

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 MARCH 31, 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 April 16, 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 March 31, 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 months ended March 31, 2002 and 2001

Condensed Consolidated Balance Sheets -- March 31, 2002 and December 31, 2001

Condensed Consolidated Statements of Cash Flows -- Three months ended March 31, 2002 and 2001

Notes to Condensed Consolidated Financial Statements -- March 31, 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 March 31,	
	2002	2001
	-----	-----
REVENUES		
Passenger	\$ 3,484	\$ 3,935
Cargo	133	174
Other	191	269
	-----	-----
Total operating revenues	3,808	4,378
EXPENSES		
Wages, salaries and benefits	1,972	1,632
Aircraft fuel	497	670
Depreciation and amortization	304	278
Other rentals and landing fees	268	236
Maintenance, materials and repairs	230	234
Aircraft rentals	219	140
Food service	169	181
Commissions to agents	151	212
Other operating expenses	720	807
	-----	-----
Total operating expenses	4,530	4,390
OPERATING LOSS	(722)	(12)
OTHER INCOME (EXPENSE)		
Interest income	18	22
Interest expense	(127)	(76)

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

Interest capitalized	20	39
Related party interest - net	5	(11)
Miscellaneous - net	(8)	(6)
	-----	-----
	(92)	(32)
	-----	-----
LOSS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	(814)	(44)
Income tax benefit	(272)	(10)
	-----	-----
LOSS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	(542)	(34)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAX BENEFIT	(889)	--
	-----	-----
NET LOSS	\$ (1,431)	\$ (34)
	=====	=====

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

-1-

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

	March 31, 2002	December 31, 2001
	-----	-----
ASSETS		
CURRENT ASSETS		
Cash	\$ 132	\$ 117
Short-term investments	2,170	2,856
Receivables, net	1,843	1,371
Inventories, net	689	752
Deferred income taxes	847	844
Other current assets	543	519
	-----	-----
Total current assets	6,224	6,459
EQUIPMENT AND PROPERTY		
Flight equipment, net	13,495	13,151
Other equipment and property, net	2,149	2,000
Purchase deposits for flight equipment	615	834
	-----	-----
	16,259	15,985
EQUIPMENT AND PROPERTY UNDER CAPITAL LEASES		
Flight equipment, net	1,440	1,492
Other equipment and property, net	93	95
	-----	-----
	1,533	1,587
Route acquisition costs	829	829
Airport operating and gate lease rights, net	451	459
Other assets	4,014	5,158
	-----	-----

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

	\$ 29,310	\$ 30,477
	=====	=====
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 1,388	\$ 1,717
Accrued liabilities	2,143	2,017
Air traffic liability	2,930	2,763
Payable to affiliates, net	73	66
Current maturities of long-term debt	386	421
Current obligations under capital leases	166	189
	-----	-----
Total current liabilities	7,086	7,173
Long-term debt, less current maturities	6,947	6,530
Obligations under capital leases, less current obligations	1,331	1,396
Deferred income taxes	1,460	1,465
Postretirement benefits	2,573	2,538
Other liabilities, deferred gains and deferred credits	5,860	5,896
STOCKHOLDER'S EQUITY		
Common stock	--	--
Additional paid-in capital	2,527	2,596
Accumulated other comprehensive loss	(71)	(145)
Retained earnings	1,597	3,028
	-----	-----
	4,053	5,479
	-----	-----
	\$ 29,310	\$ 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)

	Three Months Ended	

	2002	

NET CASH USED FOR OPERATING ACTIVITIES	\$ (407)	\$
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures, including purchase deposits for flight equipment	(508)	
Net decrease in short-term investments	686	
Proceeds from sale of equipment and property	12	
	-----	-----
Net cash provided by (used for) investing activities	190	

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

CASH FLOW FROM FINANCING ACTIVITIES:

Payments on long-term debt and capital lease obligations	(175)	
Proceeds from issuance of long-term debt	469	
Funds transferred from affiliates, net	(62)	

Net cash provided by financing activities	232	
Net increase in cash	15	
Cash at beginning of period	117	

Cash at end of period	\$ 132	\$
	=====	==

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 with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, these financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position, results of operations and cash flows for the periods indicated. The Company's 2002 results continue to be adversely impacted by the September 11, 2001 terrorist attacks. In addition, on April 9, 2001, American Airlines, Inc. (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 are included in the accompanying condensed consolidated financial statements for the three-month period ended March 31, 2002 but not for the three-month period ended March 31, 2001. When utilized in this report, all references to American Airlines, Inc. include TWA (collectively, American or the Company). 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 Company's Annual Report on Form 10-K for the year ended December 31, 2001 ("2001 Form 10-K"). Certain amounts from 2001 have been reclassified to conform with the 2002 presentation.

 2. Accumulated depreciation of owned equipment and property at March 31, 2002 and December 31, 2001 was \$8.2 billion. Accumulated amortization of equipment and property under capital leases at March 31, 2002 and

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

December 31, 2001 was \$1.0 billion.

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, except per share amounts):

	Three Months Ended March 31, 2001 -----	
Operating revenues	\$	5,160
Net loss		(88)

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 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. 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.

-4-

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

(Unaudited)

5. As of March 31, 2002, the Company had commitments to acquire the following aircraft: 47 Boeing 737-800s, 12 Boeing 777-200ERs, nine Boeing 767-300ERs and one Boeing 757-200 aircraft. Deliveries of these aircraft are scheduled to continue through 2008. Payments for these aircraft are expected to be approximately \$375 million during the remainder of 2002, \$1 billion in 2003, \$500 million in 2004 and an aggregate of approximately \$1.3 billion in 2005 through 2008.
6. During the three-month period ended March 31, 2002, American borrowed approximately \$225 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 in 2012.

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 \$215 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 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

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

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 March 31, 2002 (in millions):

	Cost -----	Accumulated Amortization -----	
AMORTIZED INTANGIBLE ASSETS:			
Airport operating rights	\$ 449	\$ 132	
Gate lease rights	209	75	
	-----	-----	
Total	\$ 658	\$ 207	
	=====	=====	

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-month period ended March 31, 2002, the Company recorded amortization expense of approximately \$8 million 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 SFAS 142 - assuming the Company had adopted this standard as of January 1, 2001 - is immaterial to the Company's net loss for the three-month period ended March 31, 2001.

8. 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 income (loss). For the three months ended March 31, 2002 and 2001, comprehensive income (loss) was \$(1,357) million and \$40 million, respectively. The difference between net loss and comprehensive loss for the three months ended March 31, 2002 is due primarily to the accounting for the Company's derivative financial instruments under SFAS 133. The difference between net loss and comprehensive income for the three months ended March 31, 2001 was due primarily to the cumulative effect of the adoption of SFAS 133 and the

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

accounting for the Company's derivative financial instruments under SFAS 133.

-6-

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

RESULTS OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2002 AND 2001

SUMMARY American Airlines, Inc. (a wholly owned subsidiary of AMR Corporation) recorded a LOSS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE for the three months ended March 31, 2002 of \$542 million. This compares to a net loss of \$34 million for the first quarter of 2001. American Airlines, Inc. OPERATING LOSS of \$722 million increased \$710 million compared to the same period in 2001. The Company's 2002 results continue to be adversely impacted by the September 11, 2001 terrorist attacks. In addition, on April 9, 2001, American Airlines, Inc. purchased substantially all of the assets and assumed certain liabilities of Trans World Airlines, Inc. (TWA). Accordingly, the operating results of TWA are included in the accompanying condensed consolidated financial statements for the three-month period ended March 31, 2002 but not for the three-month period ended March 31, 2001. All references to American Airlines, Inc. include TWA (collectively, American or the Company). 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.

Although traffic has continued to increase on significantly reduced capacity since the events of September 11, 2001, the Company's first quarter 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-- and an increase in fare sale activity. In total, the Company's REVENUES decreased \$570 million, or 13 percent, in the first quarter of 2002 from the same period last year. American's PASSENGER REVENUES decreased by 11.5 percent, or \$451 million in the first three months of 2002 from the same period in 2001. American's domestic revenue per available seat mile (RASM) decreased 15.4 percent, to 8.7 cents, on a capacity increase of 9.4 percent, to 29.3 billion available seat miles (ASMs). International RASM decreased to 8.66 cents, or 10.6 percent, on a capacity decrease of 11.4 percent. The decrease in international RASM was due to a 14.1 percent decrease and 11.9 percent decrease in European and Latin American RASM, respectively, slightly offset by a 9 percent increase in Pacific RASM. The decrease in international capacity was driven by a 39.5 percent, 13.9 percent and 4 percent reduction in Pacific, European and Latin American ASMs, respectively.

Cargo REVENUES decreased \$41 million, or 23.6 percent, due primarily to the continued impact of the September 11, 2001 terrorist attacks and the economic slowdown.

OTHER REVENUES decreased 29 percent, or \$78 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.

The Company's OPERATING EXPENSES increased 3.2 percent, or \$140 million. American's cost per ASM increased 0.4 percent to 11.30 cents. WAGES, SALARIES AND BENEFITS increased 20.8 percent, or \$340 million, primarily due to contractual wage rate and seniority increases that are built into the Company's labor contracts. In addition, the Company experienced increases in its pension

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

and health insurance costs, the latter reflecting rapidly rising medical care and prescription drug costs. AIRCRAFT FUEL expense decreased 25.8 percent, or \$173 million, due primarily to a 23.3 percent decrease in the Company's average price per gallon of fuel. OTHER RENTALS AND LANDING FEES increased 13.6 percent, or \$32 million, due to higher facilities rent and landing fees across American's system. AIRCRAFT RENTALS increased \$79 million, or 56.4 percent, due primarily to the addition of TWA aircraft. COMMISSIONS TO AGENTS decreased 28.8 percent, or \$61 million, due primarily to an 11.5 percent decrease in passenger revenues and a decrease in the percentage of commissionable transactions. OTHER OPERATING EXPENSES decreased 10.8 percent, or \$87 million, due primarily to decreases in contract maintenance work that American performs for other airlines, and decreases in travel and incidental costs, advertising and promotion costs, and credit card fees, which were partially offset by higher insurance and security costs.

-7-

OTHER INCOME (EXPENSE), historically a net expense, increased \$60 million due to the following: INTEREST INCOME decreased 18.2 percent, or \$4 million, due primarily to decreases in interest rates. INTEREST EXPENSE increased \$51 million, or 67.1 percent, resulting primarily from the increase in the Company's long-term debt. INTEREST CAPITALIZED decreased \$19 million, or 48.7 percent, due primarily to a decrease in purchase deposits for flight equipment. RELATED PARTY INTEREST - NET decreased \$16 million due primarily to higher receivable balances from affiliated entities versus the first quarter of 2001.

The effective tax rate for the three months ended March 31, 2002 was impacted by a \$27 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.

AIRCRAFT INFORMATION

As of March 31, 2002, the Company had commitments to acquire the following aircraft: 47 Boeing 737-800s, 12 Boeing 777-200ERs, nine Boeing 767-300ERs and one Boeing 757-200 aircraft. Deliveries of these aircraft are scheduled to continue through 2008. Payments for these aircraft are expected to be approximately \$375 million during the remainder of 2002, \$1 billion in 2003, \$500 million in 2004 and an aggregate of approximately \$1.3 billion in 2005 through 2008.

OTHER INFORMATION

In addition to the Company's approximately \$2.3 billion in cash and short-term investments as of March 31, 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 \$100 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

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

recovery of past federal income taxes paid as a result of a provision in the recently passed economic stimulus package regarding NOL carrybacks (in April 2002, AMR Corporation received approximately \$393 million related to the utilization of its remaining 2001 NOL), (vi) tax-exempt borrowings for airport facilities, (vii) securitization of future operating receipts, (viii) unsecured borrowings, and (ix) borrowings backed by federal loan guarantees as provided under the Act. 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.

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 May 19, 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 contract further limits the number of ASMs and block hours flown by American's regional carrier partners when American pilots are on furlough. As AMR Eagle continues to accept previously ordered regional jets, this will cause the ASM cap to be reached sometime in the first half of 2002, necessitating actions to comply with that cap. American is working with its regional partners to ensure that it is in compliance with this provision. Actions currently being taken and considered by AMR Eagle to reduce its capacity are discussed in AMR Corporation's 2001 Form 10-K. In addition, American is removing its code from flights of the American Connection carriers, which are independent carriers that provide feed to American's St. Louis hub. American believes that the combination of all these actions will enable it to comply with the ASM cap through 2002 and for sometime beyond.

-8-

OUTLOOK

Capacity for American is expected to be down approximately 11 percent in the second quarter of 2002 compared to last year's second quarter levels. For the second quarter of 2002, the Company expects traffic to be lower by approximately 11 percent as compared to last year's second quarter levels. Pressure to reduce costs will continue, although the Company will continue to see higher wages, salaries and benefit costs, higher security costs and insurance premiums, and greater interest expense. Although the Company expects to see an increase in fuel prices as compared to the first quarter of 2002, fuel prices are expected to remain lower in the second quarter of 2002 as compared to last year's second quarter prices. Further, the Company expects to see a benefit in commission expense due to the domestic base commission changes implemented in March 2002. In total however, American's unit costs for the second quarter of 2002 are expected to be two to three percent higher than last year's second quarter. Given this higher unit cost, coupled with the revenue pressures seen in the first quarter and expected to continue into the second quarter, the Company expects to incur a loss in the second quarter (although the Company does not

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

expect this loss to be of the same magnitude as the Company's first quarter loss), and will likely incur a loss for 2002.

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 filings, including but not limited to the Form 10-K for the year ended December 31, 2001.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk from the information provided in Item 7A. Quantitative and Qualitative Disclosures About Market Risk of the Company's 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.

-9-

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

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

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 briefs to the 10th Circuit Court of Appeals. No date has been set for oral argument. 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 January 30, 2002, the named plaintiff in Hall 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 1997 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 plaintiff seeks to certify a nationwide class of travel agents, but no class has yet been certified. American is vigorously

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

defending the lawsuit. A final adverse court decision awarding substantial money damages would have an adverse impact on the Company.

-10-

ITEM 1. LEGAL PROCEEDINGS (CONTINUED)

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.

-11-

PART II

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

The following exhibits are included herein:

- | | |
|----|--|
| 12 | Computation of ratio of earnings to fixed charges for the three months ended March 31, 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 January 16, 2002, American Airlines, Inc. filed a report on Form 8-K relating to a press release issued by AMR Corporation to announce AMR Corporation's fourth quarter and full year 2001 earnings and an agreement with Boeing for the retirement of the Company's 717 fleet.

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

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

On January 25, 2002, American Airlines, Inc. furnished a report on Form 8-K to provide an updated fleet plan for AMR Corporation. In addition, AMR Corporation provided information regarding presentations by AMR Corporation's senior management at upcoming transportation conferences.

On February 22, 2002, American Airlines, Inc. furnished a report on Form 8-K to provide certain data regarding its unit costs, capacity, traffic and fuel for the first quarter of 2002.

On March 22, 2002, American Airlines, Inc. furnished a report on Form 8-K to provide certain data regarding its unit costs, fuel, capacity and traffic for February through May 2002. Additionally, AMR Corporation provided information on the recently passed economic stimulus package which contained a provision regarding net operating loss carryback that was favorable to AMR Corporation.

-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;
3. Based on my knowledge, the financial statements, and other financial

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

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.;
2. Based on my knowledge, this quarterly report does not contain any untrue

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

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 months ended March 31, 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).