AMR CORP
Form 10-Q
October 21, 2009

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, 2009.

¨ 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ¨ Yes ¨ No

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 – 332,455,775 shares as of October 16, 2009.

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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,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenues				
Passenger - American Airlines	$3,882	$4,946	$11,239	$14,060
- Regional Affiliates	523	668	1,493	1,932
Cargo	136	230	414	678
Other revenues	586	577	1,709	1,627
Total operating revenues	5,127	6,421	14,855	18,297
Expenses				
Wages, salaries and benefits	1,701	1,633	5,087	4,935
Aircraft fuel	1,453	2,722	4,085	7,195
Other rentals and landing fees	344	344	1,006	985
Depreciation and amortization	272	289	826	922
Maintenance, materials and repairs	329	304	948	943
Commissions, booking fees and credit card expense	222	264	646	780
Aircraft rentals	126	122	376	372
Food service	128	135	365	395
Special charges	64	27	100	1,191
Other operating expenses	682	797	2,030	2,272
Total operating expenses	5,321	6,637	15,469	19,990
Operating Loss	(194)	(216)	(614)	(1,693)
Other Income (Expense)				
Interest income	7	37	27	138
Interest expense	(182)	(204)	(535)	(609)
Interest capitalized	11	10	31	23
Miscellaneous – net	(31)	404	(63)	370
	(195)	247	(540)	(78)
Income (Loss) Before Income Taxes	(389)	31	(1,154)	(1,771)
Income tax (Benefit)	(30)	-	(30)	-
Net Earnings (Loss)	$(359)	$31	$(1,124)	$(1,771)
Earnings (Loss) Per Share				
Basic	$ (1.26)	$ 0.12	$ (4.00)	$ (7.00)
Diluted	$ (1.26)	$ 0.12	$ (4.00)	$ (7.00)

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

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

	September 30, 2009	December 31, 2008
Assets		
Current Assets		
Cash	$ 171	$ 191
Short-term investments	3,941	2,916
Restricted cash and short-term investments	459	459
Receivables, net	814	811
Inventories, net	546	525
Fuel derivative contracts	111	188
Fuel derivative collateral deposits	78	575
Other current assets	333	270
Total current assets	6,453	5,935
Equipment and Property		
Flight equipment, net	12,260	12,454
Other equipment and property, net	2,313	2,370
Purchase deposits for flight equipment	734	671
	15,307	15,495
Equipment and Property Under Capital Leases		
Flight equipment, net	235	181
Other equipment and property, net	54	59
	289	240
Route acquisition costs and airport operating and gate lease rights, net	1,091	1,109
Other assets	2,614	2,396
	$ 25,754	$ 25,175
Liabilities and Stockholders' Equity (Deficit)		
Current Liabilities		
Accounts payable	$ 1,081	$ 952
Accrued liabilities	1,959	2,042
Air traffic liability	3,573	3,708
Current maturities of long-term debt	1,041	1,845
Fuel derivative liability	156	716
Current obligations under capital leases	91	107
Total current liabilities	7,901	9,370
Long-term debt, less current maturities	9,872	8,423
Obligations under capital leases, less current obligations	589	582
Pension and postretirement benefits	7,005	6,614
Other liabilities, deferred gains and deferred credits	3,246	3,121
Stockholders' Equity (Deficit)		
Preferred stock	-	-
Common stock	335	285
Additional paid-in capital	4,361	3,992

Treasury stock		(367	)		(367	)
Accumulated other comprehensive income (loss)		(2,396	)		(3,177	)
Accumulated deficit		(4,792	)		(3,668	)
		(2,859	)		(2,935	)
	$	25,754		$	25,175	

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, 2009	Nine Months Ended September 30, 2008
Net Cash Provided by (used for) Operating Activities	$926	$(30)
Cash Flow from Investing Activities:		
Capital expenditures	(1,103)	(687)
Net (increase)/decrease in short-term investments	(1,025)	39
Net (increase)/decrease in restricted cash and short-term investments	-	(28)
Proceeds from sale of American Beacon Advisors, Inc., net of expenses	-	442
Proceeds from sale of equipment and property	13	18
Cash collateral on spare parts financing	52	8
Net cash used by investing activities	(2,063)	(208)
Cash Flow from Financing Activities:		
Payments on long-term debt and capital lease obligations	(1,848)	(907)
Proceeds from:		
Issuance of debt	2,349	823
Cash held in trust for 1999 EETC financing	(276)	
Sale leaseback transactions	509	151
Issuance of common stock, net of issuance costs	382	294
Reimbursement from construction reserve account	1	1
Exercise of stock options	-	1
Net cash provided (used) by financing activities	1,117	363
Net increase (decrease) in cash	(20)	125
Cash at beginning of period	191	148
Cash at end of period	$171	$273

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 included in AMR's Current Report on Form 8-K filed on April 21, 2009 (the Form 8-K). The Form 8-K reflects retrospective application of the Company's accounting for convertible debt under new accounting guidance issued by the Financial Accounting Standards Board (FASB) which was adopted on January 1, 2009, as required (see Note 5 for additional information). Further, in connection with preparation of the condensed consolidated financial statements and in accordance with the recently issued guidance by the FASB, the Company evaluated subsequent events after the balance sheet date of September 30, 2009 through October 21, 2009.

   During the first three quarters of 2009, the Company experienced continued significant weakening of the revenue environment, especially in international markets, due to the worldwide economic recession. Lower revenues, coupled with the recent severe disruptions in the capital markets and other sources of funding, and historically high fuel prices, have negatively impacted the Company and significantly impacted its results of operations and cash flows for the three and nine months ended September 30, 2009. Consequently, the Company has taken numerous steps to improve its liquidity through the issuance of both equity and debt. Primarily as a result of financing transactions completed in the first three quarters of 2009, unrestricted cash and short-term investments increased from $3.1 billion as of December 31, 2008 to $4.1 billion at September 30, 2009.

   Through September 30, 2009, the Company secured approximately $5.3 billion of financing ($1.9 billion relates to future financing of aircraft deliveries) through the advance purchase of AAdvantage Miles in the AAdvantage frequent flier program by Citibank (South Dakota), N.A. (Citibank), issuance of pass through trust certificates, issuance of common stock and senior convertible notes in public offerings, issuance of senior secured notes, loans on certain aircraft, and the sale leaseback financing of certain aircraft. See Notes 5 and 11 to these condensed consolidated financial statements for additional information regarding these transactions.

   The Company remains heavily indebted and has significant obligations. As of the date of this Form 10-Q, the Company believes it has sufficient liquidity to fund its operations and obligations, including repayment of debt and capital leases, capital expenditures and other contractual obligations; however there can be no assurances to that effect.

2. In June 2009, American entered into an amendment to a purchase agreement with The Boeing Company (Boeing). Pursuant to the amendment, American exercised rights to purchase an additional eight 737-800 aircraft and the delivery of certain aircraft were rescheduled. As a result, as of September 30, 2009, American had twelve 737-800 purchase commitments for the remainder of 2009 and 45 737-800 purchase commitments for 2010. American's 737-800 purchase commitments remain at eight in 2011. In addition to these aircraft, American has

firm commitments for eleven 737-800 aircraft and seven Boeing 777 aircraft scheduled to be delivered in 2013-2016.

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

American has selected GE Aviation as the exclusive provider of engines for its expected order of Boeing 787-9 aircraft. American previously announced plans (subject to certain reconfirmation rights) to acquire 42 Boeing 787-9 aircraft, with the right to acquire an additional 58 Boeing 787-9 aircraft.

As of September 30, 2009, payments for the above purchase commitments will approximate $315 million for the remainder of 2009, $1.3 billion in 2010, $350 million in 2011, $217 million in 2012, $478 million in 2013, and $552 million for 2014 and beyond. These amounts are net of purchase deposits currently held by the manufacturer.

AMR's subsidiaries lease various types of equipment and property, primarily aircraft and airport facilities. The future minimum lease payments required under capital leases, together with the present value of such payments, and future minimum lease payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of September 30, 2009, were (in millions):

	Capital Leases	Operating Leases
As of September 30, 2009	$27	$224
2010	176	978
2011	179	968
2012	129	785
2013	114	698
2014 and thereafter	523	5,332
	$1,148	$8,985
Less amount representing interest	468	
Present value of net minimum lease payments	$680	

At September 30, 2009 the Company was operating 175 jet aircraft and 39 turboprop aircraft under operating leases and 82 jet aircraft under capital leases.

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 European Union (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, 2009. 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.

3. Accumulated depreciation of owned equipment and property at September 30, 2009 and December 31, 2008 was $10.2 billion and $9.9 billion, respectively. Accumulated amortization of equipment and property under capital leases at September 30, 2009 and December 31, 2008 was $558 million and $536 million, respectively.

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

4. As discussed in Note 8 to the consolidated financial statements in the Form 8-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 $84 million during the nine months ended September 30, 2009 to $2.8 billion as of September 30, 2009, including the impact of comprehensive income for the nine months ended September 30, 2009 and changes from other adjustments. The change in the valuation allowance reflects the recording by the Company in September 2009 of an income tax expense credit of approximately $30 million resulting from the Company's anticipated election under Section 3081 of the Housing and Economic Recovery Act of 2008 (as extended by Section 1201(b) of the American Recovery and Reinvestment Act of 2009), allowing corporations to accelerate utilization of certain research and alternative minimum tax (AMT) credit carryforwards in lieu of applicable bonus depreciation on certain qualifying capital investments.

   The Company's unrecognized tax benefit decreased by $15 million from resolution of an Internal Revenue Service Appeals process. Changes in the unrecognized tax benefit will have no impact on the effective tax rate due to the existence of the valuation allowance.

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

	September 30, 2009	December 31, 2008
Secured variable and fixed rate indebtedness due through 2021 (effective rates from 2.48% - 13.00% at September 30, 2009)	$ 5,159	$ 4,783
Enhanced equipment trust certificates due through 2019 (rates from 3.85% - 12.00% at September 30, 2009)	2,317	2,382
6.0% - 8.5% special facility revenue bonds due through 2036	1,662	1,674
AAdvantage Miles advance purchase (effective rate 8.3%)	890	-
Credit facility agreement due through 2010	-	691
6.25% senior convertible notes due 2014	460	-
4.25% - 4.50% senior convertible notes due 2023 – 2024	-	314
9.0% - 10.20% debentures due through 2021	214	213
7.88% - 10.55% notes due through 2039	211	211
	10,913	10,268
Less current maturities	1,041	1,845
Long-term debt, less current maturities	$ 9,872	$ 8,423

Maturities of long-term debt (including sinking fund requirements) for the next five years are: remainder of 2009 - $558 million; 2010 - $1.0 billion; 2011 - $2.3 billion; 2012 - $1.2 billion, 2013 - $939 million. Payments due on long-term debt (including interest) are: remainder of 2009 - $739 million, 2010 and 2011 - $4.6 billion, 2012 and 2013 - $3.1 billion, 2014 and beyond – $7.2 billion.

As of September 30, 2009, AMR had issued guarantees covering approximately $1.2 billion of American's tax-exempt bond debt (and interest thereon) and American had issued guarantees covering approximately $887 million of AMR's unsecured debt (and interest thereon). In addition, as of September 30, 2009, AMR and American had issued guarantees covering approximately $262 million of AMR Eagle's secured debt (and interest thereon) and AMR has issued guarantees covering an additional $2.0 billion of AMR Eagle's secured debt (and interest thereon). AMR also guarantees $196 million of American's leases of certain Super ATR aircraft, which are subleased to AMR Eagle.

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

The Company adopted new accounting guidance related to its accounting for convertible debt instruments as of January 1, 2009. The adoption impacted the historical accounting for the 4.25 percent senior convertible notes due 2023 (the 4.25 Notes) and the 4.50 percent senior convertible notes due 2024 (the 4.50 Notes), and resulted in increased interest expense of approximately $14 million for the three months ended September, 30 2008 and increased interest expense of approximately $5 million and $40 million for the nine months ended September 30, 2009 and 2008, respectively. In addition, the adoption resulted in an increase to paid in capital of $207 million with an offset to accumulated deficit of $206 million and current portion of long term debt of $1 million as of January 1, 2009. The impact to earnings (loss) per share was a decrease of $0.05 to earnings per share for the quarter ended September 30, 2008, and an increase of $0.02 and $0.16 to loss per share for the nine months ended September 30, 2009 and 2008. The Company filed a Current Report on Form 8-K on April 21, 2009 to reflect the adoption of the new accounting guidance on the 2008, 2007 and 2006 financial statements.

The 4.25 Notes were retired in 2008. In the first quarter of 2009, AMR retired, by purchasing with cash $318 million principal amount of its 4.50 Notes. Virtually all of the holders of the 4.50 Notes exercised their elective put rights and the Company purchased and retired these notes at a price equal to 100 percent of their principal amount. Under the terms of the 4.50 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 4.50 Notes solely with cash.

On July 7, 2009, American closed a $520 million Pass Through Trust Certificates (the Certificates) financing covering four Boeing 777-200ER aircraft owned by American and 16 of American's Boeing 737-800 deliveries. Equipment notes underlying the Certificates bear interest at 10.375 percent per annum and principal and interest on the notes are payable in semi-annual installments with a balloon payment at maturity in 2019. Approximately $177 million of the proceeds from the sale of the Certificates were received by American as of September 30, 2009 in exchange for equipment notes secured by the four Boeing 777-200ER aircraft and the delivery and financing of one Boeing 737-800 aircraft. The remainder of the proceeds is being held in escrow for the benefit of holders of the Certificates. When American finances each of the remaining 15 Boeing 737-800 aircraft under this arrangement, an allocable portion of the proceeds will be released to American in exchange for equipment notes secured by the individual aircraft and such debt will be recorded by American. American currently expects that it will use the escrowed proceeds of the Certificates to finance the remaining 15 Boeing 737-800 aircraft to be delivered to American between October 2009 and April 2010, but American could elect to use this financing on any 15 of its next 49 Boeing 737-800 aircraft deliveries currently scheduled for delivery between October 2009 and October 2010.

In addition, a third party is holding collateral from American to cover interest distributable on the Certificates prior to when the remaining 15 Boeing 737-800 aircraft are delivered and the related equipment notes are issued.

Once fully issued, American will hold variable interests in the pass through trusts created for the Certificates, but is not expected to be the primary beneficiary of the trust.

On July 31, 2009, American closed a $276 million private placement offering of senior secured notes due 2016 (2009-2 Secured Notes), which were priced at par to yield 13 percent. The purpose of the offering was to refinance, in part, the outstanding $401 million principal amount of the Company's 1999-1 enhanced equipment trust certificates (1999 EETC). The Company deposited the net proceeds from the offering as cash collateral to secure the 2009-2 Secured Notes and such proceeds are recorded in Other assets. Following the payment of the 1999-1 EETC at maturity on October 15, 2009, 12 of the 15 aircraft that previously secured the 1999 EETC were pledged to secure the 2009-2 Secured Notes, and the cash collateral was released to the Company. The other three aircraft were pledged to secure the 2009 Loan Facility referred to below.

On September 16, 2009, American entered into an arrangement under which Citibank paid to American $1.0 billion in order to pre-purchase AAdvantage Miles (the Advance Purchase Miles) under American's AAdvantage frequent flier loyalty program (the Advance Purchase).

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

To effect the Advance Purchase, American and Citibank entered into an Amended and Restated AAdvantage Participation Agreement (as so amended and restated, the Amended Participation Agreement). Under the Amended Participation Agreement, American agreed that it would apply in equal monthly installments, over a five year period beginning on January 1, 2012, the Advance Purchase Miles to Citibank cardholders' AAdvantage accounts.

Pursuant to the Advance Purchase, Citibank has been granted a first-priority lien in certain of American's AAdvantage program assets, and a lien in certain of American's Heathrow and Narita routes, slots and gates that would be subordinated to any subsequent first lien. Commencing on December 31, 2011, American has the right to repurchase, without premium or penalty, any or all of the Advance Purchase Miles that have not then been posted to Citibank cardholders' accounts. American is also obligated, in certain circumstances (including certain specified termination events under the Amended Participation Agreement, certain cross defaults and cross acceleration events, and if any Advance Purchase Miles remain at the end of the term) to repurchase for cash all of the Advance Purchase Miles that have not then been used by Citibank.

The Amended Participation Agreement includes provisions that grant Citibank the right to use Advance Purchase Miles on an accelerated basis under specified circumstances. American also has the right under certain circumstances to release, or substitute other comparable collateral for, the Heathrow and Narita route related collateral.

Approximately $890 million of the Advance Purchase proceeds is accounted for as a loan from Citibank, with the remaining $110 million related to certain other commitments with respect to the co-branding relationship and recorded as Deferred revenue in Other liabilities. The loan was determined using an effective interest rate of 8.3 percent and will be amortized under the interest method with imputed interest included in interest expense. The deferred revenue will be amortized straight line over the life of the agreement.

Also on September 16, 2009, American entered into two financing transactions with GE Capital Aviation Services LLC and certain of its affiliates (GECAS). The financing transactions consist of (1) a recourse loan facility (the 2009 Loan Facility) in the amount of $281.5 million to be secured by 13 owned Boeing aircraft; and (2) a sale leaseback agreement (the 2009 Sale Leaseback) providing for an aggregate commitment of $1.6 billion to finance Boeing 737-800 aircraft to be delivered to American in 2010 and 2011.

The 2009 Loan Facility bears interest at LIBOR (London Interbank Offered Rate) plus a specified margin and will mature on September 16, 2017. On September 16, 2009, the 2009 Loan Facility was secured by ten aircraft and American received $225.4 million in cash under the facility. Following the October 15, 2009 maturity of the 1999 EETC, three aircraft that previously secured the 1999 EETC were pledged to secure the 2009 Loan Facility and American will receive another $56.1 million in cash in late October 2009 under the facility.

The terms of the 2009 Sale Leaseback are based on previous transactions with GECAS. The 2009 Sale Leaseback is subject to certain terms and conditions, including a condition to the effect that, at the time of entering into the sale and leaseback of a particular Boeing 737-800 aircraft, American has at least a certain amount of unrestricted cash and short term investments. See Note 2 for additional information concerning the Company's lease obligations.

As of September 30, 2009, American's remaining 2009-2011 Boeing 737-800 purchase commitments were twelve in the remainder of 2009, 45 in 2010 and eight in 2011. American currently expects to finance all of these remaining 2009-2011 Boeing 737-800 deliveries using a combination of the 2009 Sale Leaseback, funds from the sale of 10.375 percent pass through certificates completed by American in July 2009 and other previously arranged financing. Accordingly, American does not expect to use its previously arranged backstop financing to finance any of its Boeing 737-800 aircraft deliveries scheduled for 2010 and 2011; however, such backstop financing arrangement remains in place.

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

As a condition to entering into the 2009 Loan Facility and the 2009 Sale Leaseback, American entered into certain cross-default and cross-collateralization arrangements for the benefit of GECAS involving, among other things, the 2009 Loan Facility, the 2009 Sale Leaseback and certain previously-existing debt and lease financings involving GECAS with respect to more than 50 aircraft.

On September 28, 2009,the Company issued $460 million principal amount of its 6.25 percent senior convertible notes due 2014. Each note is convertible by holders into shares of AMR common stock at an initial conversion rate of 101.0101 shares per $1,000 principal amount of notes (which represents an equivalent initial conversion price of approximately $9.90 per share), subject to adjustment upon the occurrence of certain events, at any time prior to the close of business on the business day immediately preceding the maturity date of the notes. The Company must pay the conversion price of the notes in common stock. If the holders of the notes do not convert prior to maturity, the Company will retire the debt in cash. These notes are guaranteed by American.

In addition to the transactions described above, during the nine months ended September 30, 2009, the Company raised approximately $320 million under other loans secured by various aircraft. The loans generally bear interest at a LIBOR-based variable rate with a fixed margin which resets quarterly and are due in installments through 2019.

On October 9, 2009, American completed the offering of $450 million aggregate principal amount of its 10.5 percent senior secured notes due 2012 (the Senior Notes) which are guaranteed by AMR. The Senior Notes are secured by certain of American's aircraft, and proceeds from the offering of the notes were used to refinance American's $432 million term loan credit facility which had a scheduled maturity of December 17, 2010 and which was retired early on September 28, 2009.

A very large majority of the Company's aircraft assets (including most of the aircraft eligible for the benefits of Section 1110 of the U.S. Bankruptcy Code) are encumbered.

6. The Company utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

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

(in millions)	Fair Value Measurements as of September 30, 2009			
Description	Total	Level 1	Level 2	Level 3
Short term investments 1	$ 3,941	$ 1,767	$ 2,174	$ -
Restricted cash and short-term investments 1	459	459	-	-
Fuel derivative contracts, net liability 1	(45)	-	(45)	-
Total	$ 4,355	$ 2,226	$ 2,129	$ -

1 Unrealized gains or losses on short term investments, restricted cash and short-term investments and derivatives

qualifying for hedge accounting are recorded in Accumulated other comprehensive income (loss) at each measurement date.

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

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

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

	September 30, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Secured variable and fixed rate indebtedness	$ 5,159	$ 3,509	$ 4,783	$ 2,534
Enhanced equipment trust certificates	2,317	2,238	2,382	1,885
6.0% - 8.5% special facility revenue bonds	1,662	1,645	1,674	1,001
Credit facility agreement	-	-	691	545
AAdvantage Miles advance purchase	890	890		