AMERICAN AIRLINES INC
Form 10-K
February 20, 2013

United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 10-K
þ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2012
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number: 1-2691
American Airlines, Inc
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 13-1502798 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification Number) |

4333 Amon Carter Blvd.
Fort Worth, Texas 76155
(Address of principal executive offices, including zip code)
(817) 963-1234
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Exchange on Which Registered |
|---|---|
| NONE | NONE |

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
¨ Yes þ No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
¨ Yes þ No
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 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).
þ Yes ¨ No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large Accelerated Filer ¨ | Accelerated Filer ¨ |
| Non-accelerated Filer þ | Smaller reporting company ¨ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ¨ Yes þ No
American Airlines, Inc. is a wholly-owned subsidiary of AMR Corporation, and there is no market for the registrant's common stock. As of February 13, 2012, 1,000 shares of the registrant's common stock were outstanding.

Forward-Looking Information

Statements in this report contain various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which represent the Company's expectations or beliefs concerning future events. When used in this document and in documents incorporated herein by reference, the words “expects,” “estimates,” “plans,” “anticipates,” “indicates,” “believes,” “projects,” “forecast,” “guidance,” “outlook,” “may,” “will,” “could,” “should,” “seeks,” "intends," “targets” and similar expre intended to identify forward-looking statements. Similarly, statements that describe the Company's objectives, plans or goals, or actions the Company may take in the future, are forward-looking statements. Forward-looking statements include, without limitation, the Company's expectations concerning AMR's anticipated merger with US Airways Group, Inc., the Chapter 11 Cases and the Company's business plan; the Company's operations and financial conditions, including changes in capacity, revenues, and costs; future financing plans and needs; the amounts of its unencumbered assets and other sources of liquidity; fleet plans; overall economic and industry conditions; plans and objectives for future operations; regulatory approvals and actions; and the impact on the Company of its results of operations in recent years and the sufficiency of its financial resources to absorb that impact. Other forward-looking statements include statements which do not relate solely to historical facts, such as, without limitation, statements which discuss the possible future effects of current known trends or uncertainties, or which indicate that the future effects of known trends or uncertainties cannot be predicted, guaranteed or assured. All forward-looking statements in this report are based upon information available to the Company on the date of this report. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

Guidance given in this report regarding capacity, fuel consumption, fuel prices, fuel hedging and unit costs are forward-looking statements. Forward-looking statements are subject to a number of factors that could cause the Company's actual results to differ materially from the Company's expectations. In particular, the risk factors listed in Item 1A could cause the Company's actual results to differ materially from historical results and from those expressed in forward-looking statements.

Merger Agreement

Description of Agreement and Plan of Merger

On February 13, 2013, AMR Corporation (AMR), US Airways Group, Inc., a Delaware corporation (US Airways), and AMR Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of AMR (Merger Sub), entered into an Agreement and Plan of Merger (the Merger Agreement), providing for a business combination of AMR and US Airways. The Merger Agreement provides that, upon the terms and subject to the conditions set forth in the Merger Agreement, Merger Sub will merge with and into US Airways (the Merger), with US Airways as the surviving corporation and as a wholly owned subsidiary of AMR, Following the Merger, AMR will own, directly or indirectly, all of the equity interests of American Airlines, Inc. (American), US Airways and their direct and indirect subsidiaries (herein, the New American) The Merger Agreement and the transactions contemplated thereby, including the Merger, are subject to the approval of the Bankruptcy Court (as defined below), and are to be effected pursuant to a plan of reorganization (the Plan) of the Company and certain of its direct and indirect domestic subsidiaries (the Debtors) in connection with their currently pending cases under chapter 11 of title 11 of the United States Code, 11 U.S.C. Sections 101 et seq. (the Bankruptcy Code) in the United States Bankruptcy Court for the Southern District of New York (the Bankruptcy Court). The Plan is subject to confirmation and consummation in accordance with the requirements of the Bankruptcy Code.

Subject to the terms and conditions of the Merger Agreement, which has been approved by the boards of directors of the respective parties, if the Merger is completed, US Airways stockholders will receive one share of common stock of New American (New American Common Stock) for each share of US Airways common stock. The aggregate number of shares of New American Common Stock issuable to holders of US Airways equity instruments (including stockholders, holders of convertible notes, optionees and holders of restricted stock units) will represent 28% of the diluted capitalization of AMR after giving effect to the Plan. The remaining 72% diluted equity ownership of AMR will be distributable, pursuant to the Plan, to the Debtors' stakeholders, labor unions and certain employees.

All of the equity interests in New American will be issued solely pursuant to the Merger Agreement or the Plan. All existing AMR common stock and other equity interests in AMR will be cancelled pursuant to the Plan, although, as

set forth below, holders of such equity interests are expected to receive a recovery in the form of New American Common Stock.
The Merger is intended to qualify, for federal income tax purposes, as a reorganization under the provisions of Section 368(a) of the Internal Revenue Code of 1986, as amended.
The Merger Agreement provides that, upon consummation of the Merger, the board of directors of the combined company will initially consist of 12 members, composed of (i) Thomas W. Horton, AMR's current chairman, chief executive officer and president, who will serve as chairman of New American until the earlier of (A) one year after the closing of the Merger and (B) the day immediately prior to the first annual meeting of stockholders of the combined company (provided that such meeting will not occur

prior to May 1, 2014), (ii) W. Douglas Parker, US Airways' current chief executive officer, who will serve as chief executive officer of New American and will serve as chairman of New American following the end of Mr. Horton's term, (iii) two independent directors designated by AMR, (iv) three independent directors designated by US Airways, and (iv) five independent directors designated by a search committee consisting of representatives of the Official Committee of Unsecured Creditors of the Debtors and certain representatives of creditors signatory to the support agreements with AMR referred to below, one of whom will serve as lead independent director. Subject to applicable law, prior to the Merger, Messrs. Horton and Parker will engage in a planning process for integration purposes.

AMR and US Airways have each made customary representations, warranties and covenants in the Merger Agreement, including, among others, covenants (i) to conduct their businesses in the ordinary and usual course between the execution of the Merger Agreement and the consummation of the Merger and (ii) not to solicit alternative business combination transactions. In addition, the Merger Agreement contains “no shop” provisions that restrict each party's ability to initiate, solicit or knowingly encourage or facilitate competing third-party proposals for any transaction involving a merger of such party or the acquisition of a significant portion of its stock or assets, although each party may consider competing, unsolicited proposals and enter into discussions or negotiations regarding such proposals, if its board of directors determines that any such acquisition proposal constitutes, or is reasonably likely to lead to, a superior proposal and that the failure to take such action is reasonably likely to be inconsistent with its fiduciary duties under applicable law.

US Airways has agreed to certain additional customary covenants in the Merger Agreement, including, among others, subject to certain exceptions, (i) to cause a stockholder meeting to be held to consider adoption of the Merger Agreement and (ii) for its board of directors to recommend adoption of the Merger Agreement by US Airways' stockholders. AMR has also agreed to certain additional customary covenants in the Merger Agreement, including, among others, subject to certain exceptions, (i) to pursue confirmation of the Plan and (ii) for its board of directors to recommend adoption of the Merger Agreement by the Debtors' stakeholders.

Consummation of the Merger is subject to customary conditions, including, among others: (i) approval of the stockholders of US Airways; (ii) expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the receipt of certain other regulatory approvals; (iii) absence of any order or injunction prohibiting the consummation of the Merger; (iv) Bankruptcy Court confirmation of the Plan, which must contain certain specified provisions defined in the Merger Agreement; (v) subject to certain exceptions, the accuracy of representations and warranties with respect to the business of AMR or US Airways, as applicable; (vi) each of AMR and US Airways having performed their respective obligations pursuant to the Merger Agreement; and (vii) receipt by each of the Company and US Airways of a customary tax opinion.

The Merger Agreement contains certain termination rights for AMR and US Airways, and further provides that, upon termination of the Merger Agreement under specified circumstances, (i) AMR may be required to pay US Airways a termination fee of $135 million in the event it terminates the agreement to enter into a superior proposal and $195 million if US Airways terminates the Merger Agreement in the event of a knowing and deliberate breach of the Merger Agreement by AMR and (ii) US Airways may be required to pay AMR a termination fee of $55 million in the event it terminates the agreement to enter into a superior proposal and $195 million if AMR terminates the Merger Agreement in the event of a knowing and deliberate breach of the Merger Agreement by US Airways.

Support Agreement and Term Sheet

On February 13, 2013, AMR and the other Debtors entered into a Support and Settlement Agreement (the Support Agreement) with certain holders of certain prepetition claims against one or more of the Debtors (such holders of claims, the Consenting Creditors), aggregating approximately $1.2 billion of prepetition unsecured claims. Pursuant to the terms of the Support Agreement, each Consenting Creditor has agreed, among other things, and subject to certain conditions, to (a) vote in favor of a Plan, which includes certain terms specified in a Term Sheet attached to the Support Agreement (the Term Sheet), (b) generally support confirmation and consummation of the Plan and (c) not to support or solicit any plan in opposition to the Plan. Confirmation and consummation of the Plan are subject to compliance with the provisions of the Bankruptcy Code and to the closing of the Merger.

The Support Agreement may be terminated upon the occurrence of certain events, including: (a) certain breaches by the Debtors or Consenting Creditors under the Support Agreement; (b) termination of the Merger Agreement or the announcement by AMR or US Airways of their intent to terminate the Merger Agreement (in which case the Support

Agreement would terminate automatically); (c) the failure to meet certain milestones with respect to achieving confirmation and consummation of the Plan; (d) the filing, amendment or modification of certain documents, including the Plan, in a manner materially inconsistent with the Support Agreement and materially adverse to a Consenting Creditor (in which case the Support Agreement can be terminated by such Consenting Creditor solely with respect to itself); (e) the amendment or modification of the Merger Agreement in a manner that is materially adverse to a Consenting Creditor (in which case the Support Agreement can be terminated by such Consenting Creditor solely with respect to itself); and (f) if the volume weighted average price of US Airways' common stock for the thirty trading days ending on the last trading day immediately prior to the date of termination is less than $10.40. Termination of the Support Agreement would give the Consenting Creditors the right to withdraw their support of the Plan.

As described in the Term Sheet, the Plan implements the Merger, incorporates a compromise and settlement of certain intercreditor and intercompany claim issues, and is to contain the following provisions relating to the treatment of prepetition unsecured claims against the Debtors and equity interests in AMR:

- Unless they elect to receive alternative treatment, holders of prepetition unsecured claims against AMR or American that also are guaranteed by either such company (Double-Dip Unsecured Claims) will receive shares of preferred stock of New American (the New American Preferred Stock) that will be mandatorily convertible into shares of New American Common Stock on each of the 30th, 60th, 90th and 120th day after the effective date of the Plan. Upon the conversion of the New American Preferred Stock on the 120th day after the effective date of the Plan, all New American Preferred Stock will have been converted to New American Common Stock and no New American Preferred Stock will remain outstanding. The conversion price of the New American Preferred Stock will vary on each conversion date, based on the volume weighted average price of the shares of the New American Common Stock on the five trading days immediately preceding each conversion date, at a 3.5% discount, subject to a cap and a floor price. The New American Preferred Stock allocable to the Double-Dip Unsecured Claims will have a face amount equal to the allowed amount of their claims, including post-petition interest at the non-default rate;
- Holders of prepetition unsecured claims that are not Double-Dip Unsecured Claims (and holders of Double-Dip Unsecured Claims that elect to receive such treatment) will receive shares of New American Preferred Stock, as well as shares of New American Common Stock;
- Holders of existing AMR equity interests (including stock, warrants, restricted stock units and options) will receive a distribution of shares of New American Common Stock representing 3.5% of the total number of shares of New American Common Stock (on an as-converted basis) in addition to the potential to receive shares of New American Common Stock above such amount; and
- The satisfaction of certain labor-related claims through the allocation to such claims of shares of New American Common Stock representing 23.6% of the total number of such shares of New American Common Stock ultimately distributed to holders of prepetition general unsecured creditors against the Debtors.

In each case, the distributions made to each of the foregoing stakeholders will be adjusted to take into account any reserves made for disputed claims under the Plan.

Additional Information and Where to Find It

This communication does not constitute an offer to sell or the solicitation of an offer to buy any securities or a solicitation of any vote or approval. The proposed merger transaction between AMR and US Airways will be submitted to the stockholders of US Airways for their consideration. AMR expects to file with the SEC a registration statement on Form S-4 that will include a prospectus of AMR and a proxy statement of US Airways, and US Airways expects to file with the SEC a definitive proxy statement on Schedule 14A. AMR and US Airways also plan to file other documents with the SEC regarding the proposed transaction. INVESTORS AND SECURITY HOLDERS OF US AIRWAYS ARE URGED TO READ THE PROXY STATEMENT, PROSPECTUS AND OTHER RELEVANT DOCUMENTS THAT WILL BE FILED WITH THE SEC CAREFULLY AND IN THEIR ENTIRETY WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTION. Investors and security holders will be able to obtain free copies of the proxy statement, prospectus and other documents containing important information about AMR and US Airways, once such documents are filed with the SEC, through the website maintained by the SEC at http://www.sec.gov. Copies of the documents filed with the SEC by US Airways, when and if available, can be obtained free of charge on US Airways' website at www.usairways.com or by directing a written request to US Airways Group, Inc., 111 West Rio Salado Parkway, Tempe, Arizona 85281, Attention: Vice President, Legal Affairs. Copies of the documents filed with the SEC by AMR, when and if available, can be obtained free of charge on AMR's website at www.aa.com or by directing a written request to AMR Corporation, P.O. Box 619616, MD 5675, Dallas/Fort Worth International Airport, Texas 75261-9616, Attention: Investor Relations or by emailing investor.relations@aa.com.

US Airways, AMR and certain of their respective directors, executive officers and certain members of management may be deemed to be participants in the solicitation of proxies from the stockholders of US Airways in connection with the proposed transaction. Information about the directors and executive officers of US Airways is set forth in its proxy statement for its 2012 annual meeting of stockholders, which was filed with the SEC on April 27, 2012. Information about the directors and executive officers of AMR is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2011, which was filed with the SEC on February 15, 2012. These documents can be obtained free of charge from the sources indicated above. Other information regarding

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the participants in the proxy solicitation and a description of their direct and indirect interests, by security holdings or otherwise, will be contained in the prospectus and proxy statement and other relevant materials when and if filed with the SEC in connection with the proposed transaction.

Information regarding AMR, the other Debtors and the remaining consolidated AMR subsidiaries contained in this Form 10-K is provided for the fiscal year ended December 31, 2012. Except as otherwise expressly noted herein, the information contained herein assumes that the Merger has not been consummated and does not describe or discuss the potential impact of the proposed Merger on AMR and its consolidated subsidiaries or their business, operations, financial performance, or future prospects. Any such information will be contained only in the proxy and/or registration statement that may be filed with the SEC and, if so, may be obtained as described above. Readers are cautioned to read such documents carefully if and when they are filed.

PART I

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ITEM 1. BUSINESS

Chapter 11 Proceedings

On November 29, 2011 (the Petition Date), AMR Corporation (AMR), American Airlines, Inc., AMR’s principal subsidiary (American or the Company), and certain of American and AMR’s direct and indirect domestic subsidiaries (collectively, the Debtors) filed voluntary petitions for relief (the Chapter 11 Cases) under Chapter 11 of the United States Bankruptcy Code (the Bankruptcy Code), in the United States Bankruptcy Court for the Southern District of New York (the Bankruptcy Court). The Chapter 11 Cases are being jointly administered under the caption “In re AMR Corporation, et al., Case No. 11-15463-SHL.”

No assurance can be given as to the value, if any, that may be ascribed to the Debtors’ various prepetition liabilities and other securities. The Company cannot predict what the ultimate value of any of its or the other Debtors' securities may be.

The Company is currently operating as a “debtor in possession” under the jurisdiction of the Bankruptcy Court and the applicable provisions of the Bankruptcy Code. In general, as debtors in possession under the Bankruptcy Code, we are authorized to continue to operate as an ongoing business but may not engage in transactions outside the ordinary course of business without the prior approval of the Bankruptcy Court. The Bankruptcy Code enables the Company to continue to operate its business without interruption and the Bankruptcy Court has granted additional relief covering, among other things, obligations to (i) employees, (ii) taxing authorities, (iii) insurance providers, (iv) independent contractors for improvement projects, (v) foreign vendors, (vi) other airlines pursuant to certain interline agreements, and (vii) certain vendors deemed critical to the Debtors’ operations.

The Chapter 11 petitions triggered defaults on substantially all debt obligations of the Debtors. However, under section 362 of the Bankruptcy Code, the commencement of a Chapter 11 case automatically stays most creditor actions against the Debtors’ property.

Additional information about the Company’s Chapter 11 Case is available on the Internet at aa.com/restructuring. Court filings and claims information are available at amrcaseinfo.com. Information on this website is not incorporated into or otherwise made a part of this report. See also “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Chapter 11 Progress” and Note 1 to the consolidated financial statements for further information regarding the Chapter 11 Cases.

General Description

American was founded in 1934. All of American’s stock is owned by AMR. At the end of 2012, American provided scheduled jet service to approximately 160 destinations throughout North America, the Caribbean, Latin America, Europe and Asia.

AMR Eagle Holding Corporation (AMR Eagle), a wholly-owned subsidiary of AMR, owns two regional airlines which do business as “American Eagle” – American Eagle Airlines, Inc. and Executive Airlines, Inc. (collectively, the American Eagle® carriers). American also contracts with certain independently owned regional air carriers to provide it with regional feed. See Note 5 and Note 17 to the consolidated financial statements for additional information on the Company's capacity purchase agreements.

American, together with the American Eagle carriers and the third party carriers that provide regional feed to American, serves more than 250 cities in approximately 50 countries with, on average, 3,400 daily flights. The combined network fleet numbers approximately 900 aircraft. American Airlines is also a founding member of oneworld® alliance, which enables member airlines to offer their customers more services and benefits than any member airline can provide individually. These services include a broader route network, opportunities to earn and redeem frequent flyer miles across the combined oneworld network and more airport lounges. Together, oneworld members serve more than 800 destinations in approximately 150 countries, with about 9,000 daily departures. American is also one of the largest scheduled air freight carriers in the world, providing a wide range of freight and mail services to shippers throughout its system onboard American's passenger fleet.

Pursuant to a capacity purchase agreement between American and the American Eagle carriers, American receives all passenger revenue from flights performed for it by the American Eagle carriers and pays the American Eagle carriers a fee for each flight. The capacity purchase agreement reflects what the Company believes are current market rates received by other regional carriers for similar flying. Amounts paid to the American Eagle carriers under the capacity purchase agreement are available to pay for various operating expenses of the American Eagle carriers, such as crew expenses, maintenance, and other aircraft related expenses. As of December 31, 2012, the American Eagle carriers operated approximately 1,500 daily departures, offering scheduled passenger service to over 175 destinations in North America, Mexico and the Caribbean. On a separate company basis, AMR Eagle reported $1.2 billion in revenue in 2012.

Competition

Domestic Air Transportation The domestic airline industry is fiercely competitive. Currently, any United States (U.S.) air carrier deemed fit by the U.S. Department of Transportation (DOT) is free to operate scheduled passenger service between any two points within the U.S. and its possessions. Most major air carriers have developed hub-and-spoke systems and schedule patterns in an effort to maximize the revenue potential of their service. American operates in five primary domestic markets: Dallas/Fort Worth (DFW), Chicago O'Hare, Miami, New York City and Los Angeles. The American Eagle carriers and the third party carriers that provide regional feed to American increase the number of markets the Company serves by providing connections at American's primary markets. American's competitors also own or have marketing agreements with regional carriers which provide similar services at their major hubs and other locations.

On most of its domestic non-stop routes, the Company faces competing service from at least one, and sometimes more than one, domestic airline including: Alaska Airlines (Alaska), Delta Air Lines (Delta), Frontier Airlines, Hawaiian Airlines, JetBlue Airways (JetBlue), Southwest Airlines (Southwest), Spirit Airlines, United Airlines (United) , US Airways, Virgin America Airlines and each of their affiliated regional carriers. Competition is even greater between cities that require a connection, where the major airlines compete via their respective hubs. In addition, the Company faces competition on some of its connecting routes from carriers operating point-to-point service on such routes. The Company also competes with all-cargo and charter carriers and, particularly on shorter segments, ground and rail transportation. On all of its routes, pricing decisions are affected, in large part, by the need to meet competition from other airlines.

International Air Transportation In addition to its extensive domestic service, the Company provides international service to the Caribbean, Canada, Latin America, Europe and Asia. The Company's operating revenues from foreign operations (flights serving international destinations) were approximately 40 percent of the Company's total operating revenues in each of the three years 2012, 2011, and 2010. Additional information about the Company's foreign operations is included in Note 15 to the consolidated financial statements.

In providing international air transportation, the Company competes with foreign investor-owned carriers, foreign state-owned carriers and U.S. airlines that have been granted authority to provide scheduled passenger and cargo service between the U.S. and various overseas locations. In general, carriers that have the greatest ability to seamlessly connect passengers to and from markets beyond the nonstop city pair have a competitive advantage. In some cases, however, foreign governments limit U.S. air carriers' rights to carry passengers beyond designated gateway cities in foreign countries. To improve access to each other's markets, various U.S. and foreign air carriers – including American – have established marketing relationships with other airlines and rail companies. American currently has marketing relationships with Air Berlin, Air Pacific, Air Tahiti Nui, Alaska Airlines, British Airways, Cape Air, Cathay Pacific, Dragonair, EL AL, Etihad Airways, EVA Air, Finnair, Gulf Air, Hainan Airlines, Hawaiian Airlines, Iberia, Japan Airlines (JAL), Jet Airways, JetStar Airways, LAN (includes LAN Airlines, LAN Argentina, LAN Ecuador and LAN Peru), Malaysia Airlines, Niki Airlines, Qantas Airways, Qatar Airways, Royal Jordanian, S7 Airlines, and WestJet. American is also a founding member of the oneworld alliance, which includes Air Berlin, British Airways, Cathay Pacific, Finnair, Iberia, JAL, LAN Airlines, Malaysia Airlines, Qantas, Royal Jordanian and S7 Airlines. SriLankan Airlines is scheduled to join the alliance in 2013 and Qatar Airways is expected to join the alliance in late 2013 or early 2014. The oneworld alliance links the networks of the member carriers to enhance customer service and smooth connections to the destinations served by the alliance, including linking the carriers' frequent flyer programs and access to the carriers' airport lounge facilities.

Over the last two years, American has established joint business agreements (JBAs) with British Airways and Iberia, JAL, and Qantas that enable the carriers to cooperate on flights between particular destinations, and allows pooling and sharing of certain revenues and costs, expanded codesharing, enhanced frequent flyer program reciprocity, and cooperation in other areas. American and its partner airlines received regulatory approval to enter into these JBAs.

In December 2012, American signed agreements to codeshare with Sao Paulo-based TAM Airlines and Bogota-based LAN Colombia. Once approved, these new codeshare relationships will provide expanded opportunities for American to serve new markets in Brazil and Colombia and for TAM Airlines and LAN Colombia in the United States.

Price Competition The airline industry is characterized by substantial and intense price competition. Fare discounting by competitors has historically had a negative effect on the Company's financial results because the Company is generally required to match competitors' fares, as failing to match would provide even less revenue due to customers' price sensitivity.

There are a number of low-cost carriers (LCCs) in the domestic market and the Company competes with LCCs over a very large part of its network. Several major airlines, including the Company, have implemented efforts to lower their costs since lower cost structures enable airlines to offer lower fares. In addition, several air carriers have reorganized in recent years under Chapter 11, including United, Delta, and US Airways. These cost reduction efforts, bankruptcy reorganizations and subsequent consolidations (e.g., United/Continental; Delta/Northwest) have allowed carriers to decrease operating costs. Lower cost structures have generally resulted in fare reductions. Over the past several years, the Company was unable to offset its substantial cost disadvantage through increases in passenger traffic, changes in the mix of traffic that improve yields and/or cost reductions. Consequently, the Company filed the Chapter 11 Cases to become a more efficient, financially stronger and more competitive airline. See Note 1 to the Consolidated Financial Statements for further information regarding the Chapter 11 Cases.

Regulation

General The Company is subject to extensive domestic and international regulatory requirements. The Airline Deregulation Act of 1978, as amended, eliminated most domestic economic regulation of passenger and freight transportation. However, DOT and the Federal Aviation Administration (FAA) still exercise certain regulatory authority over air carriers. DOT maintains jurisdiction over the approval of international codeshare agreements, international route authorities, and certain consumer protection and competition matters, such as advertising, denied boarding compensation and baggage liability.

The FAA regulates flying operations generally, including establishing standards for personnel, aircraft and certain security measures. As part of that oversight, the FAA has implemented a number of requirements that the Company has incorporated and is incorporating into its maintenance programs. The Company is progressing toward the completion of numerous airworthiness directives, a number of which require the Company to perform significant maintenance work and to incur additional expenses. Based on its current implementation schedule, the Company expects to be in compliance with the applicable requirements within the required time periods. The FAA also operates the U.S. air traffic control system.

DOT and the Antitrust Division of the United States Department of Justice (DOJ) have jurisdiction over airline antitrust matters. The U.S. Postal Service has jurisdiction over certain aspects of the transportation of mail and related services. Labor relations in the air transportation industry are regulated under the Railway Labor Act, which vests in the National Mediation Board (NMB) certain functions with respect to disputes between airlines and labor unions relating to union representation and collective bargaining agreements (CBAs). In addition, as a result of heightened levels of concern regarding data privacy, the Company is subject to an increasing number of domestic and foreign laws regarding the privacy and security of passenger and employee data.

International International air transportation is subject to extensive government regulation. The Company's operating authority in international markets is subject to aviation agreements between the U.S. and the respective countries or governmental authorities (such as the European Union), and in some cases, fares and schedules require the approval of DOT and/or the relevant foreign governments. Moreover, alliances with international carriers may be subject to the jurisdiction and regulations of various foreign agencies. Bilateral and multilateral agreements among the U.S. and various foreign governments of countries served by the Company are periodically subject to renegotiation. Changes in U.S. or foreign government aviation policies could result in the alteration or termination of such agreements, diminish the value of route authorities, or otherwise adversely affect the Company's international operations. In addition, at some foreign airports, an air carrier needs slots (landing and take-off authorizations and other facilities) and other facilities before the air carrier can introduce new service or increase existing service. The availability of such slots is not assured and the inability of the Company to obtain and retain needed slots and facilities could therefore inhibit its efforts to compete in certain international markets.

Security In November 2001, the Aviation and Transportation Security Act (ATSA) was enacted in the U.S. The ATSA created a new government agency, the Transportation Security Administration (TSA), which is part of the

Department of Homeland Security and is responsible for aviation security. The ATSA mandates that the TSA provide for the screening of all passengers and property, including U.S. mail, cargo, carry-on and checked baggage, and other articles that will be carried aboard a passenger aircraft. The ATSA also provides for security in flight decks of aircraft and requires federal air marshals to be present on certain flights.

Effective February 1, 2002, the ATSA imposed a $2.50 per enplanement security service fee, which is being collected by the air carriers and submitted to the government to pay for these enhanced security measures. Additionally, air carriers are annually required to submit to the government an amount equal to what the air carriers paid for screening passengers and property in 2000. In recent years, the government has sought to increase both of these fees under spending proposals for the Department of Homeland Security. American and other carriers have announced their opposition to these proposals as there is no assurance that any increase in fees could be passed on to customers.

Airline Fares Airlines are permitted to establish their own domestic fares without governmental regulation. DOT maintains authority over certain international fares, rates and charges, but applies this authority on a limited basis. In addition, international fares and rates are sometimes subject to the jurisdiction of the governments of the foreign countries which the Company serves. While air carriers are required to file and adhere to international fare and rate tariffs, substantial commissions, fare overrides and discounts to travel agents, brokers and wholesalers characterize many international markets.

Airport Access Operations at four major domestic airports and certain foreign airports served by the Company are regulated by governmental entities through allocations of “slots” or similar regulatory mechanisms which limit the rights of carriers to conduct operations at those airports. Each slot represents the authorization to land at or take off from the particular airport during a specified time period.

In the U.S., the FAA currently regulates the allocation of slots, slot exemptions, operating authorizations, or similar capacity allocation mechanisms at Reagan National in Washington, D.C., LaGuardia and JFK in New York, and Newark. The Company’s operations at these airports generally require the allocation of slots or analogous regulatory authorities. Similarly, the Company’s operations at Tokyo’s Narita Airport, London’s Heathrow Airport and certain other international airports are regulated by local slot coordinators pursuant to the International Air Transport Association’s Worldwide Scheduling Guidelines and applicable local law. The Company currently has sufficient slots or analogous authorizations to operate its existing flights, and it has generally been able to obtain the rights to expand its operations and to change its schedules. There is no assurance, however, that the Company will be able to do so in the future because, among other reasons, such allocations are subject to changes in governmental policies.

In 2006, the Wright Amendment Reform Act of 2006 (the Act) became law. The Act is based on an agreement by the cities of Dallas and Fort Worth, Texas, DFW International Airport, Southwest, and the Company to modify the Wright Amendment, which authorizes certain flight operations at Dallas Love Field within defined geographic areas. Among other things, in October 2014 the Act eliminates domestic geographic restrictions on operations while limiting the maximum number of gates at Love Field. The Company believes the Act is a pragmatic resolution of the issues related to the Wright Amendment and the use of Love Field.

Environmental Matters The Company is subject to various laws and government regulations concerning environmental matters and employee safety and health in the U.S. and other countries. U.S. federal laws that have a particular impact on the Company include the Airport Noise and Capacity Act of 1990 (ANCA), the Clean Air Act, the Resource Conservation and Recovery Act, the Clean Water Act, the Safe Drinking Water Act, and the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA or the Superfund Act). Certain operations of the Company concerning employee safety and health matters are also subject to the oversight of the Occupational Safety and Health Administration (OSHA). The U.S. Environmental Protection Agency (EPA), OSHA, and other federal agencies have been authorized to promulgate regulations that have an impact on the Company’s operations. In addition to these federal activities, various states have been delegated certain authorities under the aforementioned federal statutes. Many state and local governments have adopted environmental and employee safety and health laws and regulations, some of which are similar to or stricter than federal requirements.

The ANCA recognizes the rights of airport operators with noise problems to implement local noise abatement programs so long as they do not interfere unreasonably with interstate or foreign commerce or the national air transportation system. Authorities in several cities have promulgated aircraft noise reduction programs, including the imposition of nighttime curfews. The ANCA generally requires FAA approval of local noise restrictions on aircraft. While the Company has had sufficient scheduling flexibility to accommodate local noise restrictions imposed to date, the Company’s operations could be adversely affected if locally-imposed regulations become more restrictive or widespread.

Many aspects of the Company's operations are subject to increasingly stringent environmental regulations. Concerns about climate change and greenhouse gas emissions, in particular, may result in the imposition of additional legislation or regulation. For example, the EU has adopted a directive under which each EU member state is required to extend the existing EU emissions trading scheme (ETS) to aviation. This would require us to annually submit emission allowances in order to operate flights to and from EU member states in January 2012 and thereafter, including flights between the U.S. and EU member states. In November 2012, the European Commission proposed to suspend for one year the ETS' application to flights entering and departing Europe, to allow the United Nations' International Civil Aviation Organization (ICAO) to propose an alternate global emissions reduction scheme. The proposal is expected to be approved by the European Parliament and EU member states represented in the EU Council in the first quarter of 2013. The ETS may be reactivated if ICAO does not make progress towards an alternate global scheme within the next year. The U.S. enacted legislation in November 2012 that will allow the Secretary of Transportation to prohibit U.S. airlines from participating in the ETS. While these measures create some uncertainty as to the extent to which we will be required to participate in the ETS going forward, it is nevertheless increasingly likely that in the future we will be required to participate in some form of international arrangement governing aircraft emissions. Environmental legislative or regulatory action by the U.S., state or foreign governments currently or in the future may adversely affect the Company's business and financial results. See Item 1A, Risk Factors, for additional information.

The environmental laws to which the Company is subject include those related to responsibility for potential soil and groundwater contamination. The Company is conducting investigation and remediation activities to address soil and groundwater conditions at several sites, including airports and maintenance bases. The Company anticipates that the ongoing costs of such activities will be immaterial. The Company has also been named as a potentially responsible party (PRP) at certain Superfund sites. The Company's alleged volumetric contributions at such sites are small in comparison to total contributions of all PRPs and the Company expects that any future payments of its share of costs at such sites will be immaterial.

Labor

The airline business is labor intensive. Wages, salaries and benefits represented approximately 25 percent of the Company's consolidated operating expenses for the year ended December 31, 2012. The average full-time equivalent number of people employed by the Company for the year ended December 31, 2012 was 64,550.

The majority of the people employed by the Company are represented by labor unions and covered by CBAs. American's pilots are represented by the Allied Pilots Association (APA), its flight attendants by the Association of Professional Flight Attendants (APFA), and its mechanics and fleet service employees, and certain other employee groups, by the Transport Workers Union of America, AFL-CIO (TWU). AMR Eagle's pilots are represented by the Air Line Pilots Association (ALPA), its flight attendants by the Association of Flight Attendants-CWA, AFL-CIO (AFA), and its mechanics and fleet service employees, and certain other employee groups, by the TWU.

Relations with such labor organizations are governed by the Railway Labor Act (RLA). Under this act, the CBAs between the Company's subsidiaries and these organizations generally do not expire but instead become amendable as of a stated date. If either party wishes to modify the terms of any such agreement, it must notify the other party in the manner prescribed under the RLA and as agreed to by the parties. Under the RLA, after receipt of such notice, the parties must meet for direct negotiations, and if no agreement is reached, either party may request the NMB to appoint a federal mediator. The RLA prescribes no set timetable for the direct negotiation and mediation process. It is not unusual for those processes to last for many months, and even for several years. If no agreement is reached in mediation, the NMB in its discretion may declare at some time that an impasse exists, and if an impasse is declared, the NMB proffers binding arbitration to the parties. Either party may decline to submit to arbitration. If arbitration is rejected by either party, a 30-day "cooling off" period commences. During that period (or after), a Presidential Emergency Board (PEB) may be established, which examines the parties' positions and recommends a solution. The PEB process lasts for 30 days and is followed by another "cooling off" period of 30 days. At the end of a "cooling off" period, unless an agreement is reached or action is taken by Congress, the labor organization may exercise "self-help," such as a strike, and the airline may resort to its own "self-help," including the imposition of any or all of its proposed amendments and the hiring of new people to replace any striking workers.

Prior to the Chapter 11 filings on November 29, 2011, American had been in negotiations with its unions under the RLA for as long as five years. As of December 31, 2012, American and AMR Eagle have new contracts with all of their respective labor groups. See Note 1 to the consolidated financial statements and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further information on the Company's CBAs.

Fuel

The Company's operations and financial results are significantly affected by the availability and price of jet fuel. The Company's fuel costs and consumption for the years 2010 through 2012 were:

| Year | Gallons Consumed (in millions) | Total Cost (in millions) | Average Cost Per Gallon (in dollars) | Percent of American's Operating Expenses |
|---|---|---|---|---|
| 2010 | 2,481 | 5,731 | 2.310 | 26.1 |
| 2011 | 2,445 | 7,434 | 3.009 | 29.6 |
| 2012 | 2,410 | 8,717 | 3.198 | 35.2 |

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 through the use of hedging contracts, which consist primarily of call options, collars (consisting of a purchased call option and a sold put option) and call spreads (consisting of a purchased call option and a sold call option). Heating oil, jet fuel and crude oil are the primary underlying commodities in the hedge portfolio. The Company does not take a view on the direction of fuel prices; instead, the Company

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layers in fuel hedges on a systematic basis. Depending on movements in the price of fuel, the Company's fuel hedging program can result in gains or losses on its fuel hedges.

During 2012, 2011 and 2010, the Company's fuel hedging program increased (decreased) the Company's fuel expense by approximately $(4) million, $(297) million and $124 million, respectively. As of January 2013, the Company had cash flow hedges covering approximately 21 percent of its estimated 2013 fuel requirements. The consumption hedged for 2013 is capped at an average price of approximately $3.03 per gallon of jet fuel. Five percent of estimated 2013 fuel requirements is hedged using call spreads with protection capped at an average price of approximately $3.37 per gallon of jet fuel. Sixteen percent of estimated 2013 fuel requirements is hedged using collars with an average floor price of approximately $2.39 per gallon of jet fuel. The cap and floor prices exclude taxes and transportation costs. A deterioration of the Company's financial position could negatively affect the Company's ability to hedge fuel in the future. See the Risk Factors under Item 1A for additional information regarding fuel.

Additional information regarding the Company's fuel program is also included in Item 7(A) "Quantitative and Qualitative Disclosures about Market Risk," Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 8 to the consolidated financial statements.

Frequent Flyer Program

American established the AAdvantage® frequent flyer program (AAdvantage) to develop passenger loyalty by offering awards to travelers for their continued patronage. The Company believes that the AAdvantage program is one of its competitive strengths. AAdvantage benefits from a growing base of approximately 72 million members with desirable demographics who have demonstrated a strong willingness to collect AAdvantage miles over other loyalty program incentives and are generally disposed to adjusting their purchasing behavior in order to earn additional AAdvantage miles. AAdvantage members earn mileage credits by flying on American, the American Eagle carriers, and the third party regional airlines or by using services of other participants in the AAdvantage program. Mileage credits can be redeemed for free, discounted or upgraded travel on American, the American Eagle carriers or other participating airlines, or for other awards. Once a member accrues sufficient mileage for an award, the member may book award travel. Most travel awards are subject to capacity controlled seating. A member's mileage credit does not expire as long as that member has any type of qualifying activity at least once every 18 months.

American sells mileage credits and related services to other participants in the AAdvantage program. There are over 1,000 program participants, including a leading credit card issuer, hotels, car rental companies and other products and services companies in the AAdvantage program. The Company believes that program participants benefit from the sustained purchasing behavior of AAdvantage members, which translates into a recurring stream of revenues for AAdvantage. Under its agreements with AAdvantage members and program participants, the Company reserves the right to change the AAdvantage program at any time without notice, and may end the program with six months notice. As of December 31, 2012, AAdvantage had approximately 72 million total members, and 609 billion outstanding award miles. During 2012, AAdvantage issued approximately 209 billion miles, of which approximately 66% were sold to program participants. See "Critical Accounting Policies and Estimates" under Item 7 for more information on AAdvantage.

Cargo

American Airlines Cargo, a division of American, provides over 100 million pounds of weekly cargo lift capacity to major cities in the United States, Europe, Canada, Mexico, the Caribbean, Latin America and Asia. American's cargo network is one of the largest air cargo networks in the world, with facilities and interline connections available across the globe. During 2012, American Airlines Cargo accounted for approximately 2.7 percent of the Company's operating revenues by generating $669 million in freight and mail revenue, a decrease of 4.8 percent versus 2011.

Other revenues

Other revenues, which approximate 10.1 percent of total revenues, includes revenue from the marketing services related to the sale of mileage credits in the AAdvantage program as discussed above, membership fees and related revenue from the Company's Admirals Club operations, and other miscellaneous service revenue, including administrative service charges and baggage handling fees.

Other Matters

Seasonality and Other Factors The Company's results of operations for any interim period are not necessarily indicative of those for the entire year since the air transportation business is subject to seasonal fluctuations. Higher demand for air travel has traditionally resulted in more favorable operating and financial results in the second and third quarters of the year than in the first and fourth quarters. Fears of terrorism or war, fare initiatives, fluctuations in fuel prices, labor actions, weather, natural disasters, outbreaks of disease, and other factors could impact this seasonal pattern. Unaudited quarterly financial data for the two-year period ended December 31, 2012 is included in Note 16 to the consolidated financial statements. In addition, the results of operations in the air transportation business have also significantly fluctuated in the past in response to general economic conditions.

Insurance The Company carries insurance for public liability, passenger liability, property damage and all-risk coverage for damage to its aircraft. As a result of the terrorist attacks of September 11, 2001 (the Terrorist Attacks), aviation insurers significantly reduced the amount of insurance coverage available to commercial air carriers for claims resulting from acts of terrorism, war or similar events (war-risk coverage). At the same time, these insurers significantly increased the premiums for aviation insurance in general. While the price of commercial insurance has declined since the period immediately after the Terrorist Attacks, in the event commercial insurance carriers further reduce the amount of insurance coverage available to the Company, or significantly increase its cost, the Company would be materially adversely affected.

The U.S. government has agreed to provide commercial war-risk insurance for U.S. based airlines through September 30, 2013, covering losses to employees, passengers, third parties and aircraft. If the U.S. government were to cease providing such insurance in whole or in part, it is likely that the Company could obtain comparable coverage in the commercial market, but could incur substantially higher premiums and face more restrictive terms. However, there can be no assurance that comparable war-risk coverage will be available in the commercial market. If the Company is unable to obtain adequate war-risk coverage at commercially reasonable rates, it would be adversely affected.

Other Government Matters In time of war or during a national emergency or defense oriented situation, American and other air carriers can be required to provide airlift services to the Air Mobility Command under the Civil Reserve Air Fleet program. In the event the Company has to provide a substantial number of aircraft and crew to the Air Mobility Command, its operations could be adversely impacted.

Available Information The Company makes its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 available free of charge under the Investor Relations page on its website, www.aa.com, as soon as reasonably practicable after such reports are electronically filed with the Securities and Exchange Commission. In addition, the Company’s code of ethics (called the Standards of Business Conduct), which applies to all employees of the Company, including the Company’s Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Controller, is posted under the Investor Relations page on its website, www.aa.com. The Company intends to disclose any amendments to the code of ethics, or waivers of the code of ethics on behalf of the CEO, CFO or Controller, under the Investor Relations page on the Company’s website, www.aa.com. The charters for the AMR Board of Directors’ standing committees (the Audit, Compensation, Diversity and Nominating/Corporate Governance Committees), as well as the Board of Directors’ Governance Policies (the Governance Policies), are likewise available on the Company’s website, www.aa.com. Information on the Company’s website is not incorporated into or otherwise made a part of this Report.

ITEM 1A. RISK FACTORS

These risk factors are generally applicable to American and its parent AMR, unless the context indicates otherwise. Our ability to become profitable and our ability to continue to fund our obligations on an ongoing basis will depend on a number of risk factors, many of which are largely beyond our control.

Risk Factors Relating to the Merger

On February 13, 2013, AMR and US Airways Group, Inc. (US Airways) entered into the Merger Agreement, as more fully described under "Merger Agreement" in Note 17 to the consolidated financial statements.

The Merger is subject to a number of conditions to the obligations of both us and US Airways that may not be fulfilled, which could cause the termination of the Merger Agreement.

The Merger Agreement contains a number of customary conditions to consummation of the Merger, such as the accuracy of representations and warranties in all material respects, the fulfillment of obligations set out in covenants, that certain consents and regulatory approvals have been obtained, that there are no legal prohibitions against consummation of the Merger, that approval of the US Airways stockholders has been received, that an order from the Bankruptcy Court confirming our plan of reorganization is in effect, that the plan of reorganization conform with the requirements of the Merger Agreement, that secured indebtedness of the Debtors and certain other claims against the Debtors not exceed specified levels and other customary conditions. US Airways has the right to unilaterally terminate the Merger Agreement under certain conditions. Many of the conditions to consummation of the Merger are not within our control, and we cannot predict when or if these conditions will be satisfied. If any of these conditions are not fulfilled or waived prior to the termination date set forth in the Merger Agreement (October 14, 2013, as it may be extended), it is possible that the Merger will not be consummated. A failure to consummate the Merger in accordance with the Merger Agreement would result in our Chapter 11 Cases continuing. If the Merger does not occur, AMR could then seek to emerge from the Chapter 11 Cases as an independent company or could seek another consolidation partner or another strategic alternative transaction. In any event, the failure of AMR to merge with US Airways would result in a delay, which could be substantial, in AMR and its debtor subsidiaries' ability to file an alternative plan of reorganization and successfully emerge from our Chapter 11 Cases. During such a delay, it is possible that third parties could propose their own plans of reorganization if we and our debtor subsidiaries do not have the exclusive right to propose a plan of reorganization. We could believe that such a third party plan is not in the best interests of our creditors or other constituencies. Such a delay could also create uncertainty with our customers, financing parties, vendors, employees and the communities we serve, and result in our Chapter 11 Cases continuing for an extended period of time, which could result in disruptions in employee stability and declining financial and operational performance.

The Merger is subject to the receipt of consents and clearances from certain domestic and foreign regulatory authorities that may impose conditions that could have a material and adverse effect on AMR as the surviving parent, or that could delay or, if not obtained, prevent the completion of the Merger.

Before the Merger can be completed, applicable waiting periods must expire or terminate under antitrust laws and various approvals, consents or clearances must be obtained from certain domestic and foreign regulatory entities, including those regulating the provision of commercial aviation services. In deciding whether to grant antitrust or regulatory clearances, the relevant antitrust authorities will consider the effect of the Merger on competition within their relevant jurisdictions. The terms and conditions of approvals that are granted may impose requirements, limitations, costs or restrictions on the conduct of the surviving parent's business following the Merger. There can be no assurance that regulators will not impose terms, conditions, requirements, limitations, costs or restrictions that would delay completion of the Merger, impose additional material costs on or limit the revenues of us or the surviving parent, or limit some or all of the synergies and other benefits we anticipate following the Merger. In addition, we cannot provide assurance that any such terms, conditions, requirements, limitations, costs or restrictions will not result in a material delay in, or the abandonment of, the Merger.

The Merger is subject to the receipt of numerous approvals, including approvals from US Airways' stockholders and confirmation of our plan of reorganization by the Bankruptcy Court. Failure to obtain any of these approvals would prevent the completion of the Merger.

The Merger Agreement will not be binding on either AMR or US Airways until the Bankruptcy Court enters an order approving its enforceability. In addition, before the Merger can be completed, US Airways must submit the Merger to a vote of its stockholders, US Airways' stockholders must have approved the Merger, the approval of the plan of reorganization contemplating the Merger by the requisite percentage of each class of claimholder (as determined pursuant to the Bankruptcy Code) must be obtained, and the Bankruptcy Court must enter an order confirming the plan of reorganization and consummation of the Merger. There can be no assurance that any of these approvals will occur. Failure to obtain these required approvals within the expected time frame, or

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having to make significant changes to the structure, terms or conditions of the Merger to obtain such approvals, may result in a material delay in, or the abandonment of, the Merger.

Any delay in completing the Merger may reduce or eliminate the benefits expected to be achieved thereunder.

In addition to the required regulatory clearances and approvals discussed above, the Merger is subject to a number of other conditions beyond our control that may prevent, delay or otherwise materially and adversely affect its completion. We cannot predict when or if these other conditions will be satisfied. Furthermore, the requirements for obtaining the required clearances and approvals could delay the completion of the Merger for a significant period of time or prevent it from occurring. In addition, it is possible that actions by third parties, such as requests resulting in the appointment of additional formal committees in the Chapter 11 Cases, could delay completion of the merger. Any delay in completing the Merger could cause AMR as the surviving parent to fail to realize some or all of the synergies and other benefits that we anticipate if the Merger is successfully completed within its expected time frame.

Uncertainties associated with the Merger may cause a loss of our management personnel and other key employees, which could materially and adversely affect the future business, financial condition and results of operations of AMR as the surviving parent following the Merger, or of AMR if the Merger fails to occur.

The survivingparent will be dependent on the experience and industry knowledge of its officers and other key employees to execute its business plan; therefore, the surviving parent's success after the Merger will depend in part upon its ability to retain key management personnel and other key employees. Our current and prospective employees may experience uncertainty about their roles within the company surviving the merger, which may have a material and adverse effect on our ability to retain key management and other key personnel. Likewise, if the Merger is not consummated, we will be dependent on our existing officers and other key employees to develop and execute our business plan. There can be no assurance that such officers and key employees can be retained.

Failure to complete the Merger could materially and adversely affect both our and AMR's future business, financial condition, results of operations and prospects.

If the Merger is not completed, our ongoing business may be materially and adversely affected, and we will be subject to several risks, including the following:

- AMR may be required to pay termination fees of $135 or $195 million under certain circumstances provided in the Merger Agreement;
- AMR and its debtor subsidiaries would likely not be able to emerge from the Chapter 11 Cases for an extended period of time if the Merger is not consummated, because AMR would be required to formulate a new plan of reorganization and could be subject to alternative plans of reorganization proposed by third parties if AMR is no longer within the exclusivity period;
- unless and until it is terminated, AMR will be prohibited by the Merger Agreement from seeking certain strategic alternatives, such as transactions with third parties other than US Airways and developing an independent emergence plan, and could therefore miss attractive alternatives to the Merger;
- our operations will be restricted by the terms of the Merger Agreement, which may cause us to forego otherwise attractive business opportunities;
- AMR will be required to pay certain costs relating to the Merger, whether or not it is consummated, such as legal, accounting, financial advisor and printing fees, which costs could be substantial; and
- our management will have focused its attention on negotiating and preparing for the Merger instead of on pursuing other opportunities that could have been beneficial to us.

If the Merger is not completed, there can be no assurance that these risks will not materialize and will not materially and adversely affect our and AMR's business, financial condition, results of operations and prospects.

The Merger Agreement contains customary restrictions on our ability to seek other strategic alternatives.

The Merger Agreement contains “no shop” provisions that restrict AMR's and our ability to initiate, solicit, or knowingly encourage or facilitate competing third-party proposals for any business combination transaction involving a merger of AMR with another entity or the acquisition of a significant portion of AMR's stock or assets, although AMR may consider competing, unsolicited proposals and enter into discussions or negotiations regarding such proposals if its board of directors determines that any such

acquisition proposal constitutes, or is reasonably likely to lead to, a superio