AMR CORP
Form 10-Q
October 16, 2008

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

FORM 10-Q

þ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended September 30, 2008.

¨ 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. þ 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. þ 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 þ 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 – 278,757,437 shares as of October 13, 2008.

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AMR CORPORATION

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, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Revenues				
Passenger - American Airlines	$ 4,946	$ 4,598	$ 14,060	$ 13,299
- Regional Affiliates	668	648	1,932	1,864
Cargo	230	196	678	597
Other revenues	577	504	1,627	1,492
Total operating revenues	6,421	5,946	18,297	17,252
Expenses				
Aircraft fuel	2,722	1,743	7,195	4,797
Wages, salaries and benefits	1,633	1,721	4,935	5,047
Other rentals and landing fees	344	328	985	970
Depreciation and amortization	289	307	922	892
Maintenance, materials and repairs	304	274	943	790
Commissions, booking fees and credit card expense	264	270	780	787
Aircraft rentals	122	148	372	451
Food services	135	139	395	399
Special charges	27	-	1,191	-
Other operating expenses	797	697	2,272	2,085
Total operating expenses	6,637	5,627	19,990	16,218
Operating Income (Loss)	(216)	319	(1,693)	1,034
Other Income (Expense)				
Interest income	37	90	138	257
Interest expense	(190)	(227)	(569)	(703)
Interest capitalized	10	3	23	17
Miscellaneous – net	404	(10)	370	(32)
	261	(144)	(38)	(461)
Income (Loss) Before Income Taxes	45	175	(1,731)	573
Income tax	-	-	-	-
Net Earnings (Loss)	$ 45	$ 175	$ (1,731)	$ 573
Earnings (Loss) Per Share				
Basic	$ 0.17	$ 0.70	$ (6.84)	$ 2.35
Diluted	$ 0.17	$ 0.61	$ (6.84)	$ 1.98

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

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

	September 30, 2008	December 31, 2007
Assets		
Current Assets		
Cash	$ 273	$ 148
Short-term investments	4,348	4,387
Restricted cash and short-term investments	456	428
Receivables, net	1,104	1,027
Inventories, net	670	601
Fuel derivative contracts	210	416
Other current assets	446	222
Total current assets	7,507	7,229
Equipment and Property		
Flight equipment, net	12,608	13,977
Other equipment and property, net	2,376	2,413
Purchase deposits for flight equipment	605	241
	15,589	16,631
Equipment and Property Under Capital Leases		
Flight equipment, net	277	686
Other equipment and property, net	62	77
	339	763
Route acquisition costs and airport operating and gate lease rights, net	1,116	1,156
Other assets	2,399	2,792
	$ 26,950	$ 28,571
Liabilities and Stockholders' Equity (Deficit)		
Current Liabilities		
Accounts payable	$ 1,164	$ 1,182
Accrued liabilities	2,325	2,267
Air traffic liability	4,405	3,985
Current maturities of long-term debt	1,469	902
Current obligations under capital leases	121	147
Total current liabilities	9,484	8,483
Long-term debt, less current maturities	8,946	9,413
Obligations under capital leases, less current obligations	590	680
Pension and postretirement benefits	3,736	3,620
Other liabilities, deferred gains and deferred credits	3,260	3,718
Stockholders' Equity (Deficit)		
Preferred stock	-	-

Common stock	285	255
Additional paid-in-capital	3,769	3,489
Treasury stock	(367)	(367)
Accumulated other comprehensive income	368	670
Accumulated deficit	(3,121)	(1,390)
	934	2,657
	$ 26,950	$ 28,571

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

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

	Nine Months Ended September 30,	
	2008	2007
Net Cash Provided by (used for) Operating Activities	$ (30)	$ 1,945
Cash Flow from Investing Activities:		
Capital expenditures	(687)	(515)
Net (increase)/decrease in short-term investments	39	(635)
Net (increase)/decrease in restricted cash and short-term investments	(28)	21
Proceeds from sale of American Beacon Advisors, Inc., net of expenses	442	-
Proceeds from sale of equipment and property	18	27
Other	8	7
Net cash used by investing activities	(208)	(1,095)
Cash Flow from Financing Activities:		
Payments on long-term debt and capital lease obligations	(907)	(1,456)
Proceeds from:		
Issuance of debt	823	-
Sale leaseback transactions	151	-
Issuance of common stock, net of issuance costs	294	497
Reimbursement from construction reserve account	1	61
Exercise of stock options	1	88
Net cash provided (used) by financing activities	363	(810)
Net increase (decrease) in cash	125	40
Cash at beginning of period	148	121
Cash at end of period	$ 273	$ 161

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

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, 2007 (2007 Form 10-K).

2. Beginning in the first quarter of 2008, AMR reclassified revenues associated with the marketing component of AAdvantage program mileage sales from Passenger revenue to Other revenue. As a result of this change, approximately $152 million and $450 million of revenue was reclassified from Passenger revenue to Other revenue for the three and nine months ended September 30, 2007, respectively, to conform to the current presentation.

3. During the quarter ended September 30, 2008, the Company entered into amendments to its 737-800 purchase agreement with the Boeing Company. Giving effect to the amendments, the Company is now committed to take delivery of a total of 36 737-800 aircraft in 2009 and 40 737-800 aircraft in 2010. In addition to these aircraft, the Company has firm commitments for eleven 737-800 aircraft and seven Boeing 777 aircraft scheduled to be delivered in 2013 - 2016.

Under the Boeing 737-800 and Boeing 777-200 aircraft purchase agreements, payments for the related aircraft purchase commitments will be zero in the remainder of 2008, approximately $1.2 billion in 2009, $1.1 billion in 2010, $99 million in 2011, $220 million in 2012, and $1.0 billion for 2013 and beyond. These amounts are net of purchase deposits currently held by the manufacturer. Any incremental firm aircraft orders will increase the Company's commitments.

In October of 2008, the Company entered into a sale-leaseback agreement for 20 of the 36 Boeing 737-800 aircraft to be delivered in 2009. Such financing is subject to certain terms and conditions including a minimum liquidity requirement. In addition, the Company has arranged for backstop financing which could be used for the remaining 16 of the Company's 2009 Boeing 737-800 aircraft deliveries, as well as a significant portion of the 2010 Boeing 737-800 aircraft deliveries. If the Company elects to utilize the backstop financing, all of its purchase commitments for 2009 and 2010 would be covered by committed financing except for approximately $400 million of commitments, substantially all of which are due in the fourth quarter of 2010.

On October 15, 2008, the Company entered into a new purchase agreement with Boeing for the acquisition of 42 Boeing 787-9 aircraft. The first such aircraft is scheduled to be delivered in 2012, and the last is scheduled to be delivered in 2018. The agreement also includes purchase rights to acquire up to 58 additional Boeing 787 aircraft, with deliveries between 2015 and 2020. Once the Company has satisfied certain contingent aspects of the contract, the Company will have capital commitments for up to 42 Boeing 787-9 aircraft. As of October 15, 2008, the

Company has $102 million on deposit with Boeing for the 787-9 aircraft orders. If no Boeing 787-9 orders are ultimately executed, this deposit will be applied to the Company's other firm commitments at that time, or refunded to the Company if no other firm commitments exist. See the Liquidity and Capital Resources subsection of Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations for more information regarding the contract contingencies.

AMR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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. The SO states that, in the event that the allegations in the SO are affirmed, the Commission will impose fines against the Company. The Company intends to vigorously contest the allegations and findings in the SO under EU laws, and it intends to cooperate fully with all other pending investigations. Based on the information to date, the Company has not recorded any reserve for this exposure for the quarter ended September 30, 2008. In the event that the SO is affirmed or other 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.

4. Accumulated depreciation of owned equipment and property at September 30, 2008 and December 31, 2007 was $10.1 billion and $11.9 billion, respectively. Accumulated amortization of equipment and property under capital leases at September 30, 2008 and December 31, 2007 was $573 million and $1.2 billion, respectively. During the second quarter of 2008, the Company recorded an impairment charge to write down its McDonnell Douglas MD80 and Embraer RJ-135 fleets and certain related long-lived assets to their estimated fair values. As a result $2.8 billion of accumulated depreciation and amortization was eliminated as a new cost basis was established for these aircraft. See Note 9 to the condensed consolidated financial statements for more information regarding the impairment charges.

5. As discussed in Note 7 to the consolidated financial statements in the 2007 Form 10-K, the Company has a valuation allowance against the full amount of its net deferred tax asset. The Company currently provides a valuation allowance against 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 approximately $678 million during the nine months ended September 30, 2008 to $1.3 billion as of September 30, 2008, including the impact of comprehensive income for the nine months ended September 30, 2008 and changes from other adjustments.

6. As of September 30, 2008, AMR had issued guarantees covering approximately $1.4 billion of American's tax-exempt bond debt and American had issued guarantees covering approximately $750 million of AMR's unsecured debt. In addition, as of September 30, 2008, AMR and American had issued guarantees covering approximately $305 million of AMR Eagle's secured debt and AMR has issued guarantees covering an additional $2.1 billion of AMR Eagle's secured debt.

As discussed in Note 6 to the consolidated financial statements in the 2007 Form 10-K, the Company has outstanding $324 million principal amount of its 4.50 percent senior convertible notes due 2024 (the 4.50 Notes). On February 15, 2009, and then again at certain later dates, the holders of the 4.50 Notes may require the Company to purchase all or a portion of their notes at a price equal to 100% of their principal amount plus unpaid interest which may be paid in cash, common stock or a combination of cash and common stock. Accordingly, the Company has classified the $324 million principal amount of the 4.50 Notes into Current maturities of long term debt as of September 30, 2008 as a result of the existence of these put provisions. The Company is evaluating various payment and refinancing alternatives for the outstanding 4.50 Notes upon the expected exercise of the put provision in February 2009.

In August 2008, AMR retired, by purchasing with cash, $75 million of the $300 million principal amount of the 4.25% senior convertible notes due 2023 (the 4.25 Notes). In September 2008, the remaining holders of the 4.25 Notes exercised their elective put rights and the Company purchased and retired these notes at a price equal to 100%

of their principal amount, totaling $225 million. Under the terms of the 4.25 Notes, the Company had the option to pay the purchase price with cash, stock, or a combination of cash and stock, and the Company elected to pay for the 4.25 Notes solely with cash.

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AMR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

In May 2008, the Financial Accounting Standards Board (FASB) affirmed the consensus of FASB Staff Position APB 14-1 (FSP APB 14-1), "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)", which applies to all convertible debt instruments that have a ''net settlement feature'', which means that such convertible debt instruments, by their terms, may be settled either wholly or partially in cash upon conversion. FSP APB 14-1 requires issuers of convertible debt instruments that may be settled wholly or partially in cash upon conversion to separately account for the liability and equity components in a manner reflective of the issuers' nonconvertible debt borrowing rate. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. Early adoption is not permitted and retroactive application to all periods presented is required. The adoption of FSP APB 14-1 will affect the historical accounting for the 4.25% Notes and the 4.50% Notes, and will result in increased interest expense of approximately $5 million in 2009, as well as more significant increases to prior years' interest expense upon retrospective application in 2009.

American has a secured bank credit facility which consists of a fully drawn $255 million revolving credit facility (fully drawn in September 2008), with a final maturity on June 17, 2009, and a fully drawn $437 million term loan facility, with a final maturity on December 17, 2010 (the Revolving Facility and the Term Loan Facility, respectively, and collectively, the Credit Facility). The Credit Facility contains a covenant (the EBITDAR Covenant) requiring AMR to maintain specified ratios of cash flow to fixed charges. In May 2008, AMR and American entered into an amendment to the Credit Facility which waived compliance with the EBITDAR Covenant for periods ending on any date from and including June 30, 2008 through March 31, 2009, and which reduced the minimum ratios AMR is required to satisfy thereafter. The required ratio will be 0.90 to 1.00 for the one quarter period ending June 30, 2009 and will increase to 1.15 to 1.00 for the four quarter period ending September 30, 2010.

In the third quarter, the Company raised approximately $500 million under a loan secured by aircraft. The loan bears interest at a LIBOR-based (London Interbank Offered Rate) variable rate with a fixed margin which resets quarterly and is due in installments through 2015.

7. In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" (SFAS 157). SFAS 157 introduces a framework for measuring fair value and expands required disclosure about fair value measurements of assets and liabilities. SFAS 157 for financial assets and liabilities is effective for fiscal years beginning after November 15, 2007, and the Company has adopted the standard for those assets and liabilities as of January 1, 2008 and the impact of adoption was not significant.

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company's short-term investments primarily utilize broker quotes in a non-active market for valuation of these securities. The Company's fuel derivative contracts, which primarily consist of commodity options and collars, 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.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

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.

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

(in millions)	Fair Value Measurements as of September 30, 2008			
Description	Total	Level 1	Level 2	Level 3
Short term investments 1	$ 4,348	$ 1,200	$ 3,148	$ -
Restricted cash and short-term investments 1	456	456	-	-
Fuel derivative contracts 1, 2	165	-	165	-
Total	$ 4,969	$ 1,656	$ 3,313	$ -

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