 2007, such an increase would result in an increase to aircraft fuel expense of approximately \$579 million in the twelve months ended September 30, 2007, inclusive of the impact of effective fuel hedge instruments outstanding at September 30, 2006. Comparatively, based on projected 2006 fuel usage, such an increase would have resulted in an increase to aircraft fuel expense of approximately \$528 million in the twelve months ended December 31, 2006, inclusive of the impact of effective fuel hedge instruments outstanding at December 31, 2005. The change in market risk is primarily due to the increase in fuel prices.

Ineffectiveness is inherent in hedging jet fuel with derivative positions based in crude oil or other crude oil related commodities. As required by Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities", the Company assesses, both at the inception of each hedge and on an 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. The Company discontinues hedge accounting prospectively if it determines that a derivative is no longer expected to be highly effective as a hedge or if it decides to discontinue the hedging relationship. As a result of its second quarter effectiveness assessment, the Company determined that more than 65 percent of its derivatives, based on market value, settling during the remainder of 2006 and in 2007 are no longer expected to be highly effective in offsetting changes in forecasted jet fuel purchases. As a result, effective on July 1, 2006, all subsequent changes in the fair value of those particular hedge contracts are being recognized directly in earnings rather than being deferred in Accumulated other comprehensive loss. On an economic basis, these derivatives will continue to largely offset potential changes in the price of jet fuel. Hedge accounting will continue to be applied to derivatives used to hedge forecasted jet fuel purchases that are expected to remain highly effective.

#### 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

## Edgar Filing: AMR CORP - Form 10-Q

Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission. An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the Company's disclosure controls and procedures as of September 30, 2006. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of September 30, 2006. During the quarter ending on September 30, 2006, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

-21-

### PART II: OTHER INFORMATION

#### Item 1. Legal Proceedings

On July 26, 1999, a class action lawsuit was filed, and in November 1999 an amended complaint was filed, against AMR, American, AMR Eagle, Airlines Reporting Corporation, and the Sabre Group Holdings, Inc. in the United States District Court for the Central District of California, Western Division (Westways World Travel, Inc. v. AMR Corp., et al.). The lawsuit alleges that requiring travel agencies to pay debit memos to American for violations of American's fare rules (by customers of the agencies): (1) breaches the Agent Reporting Agreement between American and AMR Eagle and the plaintiffs; (2) constitutes unjust enrichment; and (3) violates the Racketeer Influenced and Corrupt Organizations Act of 1970 (RICO). On July 9, 2003, the court certified a class that included all travel agencies who have been or will be required to pay money to American for debit memos for fare rules violations from July 26, 1995 to the present. The plaintiffs sought to enjoin American from enforcing the pricing rules in question and to recover the amounts paid for debit memos, plus treble damages, attorneys' fees, and costs. On February 24, 2005, the court decertified the class. The claims against Airlines Reporting Corporation have been dismissed, and in September 2005, the Court granted Summary Judgment in favor of the Company and all other defendants. Plaintiffs have filed an appeal to the United States Court of Appeals for the Ninth Circuit. Although the Company believes that the litigation is without merit, a final adverse court decision could impose restrictions on the Company's relationships with travel agencies, which could have a material adverse impact on the Company.

Between April 3, 2003 and June 5, 2003, three lawsuits were filed by travel agents, some of whom opted out of a prior class action (now dismissed) to pursue their claims individually against American, other airline defendants, and in one case against certain airline defendants and Orbitz LLC. The cases, Tam Travel et. al., v. Delta Air Lines et. al., in the United States District Court for the Northern District of California, San Francisco (51 individual agencies), Paula Fausky d/b/a Timeless Travel v. American Airlines, et. al, in the United States District Court for the Northern District of Ohio, Eastern Division (29 agencies) and Swope Travel et al. v. Orbitz et. al. in the United States District Court for the Eastern District of Texas, Beaumont Division (71 agencies) were consolidated for pre-trial purposes in the United States District Court for the Northern District of Ohio,

## Edgar Filing: AMR CORP - Form 10-Q

Eastern Division. Collectively, these lawsuits seek damages and injunctive relief alleging that the certain airline defendants and Orbitz LLC: (i) conspired to prevent travel agents from acting as effective competitors in the distribution of airline tickets to passengers in violation of Section 1 of the Sherman Act; (ii) conspired to monopolize the distribution of common carrier air travel between airports in the United States in violation of Section 2 of the Sherman Act; and that (iii) between 1995 and the present, the airline defendants conspired to reduce commissions paid to U.S.-based travel agents in violation of Section 1 of the Sherman Act. On September 23, 2005, the Fausky plaintiffs dismissed their claims with prejudice. On September 14, 2006, the court dismissed with prejudice 28 of the Swope plaintiffs. American continues to vigorously defend these lawsuits. A final adverse court decision awarding substantial money damages or placing material restrictions on the Company's distribution practices would have a material adverse impact on the Company.

Miami-Dade County (the County) is currently investigating and remediating various environmental conditions at the Miami International Airport (MIA) and funding the remediation costs through landing fees and various cost recovery methods. American and AMR Eagle have been named as potentially responsible parties (PRPs) for the contamination at MIA. During the second quarter of 2001, the County filed a lawsuit against 17 defendants, including American, in an attempt to recover its past and future cleanup costs (Miami-Dade County, Florida v. Advance Cargo Services, Inc., et al. in the Florida Circuit Court). The Company is vigorously defending the lawsuit. In addition to the 17 defendants named in the lawsuit, 243 other agencies and companies were also named as PRPs and contributors to the contamination. The case is currently stayed while the parties pursue an alternative dispute resolution process. The County has proposed draft allocation models for remedial costs for the Terminal and Tank Farm areas of MIA. While it is anticipated that American and AMR Eagle will be allocated equitable shares of remedial costs, the Company does not expect the allocated amounts to have a material adverse effect on the Company.

-22-

American is defending an appeal of a lawsuit, filed as a class action but not certified as such, arising from allegedly improper failure to refund certain governmental taxes and fees collected by American upon the sale of nonrefundable tickets when such tickets are not used for travel. In *Harrington v. Delta Air Lines, Inc., et al.*, (filed November 24, 2004 in the United States District Court for the District of Massachusetts), the plaintiffs sought unspecified actual damages (trebled), declaratory judgment, injunctive relief, costs, and attorneys' fees. The suit asserted various causes of action, including breach of contract, conversion, and unjust enrichment against American and numerous other airline defendants. The defendants filed a motion to dismiss which was granted. Plaintiffs have filed a notice of appeal with the First Circuit Court of Appeals. American is vigorously defending the suit and believes it to be without merit. However, a final adverse court decision requiring American to refund collected taxes and/or fees could have a material adverse impact on the Company.

On March 11, 2004, a patent infringement lawsuit was filed against

## Edgar Filing: AMR CORP - Form 10-Q

AMR, American, AMR Eagle Holding Corporation, and American Eagle in the United States District Court for the Eastern District of Texas (IAP Intermodal, L.L.C. v. AMR Corp., et al.). The case was consolidated with eight similar lawsuits filed against a number of other unaffiliated airlines, including Continental, Northwest, British Airways, Air France, Pinnacle Airlines, Korean Air and Singapore Airlines (as well as various regional affiliates of the foregoing). The plaintiff alleges that the airline defendants infringe three patents, each of which relates to a system of scheduling vehicles based on freight and passenger transportation requests received from remote computer terminals. The plaintiff is seeking past and future royalties of over \$30 billion dollars, injunctive relief, costs and attorneys' fees. On September 7, 2005, the court issued a memorandum opinion that interpreted disputed terms in the patents. The plaintiff dismissed its claims without prejudice to its right to appeal the September 7, 2005 opinion, and the plaintiff is pursuing such an appeal. Although the Company believes that the plaintiff's claims are without merit and is vigorously defending the lawsuit, a final adverse court decision awarding substantial money damages or placing material restrictions on existing scheduling practices would have a material adverse impact on the Company.

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

## Edgar Filing: AMR CORP - Form 10-Q

On February 14, 2006, the Antitrust Division of the United States Department of Justice (the "DOJ") served the Company with a grand jury subpoena as part of an ongoing investigation into possible criminal violations of the antitrust laws by certain domestic and foreign air cargo carriers. At this time, the Company does not believe it is a target of the DOJ investigation. The New Zealand Commerce Commission notified the Company on February 17, 2006 that it is also investigating whether the Company and certain other cargo carriers entered into agreements relating to fuel surcharges, security surcharges, war risk surcharges, and customs clearance surcharges. On February 22, 2006, the Company received a letter from the Swiss Competition Commission informing the Company that it too is investigating whether the Company and certain other cargo carriers entered into agreements relating to fuel surcharges, security surcharges, war risk surcharges, and customs clearance surcharges. The Company intends to cooperate fully with these investigations. In the event that these 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 38 purported class action lawsuits have been filed 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: Animal Land, Inc. v. Air Canada et al. filed in the United States District Court for the Eastern District of New York on February 17, 2006; Joan Adams v. British Airways et al. filed in the United States District Court for the Eastern District of New York on February 22, 2006; Rock International Transport v. Air Canada et al. filed in the United States District Court for the Eastern District of New York on February 24, 2006; Helen's Wooden Crafting Co. v. Air Canada et al. filed in the United States District Court for the Eastern District of New York on February 24, 2006; ABM Int'l, Inc. v. Ace Aviation Holdings, Inc. et al. filed in the United States District Court for the Eastern District of New York on February 28, 2006; Blumex USA, Inc. v. Air Canada et al. filed in the United States District Court for the Northern District of Illinois on March 1, 2006; Mamlaka Video v. Air Canada et al. filed in the United States District Court for the Eastern District of New York on March 3, 2006; Spraying Systems Co. v. ACE Aviation Holdings, Inc. et al. filed in the United States District Court for the Eastern District of New York on March 3, 2006; Mitchell Spitz v. Air France-KLM et al. filed in the United States District Court for the Eastern District of New York on March 6, 2006; JCK Industries, Inc. v. British Airways, PLC et al. filed in the United States District Court for the Eastern District of New York on March 6, 2006; Marc Seligman v. Air Canada et al. filed in the United States District Court for the Southern District of Florida on March 6, 2006; CID Marketing and Promotion Inc. v. AMR Corporation et al. filed in the United States District Court for the Eastern District of Pennsylvania on March 7, 2006; Lynn Culver v. Air Canada et al. filed in the United States District Court for the District of Columbia on March 8, 2006; JSL Carpet Corp. v. ACE Aviation Holdings, Inc. et al. filed in the United States District Court for the Eastern District of New York on March 10, 2006; Y. Hata & Co, Ltd. v. Air France-KLM et al. filed in the United States District Court for the Northern District of California on March 13, 2006; FTS International Express v. ACE Aviation Holdings, Inc. et al. filed in the United States District Court for the District of Columbia on March 15, 2006; Thule, Inc. v. Air Canada et al. filed in the United States District Court for the Eastern District of New York on March 28, 2006; Rosetti Handbags and Accessories, Ltd. v. Air France ADS et al. filed in the United States District Court for the Eastern District of New York on March 31, 2006; W.I.T. Entertainment Inc. v. AMR Corporation et al.

## Edgar Filing: AMR CORP - Form 10-Q

filed in the United States District Court for the Southern District of Florida on April 3, 2006; Jeff Rapps v. British Airways PLC et al. filed in the United States District Court for the Eastern District of New York on April 7, 2006; Funke Design Build, Inc. v. AMR Corporation et al. filed in the United States District Court for the Northern District of Illinois on April 7, 2006; Sul-American Export Inc. v. Air France ADS et al. filed in the United States District Court for the Eastern District of New York on April 7, 2006; La Regale Ltd. v. British Airways PLC et al. filed in the United States District Court for the Eastern District of New York on April 12, 2006; J.A. Transport Inc. v. ACE Aviation Holdings, Inc. et al. filed in the United States District Court for the District of Columbia on April 12, 2006; Caribe Air Cargo, Inc. v. ACE Aviation Holdings, Inc. et al. filed in the United States District Court for the District of Columbia on April 13, 2006; Gold Eye Distributors, Inc. v. Air France ADS et al. filed in the United States District Court for the Eastern District of New York on April 14, 2006; Ralph Olarte v. British Airways PLC et al. filed in the United States District Court for the District of Columbia on April 19, 2006; Capogiro LLC v. ACE Aviation Holdings, Inc. et al. filed in the United States District Court for the District of Columbia on April 20, 2006; Ali Fayazi v. British Airways PLC et al. filed in the United States District Court for the Eastern District of New York on April 26, 2006; Janice Perlman v. British Airways PLC et al. filed in the United States District Court for the Eastern District of New York on May 9, 2006; Leslie Young v. British Airways PLC et al. filed in the United States District Court for the Eastern District of New York on May 12, 2006; Craig Antell, M.D. v. British Airways PLC et al. filed in the United States District Court for the Eastern District of New York on May 16, 2006; Eurotrendz v. British Airways PLC et al. filed in the United States District Court for the Eastern District of New York on May 18, 2006; David Asher Rakoff v. British Airways PLC et al. filed in the United States District Court for the Eastern District of New York on May 22, 2006; Kalla Hirschbein v. British Airways PLC et al. filed in the United States District Court for the Eastern District of New York on June 1, 2006; Association des Utilisateurs du Transport de Fret v. ACE Aviation Holdings, Inc. et al. filed in the United States District Court for the District of Columbia on June 6, 2006; and McDuffee New York, Inc. v. ACE Aviation Holdings, Inc. et al. filed in the United States District Court for the Northern District of Illinois on June 27, 2006. These cases have been consolidated in the United States District Court for the Eastern District of New York, together with approximately 47 other class action lawsuits in which the Company has not been named as a defendant. Plaintiffs are seeking trebled money damages and injunctive relief. American will vigorously defend these lawsuits; however, any adverse judgment could have a material adverse impact on the Company.

-24-

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. In the event that this investigation uncovers violations of the U.S. antitrust laws or the competition laws of some other jurisdiction, such findings and related legal proceedings could

## Edgar Filing: AMR CORP - Form 10-Q

have a material adverse impact on the Company. Approximately 46 purported class action lawsuits have been filed 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: Saldana v. American Airlines, Inc. et al. filed in the United States District Court for the Southern District of New York on June 23, 2006; McGovern v. AMR Corporation, et al. filed in the United States District Court for the Northern District of Illinois on June 23, 2006; Baharani v. British Airways PLC et al. filed in the United States District Court for the Southern District of Florida on June 23, 2006; Boccara v. British Airways PLC et al. filed in the United States District Court for the Northern District of Florida on June 23, 2006; Chin v. AMR Corporation et al. filed in the United States District Court for the Northern District of Illinois on June 26, 2006; McDuffee New York, Inc. v. ACE Aviation Holdings, Inc. et al. filed in the United States District Court for the Northern District of Illinois on June 27, 2006; McGrath v. AMR Corporation et al. filed in the United States District Court for the Northern District of Illinois on June 27, 2006; Fadden v. AMR Corporation et al. filed in the United States District Court for the Northern District of Illinois on June 28, 2006; Szelewski v. AMR Corporation et al. filed in the United States District Court for the Northern District of Illinois on June 28, 2006; Golin v. AMR Corporation et al. filed in the United States District Court for the Northern District of California on June 29, 2006; Mazzocco v. AMR Corporation et al. filed in the United States District Court for the Eastern District of New York on June 29, 2006; McIntyre Group, Ltd. v. AMR Corporation et al. filed in the United States District Court for the Northern District of California on June 29, 2006; Miller v. British Airways PLC et al. filed in the United States District Court for the Eastern District of Pennsylvania on June 29, 2006; Nelson v. AMR Corporation filed in the United States District Court for the Eastern District of New York on June 29, 2006; Weiss v. British Airways PLC et al. filed in the United States District Court for the Eastern District of Pennsylvania on June 30, 2006; Marco v. American Airlines, Inc. et al. filed in the United States District Court for the Central District of California on June 30, 2006; Finegan v. British Airways PLC et al., filed in the United States District Court for the Eastern District of New York on July 6, 2006; Sederholm v. AMR Corp. et al. filed in the United States District Court for the Northern District of Illinois on July 10, 2006; El-Demerdash v. AMR Corp. et al. filed in the United States District Court for the Northern District of Illinois on July 11, 2006; Molinaro v. British Airways PLC et al. filed in the United States District Court for the Eastern District of New York on July 11, 2006; El-Demerdash v. AMR Corp. et al. filed in the United States District Court for the Northern District of Illinois on July 13, 2006; Hastings v. American Airlines, Inc. et al. filed in the United States District Court for the Northern District of Illinois on July 13, 2006; Wayman v. British Airways PLC et al. filed in the United States District Court for the Northern District of Illinois on July 13, 2006; Waters v. British Airways PLC et al. filed in the United States District Court for the Eastern District of New York on July 14, 2006; Olmert v. American Airlines, Inc. et al. filed in the United States District Court for the Northern District of California on July 13, 2006; Fischer v. British Airways PLC et al. filed in the United States District Court for the Northern District of Illinois on July 17, 2006; Carney v. British Airways et al. filed in the United States District Court for the Northern District of Illinois on July 18, 2006; Hardingham v. British Airways PLC et al. filed in the United States District Court for the Northern District of California on July 18, 2006; Penrose v. British Airways et al. filed in the United States District Court for

## Edgar Filing: AMR CORP - Form 10-Q

the Eastern District of New York on July 21, 2006; Taylor v. British Airways et al. filed in the United States District Court for the Northern District of California on July 21, 2006; Wolff v. British Airways et al. filed in the United States District Court for the Eastern District of New York on July 21, 2006; Harris v. British Airways PLC et al. filed in the United States District Court for the Northern District of California on July 25, 2006; Comeaux v. AMR Corp. et al. filed in the United States District Court for the Southern District of Texas on July 26, 2006; Oliff v. British Airways et al. filed in the United States District Court for the Eastern District of Virginia on July 26, 2005; Kastin v. AMR Corp. et al. filed in the United States District Court for the Southern District of New York on July 28, 2006; Page v. British Airways et al. filed in the United States District Court for the Northern District of California on July 31, 2006; Van Meter v. British Airways et al. filed in the United States District Court for the Northern District of Illinois on July 31, 2006; Vesely v. British Airways et al. filed in the United States District Court for the Northern District of California on July 31, 2006; Davis v. British Airways et al. filed in the United States District Court for the Northern District of California on August 1, 2006; Hecht v. AMR Corp., et al. filed in the United States District Court for the Northern District of Illinois on August 3, 2006; Lockmanese v. British Airways et al. filed in the United States District Court for the Northern District of California on August 7, 2006; Martin v. American Airlines, Inc. et al. filed in the United States District Court for the Southern District of Florida on August 9, 2006; Madnick v. AMR Corp. et al. filed in the United States District Court for the Southern District of Florida on August 24, 2006; Szlavik v. American Airlines, Inc. et al. filed in the United States District Court for the District of Maryland on August 31, 2006; and Brennan v. British Airways, et al. filed in the United States District Court for the Northern District of California on September 6, 2006. These cases are expected to be consolidated in an as yet undetermined court together with approximately 49 other class action lawsuits in which the Company has not been named as a defendant. Plaintiffs are seeking trebled money damages and injunctive relief. American will vigorously defend these lawsuits; however, any adverse judgment could have a material adverse impact on the Company.

-25-

American is defending a lawsuit (Love Terminal Partners, L.P. et al. v. The City of Dallas, Texas et al.) filed on July 17, 2006 in the United States District Court in Dallas. The suit was brought by two lessees of facilities at Dallas Love Field Airport against American, the cities of Fort Worth and Dallas, Southwest Airlines, Inc., and the Dallas/Fort Worth International Airport Board. The suit alleges that an agreement by and between the five defendants with respect to Dallas Love Field violates Sections 1 and 2 of the Sherman Act. Plaintiffs seek injunctive relief and compensatory and statutory damages. American will vigorously defend this lawsuit; however, any adverse judgment 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. (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.). The plaintiff alleges that American



## Edgar Filing: AMR CORP - Form 10-Q

and American Beacon infringe a number of the plaintiff's patents, each of which relates to automated telephone call processing systems. The plaintiff is seeking past and future royalties, injunctive relief, costs and attorneys' fees. Although the Company believes that the plaintiff's claims are without merit and is vigorously defending the lawsuit, a final adverse court decision awarding substantial money damages or placing material restrictions on existing automated telephone call system operations would have a material adverse impact on the Company.

-26-

### Item 6. Exhibits

The following exhibits are included herein:

- 10.1 Form of Amendment of Stock Option Agreements Under the 1998 Long-Term Incentive Plan to Add Stock Appreciation Rights.
- 12 Computation of ratio of earnings to fixed charges for the three and nine months ended September 30, 2006 and 2005.
- 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).

-27-

### Signature

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

AMR CORPORATION

Date: October 20, 2006

BY: /s/ Thomas W. Horton  
Thomas W. Horton  
Executive Vice President and Chief

Edgar Filing: AMR CORP - Form 10-Q

Financial Officer  
(Principal Financial and Accounting Officer)

-28-