AMR CORP
Form 10-Q
July 24, 2007

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

FORM 10-Q

[]Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended June 30, 2007.

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

Commission file number 1-8400.

AMR Corporation
(Exact name of registrant as specified in its charter)

Delaware	75-1825172
(State or other jurisdiction of incorporation or organization)	(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 accelerated filer" in Rule 12b-2 of the Exchange Act. 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 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 - 247,877,466 shares as of July 20, 2007.

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

AMR CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited) (In millions, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenues				
Passenger - American Airlines	$4,673	$4,720	$8,999	$8,964
- Regional Affiliates	658	702	1,216	1,271
Cargo	200	206	401	392
Other revenues	348	347	690	692
Total operating revenues	5,879	5,975	11,306	11,319
Expenses				
Wages, salaries and benefits	1,655	1,680	3,326	3,409
Aircraft fuel	1,644	1,708	3,054	3,181
Other rentals and landing fees	313	334	642	650
Depreciation and amortization	295	291	585	578
Commissions, booking fees and credit card expense	268	286	517	555
Maintenance, materials and repairs	268	238	516	474
Aircraft rentals	152	149	303	295
Food service	133	129	260	253
Other operating expenses	684	684	1,388	1,333
Total operating expenses	5,412	5,499	10,591	10,728
Operating Income	467	476	715	591
Other Income (Expense)				
Interest income	90	68	167	121
Interest expense	(235)	(260)	(476)	(521)
Interest capitalized	5	7	14	14
Miscellaneous - net	(10)	-	(22)	(6)
	(150)	(185)	(317)	(392)
Income Before Income Taxes	317	291	398	199
Income tax	-	-	-	-
Net Earnings	$ 317	$ 291	$ 398	$ 199
Earnings Per Share				
Basic	$1.28	$1.44	$1.65	$1.03
Diluted	$1.08	$1.14	$1.38	$0.84

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

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

	June 30, 2007	December 31, 2006
Assets		
Current Assets		
Cash	$ 215	$ 121
Short-term investments	5,685	4,594
Restricted cash and short-term investments	470	468
Receivables, net	1,219	988
Inventories, net	532	506
Other current assets	467	225
Total current assets	8,588	6,902
Equipment and Property		
Flight equipment, net	14,293	14,507
Other equipment and property, net	2,414	2,391
Purchase deposits for flight equipment	178	178
	16,885	17,076
Equipment and Property Under Capital Leases		
Flight equipment, net	726	765
Other equipment and property, net	89	100
	815	865
Route acquisition costs and airport operating and gate lease rights, net	1,170	1,167
Other assets	2,952	3,135
	$ 30,410	$29,145
Liabilities and Stockholders' Equity (Deficit)		
Current Liabilities		
Accounts payable	$ 1,359	$ 1,073
Accrued liabilities	2,109	2,301
Air traffic liability	4,607	3,782
Current maturities of long-term debt	1,195	1,246
Current obligations under capital leases	123	103
Total current liabilities	9,393	8,505
Long-term debt, less current maturities	10,511	11,217
Obligations under capital leases, less current obligations	731	824
Pension and postretirement benefits	5,343	5,341
Other liabilities, deferred gains and deferred credits	3,822	3,864
Stockholders' Equity (Deficit)		
Preferred stock	-	-
Common stock	254	228
Additional paid-in capital	3,438	2,718
Treasury stock	(367)	(367)
Accumulated other comprehensive loss	(1,219)	(1,291)
Accumulated deficit	(1,496)	(1,894)
	610	(606)
	$ 30,410	$29,145

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

AMR CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (In millions)

	Six Months Ended June 30, 2007	2006
Net Cash Provided by Operating Activities	$ 1,743	$ 1,611
Cash Flow from Investing Activities:		
Capital expenditures	(364)	(245)
Net increase in short-term investments	(1,091)	(1,310)
Net increase in restricted cash and short-term investments	(2)	(15)
Proceeds from sale of equipment and property	23	12
Other	5	(9)
Net cash used by investing activities	(1,429)	(1,567)
Cash Flow from Financing Activities:		
Payments on long-term debt and capital lease obligations	(862)	(611)
Proceeds from:		
Issuance of common stock, net of issuance costs	497	400
Reimbursement from construction reserve account	59	75
Exercise of stock options	86	121
Net cash used by financing activities	(220)	(15)
Net increase in cash	94	29
Cash at beginning of period	121	138
Cash at end of period	$ 215	$ 167

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/A for the year ended December 31, 2006 (2006 Form 10-K).

2. In March 2007, American announced its intent to pull forward the delivery of 47 737-800 aircraft that American had previously committed to acquire in 2013 through 2016. On June 28, 2007, American announced that it had accelerated the delivery of six of these aircraft into the first half of 2009. Any decisions to accelerate additional deliveries will depend on a number of factors, including future economic industry conditions and the financial conditions of the Company. As of June 30, 2007, the Company had commitments to acquire nine Boeing 737-800s in 2009 and an aggregate of 38 Boeing 737-800s and seven Boeing 777-200ERs in 2013 through 2016. Future payments for all aircraft, including the estimated amounts for price escalation, are currently estimated to be approximately $2.8 billion, with the majority occurring in 2011 through 2016. However, if the Company commits to accelerating the delivery dates of a significant number of aircraft in the future, a significant portion of the $2.8 billion commitment will be accelerated into earlier periods, including 2008 and 2009. The obligation in 2008 and 2009 for the nine aircraft already pulled forward is approximately $250 million. This amount is net of purchase deposits currently held by the manufacturer.

3. Accumulated depreciation of owned equipment and property at June 30, 2007 and December 31, 2006 was $11.6 billion and $11.1 billion, respectively. Accumulated amortization of equipment and property under capital leases was $1.1 billion at both June 30, 2007 and December 31, 2006.

4. In April 2007, the United States and the European Union approved an "open skies" air services agreement that provides airlines from the United States and E.U. member states open access to each other's markets, with freedom of pricing and unlimited rights to fly beyond the United States and beyond each E.U. member state. The provisions of the agreement will take effect on March 30, 2008. Under the agreement, every U.S. and E.U. airline is authorized to operate between airports in the United States and London's Heathrow Airport. Only three airlines besides American were previously allowed to provide that Heathrow service. The agreement will result in the

Company facing increased competition in serving Heathrow as additional carriers are able to obtain necessary slots and terminal facilities. However, the Company believes that American and the other carriers who currently have existing authorities and the related slots and facilities will continue to hold a significant advantage after the advent of open skies. The Company has recorded route acquisition costs (including international routes and slots) of $846 million as of June 30, 2007, including a significant amount related to operations at Heathrow. The Company considers these assets indefinite life assets under Statement of Financial Accounting Standard No. 142 "Goodwill and Other Intangibles" and as a result they are not amortized but instead are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company completed an impairment analysis on the Heathrow routes (including slots) effective March 31, 2007 and concluded that no impairment exists. The Company believes its estimates and assumptions are reasonable, however, the market for LHR slots is still developing and only a limited number of comparable transactions have occurred to date. The Company will continue to evaluate future transactions involving purchases of slots at LHR and the potential impact of those transactions on the value of the Company's routes and slots.

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

5. On January 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 prescribes a recognition threshold that a tax position is required to meet before being recognized in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition issues.

The Company has an unrecognized tax benefit of approximately $40 million which did not change significantly during the six months ended June 30, 2007. The application of FIN 48 would have resulted in an increase in retained earnings of $39 million, except that the increase was fully offset by the application of a valuation allowance. In addition, future changes in the unrecognized tax benefit will have no impact on the effective tax rate due to the existence of the valuation allowance. Accrued interest on tax positions is recorded as a component of interest expense but is not significant at June 30, 2007. The Company does not reasonably estimate that the unrecognized tax benefit will change significantly within the next twelve months.

The Company files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. The Company is currently under audit by the Internal Revenue Service for its 2001 through 2003 tax years with an anticipated closing date in 2008. The Company's 2004 and 2005 tax years are still subject to examination. Various state and foreign jurisdiction tax years remain open to examination as well, though the Company believes any additional assessment will be immaterial to its consolidated financial statements.

As discussed in Note 8 to the consolidated financial statements in the 2006 Form 10-K, the Company has a valuation allowance against the full amount of its net deferred tax asset. The Company 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 decreased approximately $83 million during the six months ended June 30, 2007 to $1.2 billion, including the impact of comprehensive income for the six months ended June 30, 2007, changes described above from applying FIN 48 and certain other adjustments.

Under special IRS rules (the "Section 382 Limitation"), cumulative stock purchases by material shareholders exceeding 50% during a 3-year period can potentially limit a company's future use of net operating losses (NOL's). Such limitation is currently increased by "built-in gains", as provided by current guidance. The Company is not currently subject to the "Section 382 Limitation", and if it were triggered in a future period, under current tax rules, is not expected to significantly impact the recorded value or timing of utilization of AMR's NOL's.

Various taxes and fees assessed on the sale of tickets to end customers are collected by the Company as an agent and remitted to taxing authorities. These taxes and fees have been presented on a net basis in the accompanying consolidated statement of operations and recorded as a liability until remitted to the appropriate taxing authority.

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

6. As of June 30, 2007, AMR had issued guarantees covering approximately $1.4 billion of American's tax-exempt bond debt and American had issued guarantees covering approximately $1.1 billion of AMR's unsecured debt. In addition, as of June 30, 2007, AMR and American had issued guarantees covering approximately $368 million of AMR Eagle's secured debt and AMR has issued guarantees covering an additional $2.4 billion of AMR Eagle's secured debt.

On March 30, 2007, American paid in full the principal balance of its senior secured revolving credit facility. As of June 30, 2007, the $442 million term loan facility under the same bank credit facility was still outstanding and the $275 million balance of the revolving credit facility remains available to American through maturity. The revolving credit facility amortizes at a rate of $10 million quarterly through December 17, 2007. American's obligations under the credit facility are guaranteed by AMR.

7. On January 16, 2007, the AMR Board of Directors approved the amendment and restatement of the 2005-2007 Performance Share Plan for Officers and Key Employees and the 2005 Deferred Share Award Agreement to permit settlement in a combination of cash and/or stock. However, the amendments did not impact the fair value of the awards. As a result, certain awards under these plans have been accounted for as equity awards since that date and the Company reclassified $122 million from Accrued liabilities to Additional paid-in-capital in accordance with Statement of Financial Accounting Standard No. 123 (revised 2004), "Share-Based Payment".

On January 26, 2007, AMR completed a public offering of 13 million shares of its common stock. The Company realized $497 million from the sale of equity.

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

8.The following tables provide the components of net periodic benefit cost for the three and six months ended June 30, 2007 and 2006 (in millions):

	Pension Benefits			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Components of net periodic benefit cost				
Service cost	$ 93	$ 100	$ 185	$ 199
Interest cost	168	160	336	321
Expected return on assets	(187)	(167)	(374)	(335)
Amortization of:				
Prior service cost	4	4	8	8
Unrecognized net loss	6	20	13	40
Net periodic benefit cost	$ 84	$ 117	$ 168	$ 233

	Other Postretirement Benefits			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Components of net periodic benefit cost				
Service cost	$ 18	$ 20	$ 35	$ 38
Interest cost	49	49	96	96
Expected return on assets	(5)	(4)	(9)	(8)
Amortization of:				
Prior service cost	(3)	(3)	(7)	(5)
Unrecognized net (gain) loss	(2)	-	(4)	1
Net periodic benefit cost	$ 57	$ 62	$ 111	$ 122

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. Of the $364 million the Company expects to contribute to its defined benefit pension plans in 2007, the Company contributed $180 million during the six months ended June 30, 2007 and contributed $86 million on July 13, 2007.

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

9.As a result of the 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 components of these changes and the remaining accruals for these charges (in millions):

	Aircraft Charges	Facility Exit Costs	Total
Remaining accrual at December 31, 2006	$ 128	$ 19	$ 147
Payments	(8)	-	(8)
Remaining accrual at June 30, 2007	$ 120	$ 19	$ 139

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

10. The Company includes changes in the fair value of certain derivative financial instruments that qualify for hedge accounting and unrealized gains and losses on available-for-sale securities in comprehensive income. For the three months ended June 30, 2007 and 2006, comprehensive income was $317 million and $302 million, respectively, and for the six months ended June 30, 2007 and 2006, comprehensive income was $470 million and $231 million, respectively. The difference between net earnings and comprehensive income for the three and six months ended June 30, 2007 and 2006 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", 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. In doing so, the Company uses a regression model to determine the correlation of the change in prices of the commodities used to hedge jet fuel (e.g. NYMEX Heating oil) to the change in the price of jet fuel. The Company also monitors the actual dollar offset of the hedges' market values as compared to hypothetical jet fuel hedges. The fuel hedge contracts are generally deemed to be "highly effective" if the R-squared is greater than 80 percent and the dollar offset correlation is within 80 percent to 125 percent. The Company discontinues hedge accounting prospectively if it determines that a derivative is no longer expected to be highly effective as a hedge or if it decides to discontinue the hedging relationship.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Numerator:				
Net earnings - numerator for basic earnings per share	$ 317	$ 291	$ 398	$ 199
Interest on senior convertible notes	7	7	14	14
Net earnings adjusted for interest on senior convertible notes -				

numerator for diluted earnings per share	$ 324	$ 298	$ 412	$ 213
Denominator:				
Denominator for basic earnings per share - weighted-average shares	246	202	241	194
Effect of dilutive securities:				
Senior convertible notes	32	32	32	32
Employee options and shares	33	47	40	46
Assumed treasury shares purchased	(12)	(19)	(14)	(19)
Dilutive potential common shares	53	60	58	59
Denominator for diluted earnings per share - adjusted weighted-average shares	299	262	299	253
Basic earnings per share	$ 1.28	1.44	$ 1.65	$ 1.03
Diluted earnings per share	$ 1.08	$ 1.14	$ 1.38	$ 0.84

Approximately six million and ten million shares related to employee stock options were not added to the denominator for the three months ended June 30, 2007 and 2006, respectively, because the options' exercise prices were greater than the average market price of the common shares. For the six months ended June 30, 2007 and 2006, approximately four million and 11 million shares, respectively, 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.

12. On July 3, 2007, American entered into an agreement to sell all of its shares in ARINC Incorporated. Upon closing, which is expected to occur prior to October 31, 2007, American expects to receive proceeds of approximately $194 million and to record a gain on the sale of approximately $140 million. The closing of the transaction is subject to the satisfaction of a number of conditions, many of which are beyond American's control, and no assurance can be given that such closing will occur.

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," "anticipates," "indicates," "believes," "forecast," "guidance," "outlook," "may," "will," "should," and similar expressions are intended to identify forward-looking statements. Similarly, statements that describe our 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 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 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 and volatile fuel prices and further increases in the price of fuel, and the availability of fuel; the fiercely and increasingly competitive business environment faced by the Company; industry consolidation, competition with reorganized and reorganizing carriers; low fare levels by historical standards and the Company's reduced pricing power; the Company's potential need to raise additional funds and its ability to do so on acceptable terms; changes in the Company's corporate or 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; labor costs that are higher than the Company's competitors; uncertainties with respect to the Company's relationships with unionized and other employee work groups; increased insurance costs and potential reductions of available insurance coverage; the Company's ability to retain key management personnel; potential failures or disruptions of the Company's computer, communications or other technology systems; 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 2006 Form 10-K (see in particular Item 1A "Risk Factors" in the 2006 Form 10-K).

Overview

The Company recorded net earnings of $317 million in the second quarter of 2007 compared to $291 million in the same period last year. The Company's second quarter 2007 results were impacted by an improvement in unit revenues (passenger revenue per available seat mile) and by fuel prices that remain high by historical standards. In addition, a significant number of weather related events impacted the Company's second quarter results and the Company estimates these disruptions decreased scheduled mainline departures for the second quarter of 2007 by approximately 2.1 percent and reduced the Company's revenue by nearly $50 million during the quarter.

Mainline passenger unit revenues increased 3.6 percent for the second

quarter due to a 1.0 point load factor increase and a 2.3 percent increase in passenger yield (passenger revenue per passenger mile) compared to the same period in 2006. Although load factor performance and passenger yield showed year-over-year improvement, passenger yield remains low by historical standards. The Company believes this is the result of excess industry capacity and its reduced pricing power resulting from a number of factors, including greater cost sensitivity on the part of travelers (especially business travelers), increased competition from LCC's and pricing transparency resulting from the use of the internet.

The Company's ability to become consistently profitable and its ability to continue to fund its obligations on an ongoing basis will depend on a number of factors, many of which are largely beyond the Company's control. Certain risk factors that affect the Company's business and financial results are referred to under "Forward-Looking Information" above and are discussed in the Risk Factors listed in Item 1A (on pages 11-17) in the 2006 Form 10-K. In addition, four of the Company's largest domestic competitors have filed for bankruptcy in the last several years and have used this process to significantly reduce contractual labor and other costs. In order to remain competitive and to improve its financial condition, the Company must continue to take steps to generate additional revenues and to reduce its costs. Although the Company has a number of initiatives underway to address its cost and revenue challenges, the ultimate success of these initiatives is not known at this time and cannot be assured.

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 2006 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 ongoing pension funding obligations, the Company may need access to additional funding. The Company continues to evaluate the economic benefits and other aspects of replacing some of the older aircraft in its fleet prior to 2013 and also continues to evaluate the appropriate mix of aircraft in its fleet. The Company's possible financing sources primarily include: (i) a limited amount of additional secured aircraft debt or sale-leaseback transactions involving owned aircraft (a very large majority of the Company's owned aircraft, including virtually all of the Company's Section 1110-eligible aircraft, are encumbered); (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) issuance of 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, substantial indebtedness, current credit ratings, high fuel prices and the financial difficulties that have been experienced in the airline industry. The inability of the Company to obtain additional 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 the Company's 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 secured bank credit facility which consists of a $275 million revolving credit facility, with a final maturity on June 17, 2009, and a fully drawn $442 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). On March 30, 2007, American paid in full the principal balance of the Revolving Facility and as of June 30, 2007, it remained undrawn. American's obligations under the Credit Facility are guaranteed by AMR.

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 1.30 to 1.00 for the four quarter period ending June 30, 2007, and will increase gradually for each four quarter period ending on each fiscal quarter thereafter until it reaches 1.50 to 1.00 for the four quarter period ending June 30, 2009. AMR and American were in compliance with the Liquidity Covenant and the EBITDAR covenant as of June 30, 2007 and expect to be able to continue to comply with these covenants. However, given fuel prices that are high by historical standards 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 these covenants, and there are no assurances that AMR and American will be able to do so. 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 have a material adverse impact on the Company.

Pension Funding Obligation

Of the $364 million the Company expects to contribute to its defined benefit pension plans in 2007, the Company contributed $180 million

during the six months ended June 30, 2007 and contributed $86 million on July 13, 2007.

As a result of a recent amendment to the Pension Protection Act of 2006, the timing of the Company's minimum required contributions to its defined benefit pension plans has changed significantly. The legislation did not change the Company's total future contributions and also did not change the expected contribution in 2007.

As a result of the legislation, the Company's contractual obligations for Other long-term liabilities (as disclosed in the 2006 10-K) have changed. In 2008 and 2009, the Company's obligation for Other long-term liabilities is expected to be approximately $471 million. In 2010 and 2011, the Company's obligation for Other long-term liabilities is expected to be approximately $702 million. In 2012 through 2017, the Company's obligation for Other long-term liabilities is expected to be approximately $3.0 billion. Included in these amounts are minimum required pension contributions based on actuarially determined estimates and other postretirement benefit payments based on estimated payments through 2017.

The U.S Congress is currently considering legislation that would allow commercial airline pilots to fly until age 65. The Federal Aviation Administration currently requires commercial pilots to retire once they reach age 60. The Company has not completed its evaluation of the impact of the proposed legislation on its financial statements; however, the proposed legislation could have a material impact on the Company's valuation of its liability for pension and postretirement benefits.

Compensation

As described in Note 7 to the condensed consolidated financial statements, during 2006 and January 2007, the AMR Board of Directors approved the amendment and restatement of all of the outstanding performance share plans, the related performance share agreements and deferred share agreements that required settlement in cash. The plans were amended to permit settlement in cash and/or stock; however, the amendments did not impact the fair value of the awards under the plans. These changes were made in connection with a grievance filed by the Company's three labor unions which asserted that a cash settlement may be contrary to a component of the Company's 2003 Annual Incentive Program agreement with the unions.

American has a profit sharing program that provides variable compensation that rewards frontline employees when American achieves certain financial targets. Generally, the profit sharing plan provides for a profit sharing pool for eligible employees equal to 15 percent of pre-tax income of American in excess of $500 million. Based on current conditions, the Company's condensed consolidated financial statements include an accrual for profit sharing. There can be no assurance that the Company's forecasts will approximate actual results. Additionally, reductions in the Company's forecasts of income for 2007 could result in the reversal of a portion or all of the previously recorded profit sharing expense.

Cash Flow Activity

At June 30, 2007, the Company had $5.9 billion in unrestricted cash and short-term investments, an increase of $1.2 billion from December 31, 2006, and $275 million available under the Revolving Facility.

Net cash provided by operating activities in the six-month period ended June 30, 2007 was $1.7 billion, an increase of $132 million over the same period in 2006 primarily due to the Company's management of capacity. The Company contributed $180 million to its defined benefit pension plans in the first six months of 2007 compared to $119 million during the first six months of 2006.

Capital expenditures for the first six months of 2007 were $364 million and primarily included aircraft modifications and the cost of improvements at New York's John F. Kennedy airport (JFK). A significant portion of the Company's construction costs at JFK have been reimbursed through a fund established from a previous financing transaction.

On January 26, 2007, AMR completed a public offering of 13 million shares of its common stock. The Company realized $497 million from the sale of equity.

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

RESULTS OF OPERATIONS

For the Three Months Ended June 30, 2007 and 2006

Revenues

The Company's revenues decreased approximately $96 million, or 1.6 percent, to $5.9 billion in the second quarter of 2007 from the same period last year. American's passenger revenues decreased by 1.0 percent, or $47 million, primarily driven by a capacity (available seat mile) (ASM) decrease of 4.4 percent. American's passenger load factor increased 1.0 points to 83.6 percent and passenger revenue yield per passenger mile increased by 2.3 percent to 13.10 cents. This resulted in an increase in American's passenger revenue per available seat mile (RASM) of 3.6 percent to 10.96 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 June 30, 2007			
	RASM (cents)	Y-O-Y Change	ASMs (billions)	Y-O-Y Change
DOT Domestic	10.92	2.1%	27.1	(4.6)%
International	11.03	6.2	15.5	(3.9)
DOT Latin America	10.90	3.4	7.2	(0.2)
DOT Atlantic	11.33	3.6	6.6	(1.6)
DOT Pacific	10.41	26.4	1.7	(23.1)

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, decreased $44 million, or 6.3 percent, to $658 million as a result of decreased capacity, load factors and passenger yield. Regional Affiliates' traffic decreased 2.7 percent to 2.6 billion revenue passenger miles (RPMs) and capacity decreased 1.6 percent to 3.4 billion ASMs, resulting in a 0.8 point decrease in the passenger load factor to 76.8 percent.

Operating Expenses

The Company's total operating expenses decreased 1.6 percent, or $87 million, to $5.4 billion in the second quarter of 2007 compared to the second quarter of 2006. American's mainline operating expenses per ASM in the second quarter of 2007 increased 2.4 percent compared to the second quarter of 2006 to 11.14 cents. These increases are due primarily to a significant number of weather related cancellations that resulted in a 2.1 percent decrease in the Company's scheduled mainline departures during the second quarter of 2007. 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.

(in millions) Operating Expenses	Three Months Ended June 30, 2007	Change from 2006	Percentage Change	
Wages, salaries and benefits	$ 1,655	$ (25)	(1.5)%	
Aircraft fuel	1,644	(64)	(3.7)	
Other rentals and landing fees	313	(21)	(6.3)	
Depreciation and amortization	295	4	1.4	
Commissions, booking fees and credit card expense	268	(18)	(6.3)	
Maintenance, materials and repairs	268	30	12.6	(a)
Aircraft rentals	152	3	2.0	
Food service	133	4	3.1	
Other operating expenses	684	-	-	
Total operating expenses	$ 5,412	$ (87)	(1.6)%	

(a) The increase in Maintenance, materials and repairs is the result of fewer of the Company's aircraft being covered by manufacturer's warranty.

Other Income (Expense)

Interest income increased $22 million in the second quarter of 2007 compared to the second quarter of 2006 due primarily to an increase in short-term investment balances. Interest expense decreased $25 million as a result of a decrease in the Company's long-term debt balance.

Income Tax

The Company did not record a net tax provision associated with its second quarter 2007 and 2006 earnings due to the Company providing a valuation allowance, as discussed in Note 5 to the condensed consolidated financial statements.

Operating Statistics

The following table provides statistical information for American and Regional Affiliates for the three months ended June 30, 2007 and 2006.

	Three Months Ended June 30,	
	2007	2006
American Airlines, Inc. Mainline Jet Operations		
Revenue passenger miles (millions)	35,669	36,857
Available seat miles (millions)	42,647	44,600
Cargo ton miles (millions)	536	562
Passenger load factor	83.6%	82.6%
Passenger revenue yield per passenger mile (cents)	13.10	12.81
Passenger revenue per available seat mile (cents)	10.96	10.58
Cargo revenue yield per ton mile (cents)	37.25	36.59
Operating expenses per available seat mile, excluding Regional Affiliates (cents) (*)	11.14	10.88
Fuel consumption (gallons, in millions)	713	737
Fuel price per gallon (cents)	207.5	209.5
Operating aircraft at period-end	693	701
Regional Affiliates		
Revenue passenger miles (millions)	2,595	2,666
Available seat miles (millions)	3,380	3,436
Passenger load factor	76.8%	77.6%

(*) Excludes $710 million and $688 million of expense incurred related to Regional Affiliates in 2007 and 2006, respectively.

Operating aircraft at June 30, 2007, 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	137	Embraer 140	59
Boeing 767-200 Extended Range	15	Embraer 145	108
Boeing 767-300 Extended Range	58	Super ATR	39
Boeing 777-200 Extended Range	47	Saab 340	36
McDonnell Douglas MD-80	325	Total	306
Total	693		

The average aircraft age for American's and AMR Eagle's aircraft is 14.4 years and 7.1 years, respectively.

Of the operating aircraft listed above, 25 McDonnell Douglas MD-80 aircraft - - 12 owned, eight operating leased and five capital leased - - and 11 operating leased Saab 340 aircraft were in temporary storage as of June 30, 2007.

Owned and leased aircraft not operated by the Company at June 30, 2007, included:

American Airlines Aircraft		AMR Eagle Aircraft	
Boeing 757-200	5	Embraer 145	10
Boeing 767-200 Extended Range	1	Saab 340	29
Fokker 100	4	Total	39
McDonnell Douglas MD-80	13		
Total	23		

AMR Eagle leased its 10 owned Embraer 145 aircraft that are not

operated by AMR Eagle to Trans States Airlines, Inc.

For the Six Months Ended June 30, 2007 and 2006

Revenues

The Company's revenues decreased approximately $13 million, or 0.1 percent, to $11.3 billion for the six months ended June 30, 2007 from the same period last year. American's passenger revenues increased by 0.4 percent, or $35 million, while capacity (ASM) decreased by 3.4 percent. American's passenger load factor increased 0.9 points to 80.9 percent and passenger revenue yield per passenger mile increased by 2.8 percent to 13.19 cents. This resulted in an increase in American's passenger RASM of 4.0 percent to 10.67 cents. Following is additional information regarding American's domestic and international RASM and capacity based on geographic areas defined by the DOT:

	Six Months Ended June 30, 2007			
	RASM (cents)	Y-O-Y Change	ASMs (billions)	Y-O-Y Change
DOT Domestic	10.56	1.5%	53.9	(3.9)%
International	10.87	8.5	30.4	(2.7)
DOT Latin America	11.23	7.0	15.0	0.5
DOT Atlantic	10.70	6.1	12.0	(1.8)
DOT Pacific	9.86	22.8	3.4	(17.4)

Regional Affiliates' passenger revenues, which are based on industry standard proration agreements for flights connecting to American flights, decreased $55 million, or 4.3 percent, to $1.2 billion as a result of decreased capacity, load factors and passenger yield. Regional Affiliates' traffic decreased 1.7 percent to 4.9 billion revenue passenger miles (RPMs) and capacity decreased 0.6 percent to 6.7 billion ASMs, resulting in a 0.9 point decrease in the passenger load factor to 73.0 percent.

Operating Expenses

The Company's total operating expenses decreased 1.3 percent, or $137 million, to $10.6 billion for the six months ended June 30, 2007 compared to the same period in 2006. American's mainline operating expenses per ASM in the six months ended June 30, 2007 increased 1.8 percent compared to the same period in 2006 to 11.03 cents. These changes are due primarily to weather related cancellations in 2007.

(in millions)

Operating Expenses	Six Months Ended June 30, 2007	Change from 2006	Percentage Change
Wages, salaries and benefits	$ 3,326	$ (83)	(2.4)%
Aircraft fuel	3,054	(127)	(4.0)
Other rentals and landing fees	642	(8)	(1.2)
Depreciation and amortization	585	7	1.2
Commissions, booking fees and credit card expense	517	(38)	(6.8)
Maintenance, materials and repairs	516	42	8.9
Aircraft rentals	303	8	2.7
Food service	260	7	2.8
Other operating expenses	1,388	55	4.1

Total operating expenses	$ 10,591	$ (137)	(1.3)%

Other Income (Expense)

Interest income increased $46 million in six months ended June 30, 2007 compared to the same period in 2006 due primarily to an increase in short-term investment balances. Interest expense decreased $45 million as a result of a decrease in the Company's long-term debt balance.

Income Tax

The Company did not record a net tax provision associated with its earnings for the six months ended June 30, 2007 and 2006 due to the Company providing a valuation allowance, as discussed in Note 5 to the condensed consolidated financial statements.

Operating Statistics

The following table provides statistical information for American and Regional Affiliates for the six months ended June 30, 2007 and 2006.

	Six Months Ended June 30,	
	2007	2006
American Airlines, Inc. Mainline Jet Operations		
Revenue passenger miles (millions)	68,244	69,872
Available seat miles (millions)	84,338	87,351
Cargo ton miles (millions)	1,060	1,083
Passenger load factor	80.9%	80.0%
Passenger revenue yield per passenger mile (cents)	13.19	12.83
Passenger revenue per available seat mile (cents)	10.67	10.26
Cargo revenue yield per ton mile (cents)	37.80	36.15
Operating expenses per available seat mile, excluding Regional Affiliates (cents) (*)	11.03	10.84
Fuel consumption (gallons, in millions)	1,405	1,442
Fuel price per gallon (cents)	196.0	199.5
Regional Affiliates		
Revenue passenger miles (millions)	4,857	4,943
Available seat miles (millions)	6,654	6,693
Passenger load factor	73.0%	73.9%

(*) Excludes $1.4 billion and $1.3 billion of expense incurred related to Regional Affiliates in 2007 and 2006, respectively.

Outlook

The Company currently expects third quarter 2007 mainline unit cost to increase approximately 2.4 percent year over year. Full year 2007 mainline unit costs are expected to increase approximately 2.3 percent versus 2006.

Capacity for American's mainline jet operations is expected to decline more than 2.4 percent in the third quarter of 2007 compared to the third quarter of 2006. Mainline capacity is expected to decline approximately 2.1 percent in the full year 2007 compared to 2006.

Critical Accounting Policies and Estimates

The preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Company believes its estimates and assumptions are reasonable; however, actual results and the timing of the recognition of such amounts could differ from those estimates. The Company has identified the following critical accounting policies and estimates used by management in the preparation of the Company's financial statements: accounting for long-lived assets, passenger revenue, frequent flyer program, stock compensation, pensions and other postretirement benefits, and income taxes. These policies and estimates are described in the 2006 Form 10-K. In addition, the following policy was added during the six months ended June 30, 2007.

Routes - AMR performs annual impairment tests on its routes, which are indefinite life intangible assets under Statement of Financial Accounting Standard No. 142 "Goodwill and Other Intangibles" and as a result they are not amortized. The Company also performs impairment tests when events and circumstances indicate that the assets might be impaired. These tests are based on estimates of discounted future cash flows, using assumptions based on historical results adjusted to reflect the Company's best estimate of future market and operating conditions. The net carrying value of assets not recoverable is reduced to fair value. The Company's estimates of fair value represent its best estimate based on industry trends and reference to market rates and transactions.

The Company has recorded route acquisition costs (including international routes and slots) of $846 million as of June 30, 2007, including a significant amount related to operations at London Heathrow. The Company completed an impairment analysis on the London Heathrow routes (including slots) effective March 31, 2007 and concluded that no impairment exists. The Company believes its estimates and assumptions are reasonable, however, given the significant uncertainty regarding how the recent open skies agreement will ultimately affect its operations at Heathrow, the actual results could differ from those estimates. The Company believes its estimates and assumptions are reasonable, however, the market for LHR slots is still developing and only a limited number of comparable transactions have occurred to date. The Company will continue to evaluate future transactions involving purchases of slots at LHR and the potential impact of those transactions on the value of the Company's routes and slots. See Note 4 to the condensed consolidated financial statements for additional information.

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 2006 Form 10-K. The 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 June 30, 2007 cost per gallon of fuel. Based on projected 2007 and 2008 fuel usage through June 30, 2008, such an increase would result in an increase to aircraft fuel expense of approximately $536 million in the twelve months ended June 30, 2008, inclusive of the impact of fuel hedge instruments outstanding at June 30, 2007. Comparatively, based on projected 2007 fuel usage, such an increase would have resulted in an increase to aircraft fuel expense of approximately $531 million in the twelve months ended December 31, 2007, inclusive of the impact of fuel hedge instruments outstanding at December 31, 2006. 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 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. In doing so, the Company uses a regression model to determine the correlation of the change in prices of the commodities used to hedge jet fuel (e.g. NYMEX Heating oil) to the change in the price of jet fuel. The Company also monitors the actual dollar offset of the hedges' market values as compared to hypothetical jet fuel hedges. The fuel hedge contracts are generally deemed to be "highly effective" if the R-squared is greater than 80 percent and the dollar offset correlation is within 80 percent to 125 percent. The Company discontinues hedge accounting prospectively if it determines that a derivative is no longer expected to be highly effective as a hedge or if it decides to discontinue the hedging relationship.

As of June 30, 2007, the Company had effective hedges, primarily collars, covering approximately 31 percent of its estimated remaining 2007 fuel requirements and an insignificant amount of its estimated fuel requirements thereafter. The consumption hedged for the remainder of 2007 is capped at an average price of approximately $62 per barrel of crude oil. A deterioration of the Company's financial position could negatively affect the Company's ability to hedge fuel in the future.

Item 4. Controls and Procedures

The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, or the Exchange Act. This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission. An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the

effectiveness of the Company's disclosure controls and procedures as of June 30, 2007. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of June 30, 2007. During the quarter ending on June 30, 2007, 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.

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, 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.

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 APFA and American relating to the RPA and the ratification vote on the RPA by individual APFA members, including: violation of the Labor Management Reporting and Disclosure Act (LMRDA) and the APFA's Constitution and By-laws, violation by the APFA 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 left 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 its constitution). By letter dated February 9, 2007, plaintiffs' counsel informed counsel for the defendants that plaintiffs do not intend to pursue the LMRDA claim against APFA further. Although the Company believes the case against it is without merit and both American and the APFA 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.

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. On December 19, 2006 and June 12, 2007, the Company received requests for information from the European Commission, seeking information regarding the Company's corporate structure, revenue and pricing announcements for air cargo shipments to and from the European Union. On January 23, 2007, the Brazilian competition authorities, as part of an ongoing investigation, conducted an unannounced search of the Company's cargo facilities in Sao Paulo, Brazil. The Brazilian authorities are investigating whether the Company and certain other foreign and domestic air carriers violated Brazilian competition laws by illegally conspiring to set fuel surcharges on cargo shipments. On June 27, 2007, the Company received a request for information from the Australian Competition and Consumer Commission seeking information regarding fuel surcharges imposed by the Company on cargo shipments to and from Australia and regarding the structure of the Company's cargo operations. The Company intends to cooperate fully with these investigations and inquiries. In the event that these or other investigations uncover violations of the U.S. antitrust laws or the competition laws of some other jurisdiction, such findings and related legal proceedings could have a material adverse impact on the Company. Approximately 44 purported class action lawsuits have been filed in the U.S. against the Company and certain foreign and domestic air carriers alleging that the defendants violated U.S. antitrust laws by illegally conspiring to set prices and surcharges on cargo shipments. These cases, along with other purported class action lawsuits in which the Company was not named, were consolidated in the United States District Court for the Eastern District of New York as In re Air Cargo Shipping Services Antitrust Litigation, 06-MD-1775 on June 20, 2006. Plaintiffs are seeking trebled money damages and injunctive relief. The Company has not been named as a defendant in the consolidated complaint filed by the plaintiffs. However, the plaintiffs have not released any claims that they may have against the Company, and the Company may later be added as a defendant in the litigation. If the Company is sued on these claims, it will vigorously defend the suit, but any adverse judgment could have a material adverse impact on the Company. Also, on January 23, 2007, the Company was served with a purported class action complaint filed against the Company, American, and certain foreign and domestic air carriers in the Supreme Court of British Columbia in Canada (McKay v. Ace Aviation Holdings, et al.). The plaintiff alleges that the defendants violated Canadian competition laws by illegally conspiring to set prices and surcharges on cargo shipments. The complaint seeks compensatory and punitive damages under Canadian law. On June 22, 2007, the plaintiffs agreed to dismiss their claims against the Company. The dismissal is without

prejudice, and the Company could be brought back into the litigation at a future date. If litigation is recommenced against the Company in the Canadian courts, the Company will vigorously defend itself; however, any adverse judgment could have a material adverse impact on the Company.

On June 20, 2006, 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 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 or other investigations uncover violations of the U.S. antitrust laws or the competition laws of some other jurisdiction, such findings and related legal proceedings could have a material adverse impact on the Company. Approximately 52 purported class action lawsuits have been filed in the U.S. against the Company and certain foreign and domestic air carriers alleging that the defendants violated U.S. antitrust laws by illegally conspiring to set prices and surcharges for passenger transportation. These cases, along with other purported class action lawsuits in which the Company was not named, were consolidated in the United States District Court for the Northern District of California as In re International Air Transportation Surcharge Antitrust Litigation, M 06-01793 on October 25, 2006. On July 9, 2007, the Company was named as a defendant in the consolidated complaint. 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.

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.). This case has been consolidated in the Central District of California for pre-trial purposes with numerous other cases brought by the plaintiff against other defendants. The plaintiff alleges that American 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.

American is defending a lawsuit (Kelley Kivilaan v. American Airlines, Inc.), filed on September 16, 2004 in the United States District Court for the Middle District of Tennessee. The suit was brought by a flight attendant who seeks to represent a purported class of current

and former flight attendants. The suit alleges that several of the Company's medical benefits plans discriminate against females on the basis of their gender in not providing coverage in all circumstances for prescription contraceptives. Plaintiff seeks injunctive relief and monetary damages. A motion for class certification has been filed, but the case has not yet been certified as a class action. American will vigorously defend this lawsuit; however, any adverse judgment could have a material adverse impact on the Company.

Item 4. Submission of Matters to a Vote of Security Holders

The owners of 216,427,925 shares of common stock, or 90.08 percent of shares outstanding, were represented at the annual meeting of stockholders on May 16, 2007 at the American Airlines Training & Conference Center, Flagship Auditorium, 4501 Highway 360 South, Fort Worth, Texas.

Stockholders elected the Company's 12 nominees to the 12 director positions by the vote shown below:

Nominees	Votes For	Votes Withheld
Gerard J. Arpey	198,801,819	17,626,106
John W. Bachmann	201,796,916	14,631,009
David L. Boren	197,489,442	18,938,483
Armando M. Codina	197,644,112	18,783,813
Earl G. Graves	199,197,375	17,230,550
Ann M. Korologos	199,202,761	17,225,164
Michael A. Miles	201,443,791	14,984,134
Philip J. Purcell	198,251,515	18,176,410
Ray M. Robinson	200,970,877	15,457,048
Judith Rodin, Ph.D.	201,420,551	15,007,374
Matthew K. Rose	201,738,165	14,689,760
Roger T. Staubach	201,736,958	14,690,967

Stockholders ratified the Audit Committee's decision to retain Ernst & Young LLP as independent auditors for the Company for the 2007 fiscal year. The vote was 192,088,498 in favor, 3,775,425 against, and 122,799 abstaining.

Stockholders rejected a proposal to allow cumulative voting in election of outside directors. The proposal was submitted by Evelyn Y. Davis. The vote was 62,203,334 in favor, 117,862,867 against, 287,945 abstaining and 36,073,779 not voting.

Stockholders approved a proposal to give holders of 10 percent of the Company's outstanding common stock the power to call a special shareholder meeting. The proposal was submitted by John Chevedden. The vote was 97,059,851 in favor, 82,912,154 against, 382,140 abstaining and 36,073,780 not voting.

Stockholders rejected a proposal to require that at least 75 percent of future equity compensation awarded to senior executives be performance based with the performance criteria disclosed to shareholders. The proposal was submitted by John Chevedden, acting as proxy for Patricia Haddon. The vote was 13,148,827 in favor, 152,443,544 against, 14,761,774 abstaining and 36,073,780 not voting.

Stockholders rejected a proposal to allow shareholders to vote on a

non-binding advisory resolution to ratify the compensation of the Company's named executive officers. The proposal was submitted by The Allied Pilots Association. The vote was 68,424,832 in favor, 105,821,913 against, 6,107,402 abstaining and 36,073,778 not voting.

Item 5. Other Information

As discussed in the Company's Proxy Statement, the Compensation Committee of the Company's Board of Directors conducts annually a comprehensive review of compensation for the executive officers of the Company and American with independent compensation consultants engaged by the Committee. At the July 2007 meetings of the Compensation Committee and the Board, the following compensation initiatives were approved (effective July 23, 2007):

- Grants of stock-settled stock appreciation rights pursuant to the form of Stock Appreciation Right Agreement ("SAR Agreement"), attached as Exhibit 10.1 to this Form 10-Q. An attachment to the form SAR Agreement notes the stock-settled stock appreciation right grants to the executive officers, effective July 23, 2007.

- Grants of deferred shares pursuant to the form of Deferred Share Award Agreement for 2007 ("Deferred Share Agreement"). The form of the Deferred Share Agreement is attached as Exhibit 10.2 to this Form 10-Q, and an attachment to the form Deferred Share Agreement notes the deferred share grants to the executive officers, effective July 23, 2007.

- Grants of performance shares pursuant to the form of Performance Share Agreement ("Performance Share Agreement") under the 2007 - 2009 Performance Share Plan for Officers and Key Employees ("Performance Share Plan"). The form of the Performance Share Agreement and the Performance Share Plan are attached as Exhibit 10.3 to this Form 10-Q, and an attachment to the form Performance Share Agreement notes the performance share grants to the executive officers, effective July 23, 2007.

- A grant of 58,000 career performance shares (effective July 23, 2007) pursuant to the terms of the Career Performance Shares, Deferred Stock Award Agreement between the Company and Gerard J. Arpey, dated as of July 25, 2005. The form of this agreement is attached as Exhibit 10.6 to the Company's report on Form 10-Q for the quarterly period ended June 30, 2005.

Item 6. Exhibits

The following exhibits are included herein:

10.1 Form of Stock Appreciation Right Agreement under the 1998 Long Term Incentive Plan, as Amended (with awards to executive officers noted)

10.2 Form of 2007 Deferred Share Award Agreement (with awards to executive officers noted)

10.3 Form of Performance Share Agreement under the 2007 - 2009 Performance Share Plan for Officers and Key Employees and the 2007-2009 Performance Share Plan for Officers and Key Employees (with awards to executive officers noted)

12 Computation of ratio of earnings to fixed charges for the three and six months ended June 30, 2007 and 2006.

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).

Signature

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

AMR CORPORATION

Date: July 24, 2007 BY: /s/ Thomas W. Horton
Thomas W. Horton
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)