

Edgar Filing: AMERICAN AIRLINES INC - Form 10-Q/A

AMERICAN AIRLINES INC
Form 10-Q/A
October 18, 2002

=====

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

FORM 10-Q/A NO. 1

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2002.

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 1-2691.

AMERICAN AIRLINES, INC.

(Exact name of registrant as specified in its charter)

Delaware

13-1502798

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

4333 Amon Carter Blvd.
Fort Worth, Texas

76155

(Address of principal executive offices)

(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 .
--- ---

Edgar Filing: AMERICAN AIRLINES INC - Form 10-Q/A

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 - 1,000 shares as of July 15, 2002.

The registrant meets the conditions set forth in, and is filing this form with the reduced disclosure format prescribed by, General Instructions H(1)(a) and (b) of Form 10-Q.

=====

EXPLANATORY NOTE

AMERICAN AIRLINES, INC.

The purpose of this amendment No. 1 to the American Airlines, Inc. Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002 is to solely reflect a cumulative effect of accounting change, as a result of the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", effective January 1, 2002. This new accounting pronouncement allows companies until December 31, 2002 to quantify the impairment charge, if any, but requires companies to record this charge effective January 1, 2002, resulting in this amended Form 10-Q.

INDEX

AMERICAN AIRLINES, INC.

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Statements of Operations -- Three and six months ended June 30, 2002 and 2001

Condensed Consolidated Balance Sheets - June 30, 2002 and December 31, 2001

Condensed Consolidated Statements of Cash Flows -- Six months ended June 30, 2002 and 2001

Notes to Condensed Consolidated Financial Statements - June 30, 2002

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

Edgar Filing: AMERICAN AIRLINES INC - Form 10-Q/A

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Item 4. Controls and Procedures

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

Item 6. Exhibits and Reports on Form 8-K

SIGNATURE

CERTIFICATIONS

PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AMERICAN AIRLINES, INC.
 CONSOLIDATED STATEMENTS OF OPERATIONS
 (Unaudited) (In millions)

	Three Months Ended June 30,		Six Mon Jun
	2002	2001	2002
REVENUES			
Passenger	\$ 3,747	\$ 4,645	\$ 7,231
Cargo	141	188	274
Other revenues	222	315	413
	4,110	5,148	7,918
EXPENSES			
Wages, salaries and benefits	2,017	2,008	3,989
Aircraft fuel	621	802	1,118
Depreciation and amortization	299	316	603
Other rentals and landing fees	284	298	552
Maintenance, materials and repairs	248	246	478
Aircraft rentals	208	218	427
Food service	178	217	347
Commissions to agents	149	244	300
Special charges	--	586	--
Other operating expenses	737	914	1,457
	4,741	5,849	9,271
OPERATING LOSS	(631)	(701)	(1,353)
OTHER INCOME (EXPENSE)			
Interest income	18	22	36
Interest expense	(123)	(93)	(250)
Interest capitalized	21	35	41

Edgar Filing: AMERICAN AIRLINES INC - Form 10-Q/A

Related party interest - net	5	(11)	10
Miscellaneous - net	4	36	(4)
	-----	-----	-----
	(75)	(11)	(167)
	-----	-----	-----
LOSS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	(706)	(712)	(1,520)
Income tax benefit	(220)	(257)	(492)
	-----	-----	-----
LOSS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAX BENEFIT	(486)	(455)	(1,028)
	-----	-----	-----
	--	--	(889)
	-----	-----	-----
NET LOSS	\$ (486)	\$ (455)	\$ (1,917)
	=====	=====	=====

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

-1-

AMERICAN AIRLINES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited) (In millions)

	June 30, 2002	December 31, 2001
	-----	-----
ASSETS		
CURRENT ASSETS		
Cash	\$ 191	\$ 117
Short-term investments	2,352	2,856
Receivables, net	1,530	1,371
Inventories, net	676	752
Deferred income taxes	846	844
Other current assets	179	519
	-----	-----
Total current assets	5,774	6,459
EQUIPMENT AND PROPERTY		
Flight equipment, net	13,519	13,151
Other equipment and property, net	2,234	2,000
Purchase deposits for flight equipment	607	834
	-----	-----
	16,360	15,985
EQUIPMENT AND PROPERTY UNDER CAPITAL LEASES		
Flight equipment, net	1,372	1,492
Other equipment and property, net	92	95
	-----	-----

Edgar Filing: AMERICAN AIRLINES INC - Form 10-Q/A

	1,464	1,587
Route acquisition costs	829	829
Airport operating and gate lease rights, net	446	459
Other assets	4,228	5,158
	-----	-----
	\$ 29,101	\$ 30,477
	=====	=====
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 1,478	\$ 1,717
Accrued liabilities	2,189	2,017
Air traffic liability	3,059	2,763
Payable to affiliates, net	69	66
Current maturities of long-term debt	255	421
Current obligations under capital leases	119	189
	-----	-----
Total current liabilities	7,169	7,173
Long-term debt, less current maturities	7,165	6,530
Obligations under capital leases, less current obligations	1,331	1,396
Deferred income taxes	1,426	1,465
Postretirement benefits	2,611	2,538
Other liabilities, deferred gains and deferred credits	5,808	5,896
STOCKHOLDER'S EQUITY		
Common stock	--	--
Additional paid-in capital	2,550	2,596
Accumulated other comprehensive loss	(70)	(145)
Retained earnings	1,111	3,028
	-----	-----
	3,591	5,479
	-----	-----
	\$ 29,101	\$ 30,477
	=====	=====

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

-2-

AMERICAN AIRLINES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (In millions)

	Six Months Ended	

	2002	

NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$	(53) \$
CASH FLOW FROM INVESTING ACTIVITIES:		

Edgar Filing: AMERICAN AIRLINES INC - Form 10-Q/A

Capital expenditures, including purchase deposits for flight equipment	(846)	
Acquisition of Trans World Airlines, Inc.	--	
Net decrease in short-term investments	504	
Proceeds from sale of equipment and property	160	
Other	36	

Net cash used for investing activities	(146)	
 CASH FLOW FROM FINANCING ACTIVITIES:		
Payments on long-term debt and capital lease obligations	(296)	
Proceeds from issuance of long-term debt	612	
Funds transferred between affiliates, net	(43)	

Net cash provided by financing activities	273	

Net increase in cash	74	
Cash at beginning of period	117	

Cash at end of period	\$ 191	\$
	=====	==

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

-3-

AMERICAN AIRLINES, INC.
 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 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 and the asset impairment charge as discussed in footnote 8, necessary to present fairly the financial position, results of operations and cash flows for the periods indicated. The Company's 2002 results continue to be adversely impacted by the September 11, 2001 terrorist attacks and the resulting effect on the economy and the air transportation industry. In addition, on April 9, 2001, Trans World Airlines LLC (TWA LLC, a wholly owned subsidiary of AMR Corporation (AMR)) purchased substantially all of the assets and assumed certain liabilities of Trans World Airlines, Inc. (TWA). Accordingly, the operating results of TWA LLC are included in the accompanying condensed consolidated financial statements for the

Edgar Filing: AMERICAN AIRLINES INC - Form 10-Q/A

three and six month periods ended June 30, 2002 whereas for 2001 the results of TWA LLC were included only for the period April 10, 2001 through June 30, 2001. When utilized in this report, all references to American Airlines, Inc. include the operations of TWA LLC since April 10, 2001 (collectively, American). Results of operations for the periods presented herein are not necessarily indicative of results of operations for the entire year. For further information, refer to the consolidated financial statements and footnotes thereto included in the American Airlines, Inc. Annual Report on Form 10-K for the year ended December 31, 2001 ("2001 Form 10-K").

2. Accumulated depreciation of owned equipment and property at June 30, 2002 and December 31, 2001 was \$8.3 billion and \$8.2 billion, respectively. Accumulated amortization of equipment and property under capital leases at June 30, 2002 and December 31, 2001 was \$920 million and \$1.0 billion, respectively.
3. The following table provides unaudited pro forma consolidated results of operations, assuming the acquisition of TWA had occurred as of January 1, 2001 (in millions):

Six Months Ended
June 30, 2001

Operating revenues	\$	10,392
Net loss		(496)

The unaudited pro forma consolidated results of operations have been prepared for comparative purposes only. These amounts are not indicative of the combined results that would have occurred had the transaction actually been consummated on the date indicated above and are not indicative of the consolidated results of operations which may occur in the future.

4. As discussed in the notes to the consolidated financial statements included in the Company's 2001 Form 10-K, 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 has been named as a potentially responsible party (PRP) 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). 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. American's portion of the cleanup costs cannot be reasonably estimated due to various factors, including the unknown extent of the remedial actions that may be required, the proportion of the cost that will ultimately be recovered from the responsible parties, and uncertainties regarding the environmental agencies that will ultimately supervise the remedial activities and the nature of that supervision.

AMERICAN AIRLINES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

In addition, the Company is subject to environmental issues at various other airport and non-airport locations. Management believes, after considering a number of factors, that the ultimate disposition of these environmental issues is not expected to materially affect the Company's consolidated financial position, results of operations or cash flows. Amounts recorded for environmental issues are based on the Company's current assessments of the ultimate outcome and, accordingly, could increase or decrease as these assessments change.

5. As of June 30, 2002, the Company had commitments to acquire the following aircraft: 47 Boeing 737-800s, 11 Boeing 777-200ERs and nine Boeing 767-300ERs. Deliveries of these aircraft are scheduled to continue through 2008. Payments for these aircraft are expected to be approximately \$210 million during the remainder of 2002, \$890 million in 2003, \$390 million in 2004 and an aggregate of approximately \$1.5 billion in 2005 through 2008.

6. During the six month period ended June 30, 2002, American borrowed approximately \$372 million under various debt agreements which are secured by aircraft. Effective interest rates on these agreements are based on London Interbank Offered Rate plus a spread and mature over various periods of time through 2018.

In March 2002, the Regional Airports Improvement Corporation issued facilities sublease revenue bonds at the Los Angeles International Airport to provide reimbursement to American for certain facility construction costs. The proceeds of approximately \$225 million provided to American have been recorded as long-term debt on the condensed consolidated balance sheets. These obligations bear interest at fixed rates, with an average rate of 7.88 percent, and mature over various periods of time, with a final maturity in 2024.

7. Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 142 requires the Company to test goodwill and indefinite-lived intangible assets (for American, route acquisition costs) for impairment rather than amortize them. During the first quarter of 2002, the Company completed its impairment analysis for route acquisition costs in accordance with SFAS 142. The analysis did not result in an impairment charge. In addition, the Company completed its impairment analysis related to its \$1.3 billion of goodwill and determined the Company's entire goodwill balance was impaired. In arriving at this conclusion, the Company's net book value was determined to be in excess of the Company's fair value at January 1, 2002, using American as the reporting unit for purposes of the fair value determination. The Company determined its fair value as of January 1, 2002 using various valuation methods, ultimately utilizing an allocation of AMR's fair value, which was determined using market capitalization as the primary indicator of fair value. As a result, the Company recorded a one-time, non-cash charge, effective January 1, 2002, of \$889 million (net of a tax benefit of \$363 million) to write-off all of American's goodwill. This charge is nonoperational in

Edgar Filing: AMERICAN AIRLINES INC - Form 10-Q/A

nature and is reflected as a cumulative effect of accounting change in the consolidated statements of operations. This charge does not affect the Company's financial covenants in any of its credit agreements.

In addition, effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended (SFAS 133). SFAS 133 required the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges are adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings. The adoption of SFAS 133 did not result in a cumulative effect adjustment being recorded to net income for the change in accounting. However, the Company recorded a transition adjustment of approximately \$64 million in Accumulated other comprehensive loss in the first quarter of 2001.

-5-

AMERICAN AIRLINES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

The following table provides information relating to the Company's amortized intangible assets as of June 30, 2002 (in millions):

	Cost	Accumulated Amortization	Net Book Value
	-----	-----	-----
AMORTIZED INTANGIBLE ASSETS:			
Airport operating rights	\$ 449	\$ 136	\$ 313
Gate lease rights	209	76	133
	-----	-----	-----
Total	\$ 658	\$ 212	\$ 446
	=====	=====	=====

Airport operating and gate lease rights are being amortized on a straight-line basis over 25 years to a zero residual value. For the three and six month period ended June 30, 2002, the Company recorded amortization expense of approximately \$5 million and \$13 million, respectively, related to these intangible assets. The Company expects to record annual amortization expense of approximately \$26 million in each of the next five years related to these intangible assets.

The pro forma effect of discontinuing amortization of goodwill and route acquisition costs under SFAS 142 - assuming the Company had adopted this standard as of January 1, 2001 - results in an adjusted net loss of approximately \$442 million and approximately \$470 million,

Edgar Filing: AMERICAN AIRLINES INC - Form 10-Q/A

respectively, for the three and six month periods ended June 30, 2001.

8. In conjunction with the acquisition of TWA, coupled with revisions to the Company's fleet plan to accelerate the retirement dates of its Fokker 100 aircraft, during the second quarter of 2001 the Company determined these aircraft were impaired under Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" (SFAS 121). As a result, during the second quarter of 2001, the Company recorded an asset impairment charge of approximately \$586 million relating to the write-down of the carrying value of 71 Fokker 100 aircraft and related rotables to their estimated fair market values which is included in Special charges on the accompanying consolidated statements of operations. Management estimated the undiscounted future cash flows utilizing models used by the Company in making fleet and scheduling decisions. In determining the fair market value of these aircraft, the Company considered outside third party appraisals and recent transactions involving sales of similar aircraft. As a result of the writedown of these aircraft to fair market value, as well as the acceleration of the retirement dates and changes in salvage values, depreciation and amortization will decrease by approximately \$18 million on an annualized basis.

9. The Company includes unrealized gains and losses on available-for-sale securities, changes in minimum pension liabilities and changes in the fair value of certain derivative financial instruments that qualify for hedge accounting in comprehensive loss. For the three months ended June 30, 2002 and 2001, comprehensive loss was \$487 million and \$457 million, respectively. In addition, for the six months ended June 30, 2002 and 2001, comprehensive loss was \$1,842 million and \$417 million, respectively. The difference between net loss and comprehensive loss is due primarily to the accounting for the Company's derivative financial instruments under SFAS 133. In addition, the six month period ended June 30, 2001 includes the cumulative effect of the adoption of SFAS 133.

During the second quarter of 2002, the Company discontinued entering into new foreign exchange currency put option agreements. The fair value of the Company's remaining foreign currency put option agreements was not material as of June 30, 2002, and all of these agreements will expire by September 30, 2002.

-6-

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001

SUMMARY American's LOSS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE for the six months ended June 30, 2002 was \$1,028 million as compared to a net loss of \$489 million for the same period in 2001. American's OPERATING LOSS for the six months ended June 30, 2002 was \$1,353 million, compared to an operating loss of \$713 million for the same period in 2001. American's 2002 results continue to be

Edgar Filing: AMERICAN AIRLINES INC - Form 10-Q/A

adversely impacted by the September 11, 2001 terrorist attacks and the resulting effect on the economy and the air transportation industry. On April 9, 2001, Trans World Airlines LLC (TWA LLC, a wholly owned subsidiary of AMR Corporation) purchased substantially all of the assets and assumed certain liabilities of Trans World Airlines, Inc. (TWA). Accordingly, the operating results of TWA LLC are included in the accompanying condensed consolidated financial statements for the six month period ended June 30, 2002 whereas for 2001 the results of TWA LLC were included only for the period April 10, 2001 through June 30, 2001. All references to American Airlines, Inc. include the operations of TWA LLC since April 10, 2001 (collectively, American). In addition, the Company recorded a one-time, non-cash charge of \$889 million (net of tax), reflected as a cumulative effect of accounting change, to write-off American's goodwill. American's 2001 results include: (i) a \$586 million charge (\$368 million after-tax) related to the writedown of the carrying value of its Fokker 100 aircraft and related rotables in accordance with SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" (see footnote 8 to the condensed consolidated financial statements), and (ii) a \$45 million gain (\$29 million after-tax) from the settlement of a legal matter related to the Company's 1999 labor disruption.

Although traffic has continued to increase on significantly reduced capacity since the events of September 11, 2001, the Company's 2002 revenues were down significantly year-over-year. In addition to the residual effects of September 11, the Company's revenues continue to be negatively impacted by the economic slowdown, seen largely in business travel declines, the geographic distribution of the Company's network and reduced fares. In total, the Company's REVENUES decreased \$1,608 million, or 16.9 percent, in 2002 versus the same period in 2001. American's PASSENGER REVENUES decreased by 15.7 percent, or \$1,349 million in 2002 as compared to the same period in 2001. American's domestic revenue per available seat mile (RASM) decreased 13.4 percent, to 8.58 cents, on a capacity decrease of 0.4 percent, to 61.3 billion available seat miles (ASMs). International RASM decreased to 8.67 cents, or 7.7 percent, on a capacity decrease of 14 percent. The decrease in international RASM was due to a 10.2 percent and 7.9 percent decrease in Latin American and European RASM, respectively, slightly offset by a 5.6 percent increase in Pacific RASM. The decrease in international capacity was driven by a 36.4 percent, 15.2 percent and 8.2 percent reduction in Pacific, European and Latin American ASMs, respectively.

Cargo REVENUES decreased \$88 million, or 24.3 percent, primarily due to the same reasons as noted above.

OTHER REVENUES decreased 29.3 percent, or \$171 million, due primarily to decreases in contract maintenance work that American performs for other airlines, and decreases in codeshare revenue and employee travel service charges.

-7-

RESULTS OF OPERATIONS (CONTINUED)

The Company's OPERATING EXPENSES decreased 9.5 percent, or approximately \$968 million. American's COST PER ASM increased by 0.5 percent to 11.03 cents, excluding the impact of the second quarter 2001 asset impairment charge. WAGES, SALARIES AND BENEFITS increased 9.6 percent, or \$349 million, reflecting (i) a decrease in the average number of equivalent employees, somewhat offset by higher salaries, and (ii) increases in the Company's pension and health insurance costs, the latter reflecting rapidly rising medical care and prescription drug costs. AIRCRAFT FUEL expense decreased 24 percent, or \$354 million, due primarily to a 16.1 percent decrease in the Company's average price

Edgar Filing: AMERICAN AIRLINES INC - Form 10-Q/A

per gallon of fuel and a 6.7 percent decrease in the Company's fuel consumption. AIRCRAFT RENTALS increased \$69 million, or 19.3 percent, due primarily the addition of TWA aircraft. FOOD service decreased 12.8 percent, or \$51 million, due primarily to the Company's reduced operating schedule and change in level of food service. COMMISSIONS TO AGENTS decreased 34.2 percent, or \$156 million, due primarily to a 15.7 percent decrease in passenger revenues and commission structure changes implemented in March 2002. SPECIAL CHARGES of \$586 million related to the writedown of the carrying value of the Company's Fokker 100 aircraft and related rotables during the second quarter of 2001 (see footnote 8 to the condensed consolidated financial statements). OTHER OPERATING EXPENSES decreased 15.3 percent, or \$264 million, due primarily to decreases in contract maintenance work that American performs for other airlines, and decreases in travel and incidental costs, credit card and booking fees, advertising and promotion costs, and data processing expenses, which were partially offset by higher insurance and security costs.

OTHER INCOME (EXPENSE) increased \$124 million due to the following: INTEREST INCOME decreased 18.2 percent, or \$8 million, due primarily to decreases in interest rates. INTEREST EXPENSE increased \$81 million, or 47.9 percent, resulting primarily from the increase in the Company's long-term debt. INTEREST CAPITALIZED decreased \$33 million, or 44.6 percent, due primarily to a decrease in purchase deposits for flight equipment. RELATED PARTY INTEREST - NET increased \$32 million due primarily to higher receivable balances from affiliated entities versus 2001. MISCELLANEOUS-NET decreased \$34 million due primarily to a \$45 million gain recorded during the second quarter of 2001 from the settlement of a legal matter related to the Company's 1999 labor disruption.

The effective tax rate for the six months ended June 30, 2002 was impacted by a \$57 million charge resulting from a provision in Congress' economic stimulus package that changes the period for carrybacks of net operating losses (NOLs). This change allows the Company to carry back 2001 and 2002 NOLs for five years, rather than two years under the existing law, allowing the Company to more quickly recover its NOLs. The extended NOL carryback did however, result in the displacement of foreign tax credits taken in prior years. These credits are now expected to expire before being utilized by the Company, resulting in this charge.

OTHER INFORMATION

NET CASH USED FOR OPERATING ACTIVITIES in the six month period ended June 30, 2002 was \$53 million, a decrease of \$785 million over the same period in 2001, due primarily to an increase in the Company's net loss. Included in net cash used for operating activities during the first six months of 2002 was approximately \$658 million received by the Company as a result of the utilization of its 2001 NOL's. Capital expenditures for the first six months of 2002 were \$846 million and included the acquisition of seven Boeing 757-200s and three Boeing 777-200ER aircraft. These capital expenditures were financed primarily through secured mortgage agreements. Proceeds from the sale of equipment and property of \$160 million include the proceeds received upon delivery of three McDonnell Douglas MD-11 aircraft to FedEx.

As of June 30, 2002, the Company had commitments to acquire the following aircraft: 47 Boeing 737-800s, 11 Boeing 777-200ERs and nine Boeing 767-300ERs. Deliveries of these aircraft are scheduled to continue through 2008. Payments for these aircraft are expected to be approximately \$210 million during the remainder of 2002, \$890 million in 2003, \$390 million in 2004 and an aggregate of approximately \$1.5 billion in 2005 through 2008.

In June 2002, Standard & Poor's downgraded the credit ratings of American, and the credit ratings of a number of other major airlines. The long-term credit ratings of American were removed from Standard & Poor's Credit Watch with negative implications and were given a negative outlook. Any additional

Edgar Filing: AMERICAN AIRLINES INC - Form 10-Q/A

reductions in American's credit ratings could result in increased borrowing costs to the Company and might limit the availability of future financing needs.

-8-

In addition to the Company's approximately \$2.5 billion in cash and short-term investments as of June 30, 2002, the Company has available a variety of future financing sources, including, but not limited to: (i) the receipt of the remainder of the U.S. Government grant authorized by the Air Transportation Safety and System Stabilization Act (the Act), which is estimated to be in excess of \$40 million, (ii) additional secured aircraft debt, (iii) the availability of the Company's \$1 billion credit facility, (iv) sale-leaseback transactions of owned property, including aircraft and real estate, (v) the recovery of past federal income taxes paid as a result of a provision in the recently passed economic stimulus package regarding NOL carrybacks, (vi) tax-exempt borrowings for airport facilities, (vii) securitization of future operating receipts, and (viii) unsecured borrowings. No assurance can be given that any of these financing sources will be available on terms acceptable to the Company. However, the Company believes it will meet its current financing needs.

Pursuant to the Act, the Government made available to air carriers, subject to certain conditions, up to \$10 billion in federal government guarantees of certain loans. American did not seek such loan guarantees.

As a result of the September 11, 2001 events, aviation insurers have significantly reduced the maximum amount of insurance coverage available to commercial air carriers for liability to persons other than employees or passengers for claims resulting from acts of terrorism, war or similar events (war-risk coverage). At the same time, they significantly increased the premiums for such coverage as well as for aviation insurance in general. Pursuant to authority granted in the Act, the Government has supplemented the commercial war-risk insurance until August 17, 2002 with a third party liability policy to cover losses to persons other than employees or passengers for renewable 60-day periods. In the event the insurance carriers reduce further the amount of insurance coverage available or the Government fails to renew war-risk insurance, the Company's operations and/or financial position, results of operations or cash flows would be adversely impacted.

As discussed in the Company's 2001 Form 10-K, a provision in the current Allied Pilots Association (APA) contract freezes the number of ASMs and block hours flown on American's two letter marketing code by American's regional carrier partners when American pilots are on furlough (the ASM cap). As AMR Eagle continues to accept previously ordered regional jets, this ASM cap would be reached sometime in 2002, necessitating actions to insure compliance with the ASM cap. American is working with its regional partners to accomplish this. Actions currently being taken and considered by AMR Eagle to reduce its capacity are discussed in the Company's 2001 Form 10-K. In addition, American is removing its code from flights of the AmericanConnection carriers, which are independent carriers that provide feed to American's St. Louis hub. American believes that the combination of these actions will enable it to comply with this ASM cap through 2002 and for sometime beyond.

In addition, another provision in the current APA contract limits the total number of regional jets with more than 44 seats flown under the American code by American's regional carrier partners to 67 aircraft. Similar to the above, as AMR Eagle continues to accept previously ordered Bombardier CRJ aircraft, this cap would be reached in early 2003. In order to ensure American remains in

Edgar Filing: AMERICAN AIRLINES INC - Form 10-Q/A

compliance with this provision, AMR Eagle has reached an agreement in principle to dispose of 14 Embraer 145 aircraft. Ultimately, these airplanes will be acquired by Trans States Airlines, an AmericanConnection carrier. Trans States Airlines will operate these aircraft under its two letter airline code and expects to deploy these aircraft at its St. Louis hub where it feeds American. The potential transaction still requires the consent of certain third parties, including the companies financing these aircraft, and is subject to the negotiation of final documentation.

-9-

OUTLOOK

Capacity for American is expected to be down approximately two percent in the third quarter of 2002 compared to last year's third quarter levels. For the third quarter of 2002, the Company expects traffic to be about flat as compared to last year's third quarter levels. Pressure to reduce costs will continue, although the Company will continue to see higher benefit and security costs, increased insurance premiums, and greater interest expense. However, the Company expects to see a slight decrease in fuel prices as compared to the third quarter of 2001 and the continued decline in commission expense due to the commission changes implemented earlier in 2002. In total, American's unit costs, excluding special items, for the third quarter of 2002 are expected to be down approximately 3.5 percent from last year's third quarter level. Notwithstanding the expected decrease in unit costs however, given the revenue pressures seen in the first half of the year and expected to continue into the third quarter, the Company expects to incur a sizable loss in the third quarter and a significant loss for 2002.

In response to these financial challenges, the Company has undertaken a comprehensive review of its business to better align its cost structure with the current revenue environment, aimed at improving productivity, simplifying operations and reducing costs. The Company has begun to implement certain of these changes, including a fleet simplification program, adjustments to its operating schedule and increased airport automation, and will continue to refine its business throughout the coming months.

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," "believes," and similar expressions are intended to identify forward-looking statements. 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 actual results to differ materially from our expectations. Additional information concerning these and other factors is contained in the Company's Securities and Exchange Commission

Edgar Filing: AMERICAN AIRLINES INC - Form 10-Q/A

filings, including but not limited to 2001 Form 10-K.

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 2001 Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

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 design and operation of the Company's disclosure controls and procedures within 90 days before the filing date of this quarterly report (October 18, 2002). Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to their evaluation.

-10-

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 Corporation, American Airlines, Inc., AMR Eagle Holding Corporation, 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). The as yet uncertified class includes all travel agencies who have been or will be required to pay monies to American for debit memos for fare rules violations from July 26, 1995 to the present. The plaintiffs seek 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. The Company intends to vigorously defend the lawsuit. Although the Company believes that the litigation is without merit, an adverse court decision could impose restrictions on the Company's relationships with travel agencies which restrictions could have an adverse impact on the Company.

On May 13, 1999, the United States (through the Antitrust Division of the Department of Justice) sued AMR Corporation, American Airlines, Inc., and AMR Eagle Holding Corporation in federal court in Wichita, Kansas. The lawsuit alleges that American unlawfully monopolized or attempted to monopolize airline passenger service to and from Dallas/Fort Worth International Airport (DFW) by increasing service when new competitors began flying to DFW, and by matching these new competitors' fares. The Department of Justice seeks to enjoin American from engaging in the alleged improper conduct and to impose restraints on American to remedy the alleged effects of its past conduct. On April 27, 2001, the U.S. District Court for the District of Kansas granted American's motion for summary judgment. On June 26, 2001, the U.S. Department of Justice appealed the granting of American's motion for summary judgment. The parties have submitted

Edgar Filing: AMERICAN AIRLINES INC - Form 10-Q/A

briefs to the 10th Circuit Court of Appeals, which has scheduled the case for oral argument on September 23, 2002. The Company intends to defend the lawsuit vigorously. A final adverse court decision imposing restrictions on the Company's ability to respond to competitors would have an adverse impact on the Company.

Between May 14, 1999 and June 7, 1999, seven class action lawsuits were filed against AMR Corporation, American Airlines, Inc., and AMR Eagle Holding Corporation in the United States District Court in Wichita, Kansas seeking treble damages under federal and state antitrust laws, as well as injunctive relief and attorneys' fees (King v. AMR Corp., et al.; Smith v. AMR Corp., et al.; Team Electric v. AMR Corp., et al.; Warren v. AMR Corp., et al.; Whittier v. AMR Corp., et al.; Wright v. AMR Corp., et al.; and Youngdahl v. AMR Corp., et al.). Collectively, these lawsuits allege that American unlawfully monopolized or attempted to monopolize airline passenger service to and from DFW by increasing service when new competitors began flying to DFW, and by matching these new competitors' fares. Two of the suits (Smith and Wright) also allege that American unlawfully monopolized or attempted to monopolize airline passenger service to and from DFW by offering discounted fares to corporate purchasers, by offering a frequent flyer program, by imposing certain conditions on the use and availability of certain fares, and by offering override commissions to travel agents. The suits propose to certify several classes of consumers, the broadest of which is all persons who purchased tickets for air travel on American into or out of DFW from 1995 to the present. On November 10, 1999, the District Court stayed all of these actions pending developments in the case brought by the Department of Justice. As a result, to date no class has been certified. The Company intends to defend these lawsuits vigorously. One or more final adverse court decisions imposing restrictions on the Company's ability to respond to competitors or awarding substantial money damages would have an adverse impact on the Company.

On May 17, 2002, the named plaintiffs in Hall, et al. v. United Airlines, et al., No. 7:00 CV 123-BR(1), pending in the United States District Court for the Eastern District of North Carolina, filed an amended complaint alleging that between 1995 and the present, American and the other defendant airlines conspired to reduce commissions paid to U.S.-based travel agents in violation of Section 1 of the Sherman Act. The named plaintiffs seek to certify a nationwide class of travel agents, but no class has yet been certified. American is vigorously defending the lawsuit. Trial is set for April 29, 2003. A final adverse court decision awarding substantial money damages or placing restrictions on the Company's commission policies or practices would have an adverse impact on the Company.

-11-

ITEM 1. LEGAL PROCEEDINGS (CONTINUED)

On April 26, 2002, six travel agencies filed an action in the United States District Court for the Central District of California against American, United Air Lines, Delta Air Lines, and Orbitz, LLC, alleging that American and the other defendants: (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; and (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. The named plaintiffs seek to certify a nationwide class of travel agents, but no class has yet been certified. American is vigorously defending the lawsuit, which is styled Albany Travel Co., et al. v. Orbitz, LLC, et al., No. 02-3459 (ER) (AJW)x. A final

Edgar Filing: AMERICAN AIRLINES INC - Form 10-Q/A

adverse court decision awarding substantial money damages or placing restrictions on the Company's distribution practices would have an adverse impact on the Company.

On May 13, 2002, the named plaintiffs in *Always Travel, et. al. v. Air Canada, et. al.*, No. T757-027, pending in the Federal Court of Canada, Trial Division, Montreal, filed a statement of claim alleging that between 1995 and the present, American, the other defendant airlines, and the International Air Transport Association conspired to reduce commissions paid to Canada-based travel agents in violation of Section 45 of the Competition Act of Canada. The named plaintiffs seek to certify a nationwide class of travel agents, but no class has yet been certified. American is vigorously defending the lawsuit. A final adverse court decision awarding substantial money damages or placing restrictions on the Company's commission policies would have an 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 Airlines, Inc. 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 Airlines, Inc., 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). 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. American's and AMR Eagle's portion of the cleanup costs cannot be reasonably estimated due to various factors, including the unknown extent of the remedial actions that may be required, the proportion of the cost that will ultimately be recovered from the responsible parties, and uncertainties regarding the environmental agencies that will ultimately supervise the remedial activities and the nature of that supervision. The Company is vigorously defending the lawsuit.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

The following exhibits are included herein:

- 3.1 Bylaws of American Airlines, Inc., amended as of April 2, 2002. For document description, see American Airlines, Inc. Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002, as filed on July 19, 2002.
- 12 Computation of ratio of earnings to fixed charges for the three and six months ended June 30, 2002 and 2001.
- 99 Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code).

Form 8-Ks filed under Item 5 - Other Events

On June 13, 2002, American Airlines, Inc. filed a report on Form 8-K relating to a press release issued by American to announce the appointment of Jeffrey C. Campbell as Senior Vice President - Finance and Planning and Chief Financial Officer of the Company.

On June 19, 2002, American Airlines, Inc. filed a report on Form 8-K to provide updated monthly guidance on unit cost, fuel, traffic and capacity for the months of May through August 2002.

Edgar Filing: AMERICAN AIRLINES INC - Form 10-Q/A

Form 8-Ks furnished under Item 9 - Regulation FD Disclosure

On May 31, 2002, American Airlines, Inc. furnished a report on Form 8-K to provide updated monthly guidance on unit cost, fuel, traffic and capacity for the months of March through July 2002.

-12-

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.

AMERICAN AIRLINES, INC.

Date: October 18, 2002

BY: /s/ Jeffrey C. Campbell

Jeffrey C. Campbell
Senior Vice President -
Finance and Planning and Chief
Financial Officer

-13-

CERTIFICATIONS

I, Donald J. Carty, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A No. 1 of American Airlines, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

Edgar Filing: AMERICAN AIRLINES INC - Form 10-Q/A

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: October 18, 2002

/s/ Donald J. Carty

Donald J. Carty
Chairman and Chief Executive Officer

-14-

CERTIFICATIONS (CONTINUED)

I, Jeffrey C. Campbell, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A No. 1 of American Airlines, Inc.;

Edgar Filing: AMERICAN AIRLINES INC - Form 10-Q/A

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: October 18, 2002

/s/ Jeffrey C. Campbell

Jeffrey C. Campbell
Senior Vice President and Chief Financial
Officer

Edgar Filing: AMERICAN AIRLINES INC - Form 10-Q/A

EXHIBIT
NUMBER

DESCRIPTION

- | | |
|----|--|
| 12 | Computation of ratio of earnings to fixed charges for the three and six months ended June 30, 2002 and 2001. |
| 99 | Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code). |