AMR CORP
Form 10-K
February 20, 2008

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

Form 10-K

þ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2007

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 1-8400
AMR Corporation
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	75-1825172 (IRS Employer Identification Number)

4333 Amon Carter Blvd.
Fort Worth, Texas 76155
(Address of principal executive offices, including zip code)

(817) 963-1234
(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Exchange on Which Registered
Common Stock, $1 par value per share	New York Stock Exchange
9.00% Debentures due 2016	New York Stock Exchange
7.875% Public Income Notes due 2039	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
þ Yes ¨ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act.
¨ Yes þ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.
þ Large Accelerated Filer ¨ Accelerated Filer ¨ Non-accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ¨ Yes þ No

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2007, was approximately $6.5 billion. As of February 13, 2008, 249,410,640 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates by reference certain information from the Proxy Statement for the Annual Meeting of Stockholders to be held May 21, 2008.

PART I

ITEM 1. BUSINESS

AMR Corporation (AMR or the Company) was incorporated in October 1982. AMR's operations fall almost entirely in the airline industry. AMR's principal subsidiary, American Airlines, Inc. (American), was founded in 1934. American is the largest scheduled passenger airline in the world in terms of available seat miles and revenue passenger miles. At the end of 2007, American provided scheduled jet service to approximately 170 destinations throughout North America, the Caribbean, Latin America, Europe and Asia. American is also one of the largest scheduled air freight carriers in the world, providing a wide range of freight and mail services to shippers throughout its system onboard American's passenger fleet.

AMR Eagle Holding Corporation (AMR Eagle), a wholly-owned subsidiary of AMR, owns two regional airlines which do business as "American Eagle" -- American Eagle Airlines, Inc. and Executive Airlines, Inc. (Executive) (collectively, the American Eagle® carriers). American also contracts with two independently owned regional airlines, which do business as "American Connection" (the American Connection® carriers). The American Eagle carriers and the American Connection carriers provide connecting service from eight of American's high-traffic cities to smaller markets throughout the United States, Canada, Mexico and the Caribbean.

AMR Eagle currently operates a fleet of 294 aircraft. The AMR Eagle fleet is operated to feed passenger traffic to American pursuant to a capacity purchase agreement between American and AMR Eagle under which American receives all passenger revenue from flights and pays AMR Eagle a fee for each flight. In July 2007, the capacity purchase agreement was amended to reflect what the Company believes are current market rates received by other regional carriers for similar flying. Amounts paid to AMR Eagle under the capacity purchase agreement are for various operating expenses of AMR Eagle, such as crew expenses, maintenance and aircraft ownership, some of which are calculated based on specific operating statistics (e.g. block hours, departures) and others of which are fixed monthly amounts. As of December 31, 2007, AMR Eagle averaged over 1,700 daily departures, offering scheduled passenger service to over 150 destinations in North America, Mexico and the Caribbean. On a separate company basis, AMR Eagle reported $2.3 billion in revenue and $114 million of income before income taxes in 2007. However, AMR Eagle's historical financial information is not indicative of the AMR Eagle's future results of operations, financial position and cash flows if AMR Eagle had been a stand-alone entity.

As discussed in the Recent Events section of this Item 1., the Company plans to divest AMR Eagle in 2008. Material modifications could be made to the business and operations of AMR Eagle, and to the capacity purchase agreement between American and AMR Eagle, prior to any such divestiture.

American Beacon Advisors, Inc. (American Beacon), a wholly-owned subsidiary of AMR, is responsible for the investment and oversight of assets of American's U.S. employee benefit plans, as well as AMR's short-term investments. It also serves as the investment manager of the American Beacon Funds, a family of mutual funds with both institutional and retail shareholders, and provides customized fixed income portfolio management services. American Beacon's average assets under management for 2007 was $65 billion, an increase of 27 percent from 2006 and are almost evenly split between equities and fixed income investments. American Beacon has been particularly successful in growing its third party business, as average third-party assets under management increased by approximately 39 percent in 2007. Third-party assets under management accounted for $37 billion of average assets under management and $90 million of 2007 gross revenue. For 2007, on a separate company basis, American Beacon's gross revenue was $101 million and income before income taxes was approximately $48 million, both of which increased approximately 40 percent over 2006.

Recent Events

The Company recorded net earnings of $504 million in 2007, its second consecutive annual profit and a $273 million increase over 2006. Improved results reflected an increase in operating revenue of $372 million, or 1.6 percent on 2.3 percent less capacity, partially offset by higher fuel prices and increases in certain other costs. American's passenger revenues increased 2.1 percent despite a capacity (available seat mile) decrease of 2.4 percent. While passenger yield showed significant year-over-year improvement as American implemented fare increases to partially offset the continuing rise in the cost of fuel, passenger yield remains low by historical standards.

The average price per gallon of fuel the Company paid increased 27.9 cents from 2005 to 2006 and 11.7 cents from 2006 to 2007. These price increases negatively impacted fuel expense by $787 million and $268 million in 2006 and 2007, respectively, as compared to the respective prior years. Continuing high fuel prices, additional increases in the price of fuel, and/or disruptions in the supply of fuel would further adversely affect the Company's financial condition and its results of operations.

AMR continues to take steps to strengthen its balance sheet and in January 2007, issued 13 million shares of common stock for net proceeds of $497 million. The Company reduced long-term debt and capital lease obligations (including current maturities) by $2.3 billion during the year and ended the year with $4.5 billion in unrestricted cash and short-term investments and $428 million in restricted cash and short-term investments.

The Company's ability to remain profitable, reach acceptable profit levels and its ability to continue to fund its obligations on an ongoing basis will depend on a number of factors, many of which are largely beyond the Company's control. Certain risk factors that affect the Company's business and financial results are discussed in the Risk Factors listed in Item 1A. In addition, four of the Company's largest domestic competitors and several smaller carriers have filed for bankruptcy in the last several years and have used this process to significantly reduce contractual labor and other costs. In order to remain competitive and to improve its financial condition, the Company must continue to take steps to generate additional revenues and to reduce its costs. Although the Company has a number of initiatives underway to address its cost and revenue challenges, the ultimate success of these initiatives is not known at this time and cannot be assured.

In October 2007, the Company announced that it was conducting a review of its strategic assets. The purpose of the review is to determine whether there exists the potential for unlocking additional stockholder value with respect to one or more of the Company's strategic assets through some type of separation transaction. For further information regarding the strategic asset review, see Item 1A. Risk Factors.

On November 28, 2007, the Company announced that it plans to divest AMR Eagle (American Eagle Airlines, Inc., and Executive Airlines, Inc.), its wholly-owned regional carrier. American Eagle Airlines, Inc. feeds American Airlines hubs throughout North America, and its affiliate, Executive Airlines, Inc., carries the American Eagle name throughout the Bahamas and the Caribbean from bases in Miami and San Juan, Puerto Rico. AMR believes that a divestiture of AMR Eagle is in the long-term best interests of the Company and its shareholders.

The divestiture of AMR Eagle is intended to provide it with the structure, incentives and opportunities to win new business and provide new opportunities for AMR Eagle's employees. The Company also believes that the divestiture will enable American to focus on its mainline business, while ensuring the Company's continued access to cost-competitive regional feed. Once the two airlines are separated, it is expected that, subject to market considerations, AMR Eagle will perform flying on behalf of American pursuant to an air services agreement under which AMR Eagle will continue to provide American with regional flying of a scope and quality comparable to that provided prior to the separation and on terms that reflect the current market for those services.

The Company continues to evaluate the form of the divestiture, which may include a spin-off to AMR shareholders, a sale to a third party, or some other form of separation from AMR. The Company expects to complete the divestiture in 2008; however, the completion of any transaction and its timing will depend on a number of factors, including general economic, industry and financial market conditions, as well as the ultimate form of the divestiture. The impact on AMR of divesting AMR Eagle is not currently quantifiable due to these uncertainties and the potential restructuring of assets, liabilities and the capacity purchase agreement between American and AMR Eagle. In addition, AMR Eagle's historical financial information is not indicative of AMR Eagle's future results of operations, financial position and cash flows as a stand-alone entity.

Competition

Domestic Air Transportation   The domestic airline industry is fiercely competitive. Currently, any U.S. air carrier deemed fit by the U.S. Department of Transportation (DOT) is free to operate scheduled passenger service between any two points within the U.S. and its possessions. Most major air carriers have developed hub-and-spoke systems and schedule patterns in an effort to maximize the revenue potential of their service. American operates five hubs: Dallas/Fort Worth (DFW), Chicago O'Hare, Miami, St. Louis and San Juan, Puerto Rico. United Air Lines (United) also has a hub operation at Chicago O'Hare.

The American Eagle® carriers increase the number of markets the Company serves by providing connections at American's hubs and certain other major airports -- Boston, Los Angeles, Raleigh/Durham and New York's LaGuardia (LaGuardia) and John F. Kennedy International (JFK) Airports. The American Connection® carriers provide connecting service to American through St. Louis. American's competitors also own or have marketing agreements with regional carriers which provide similar services at their major hubs and other locations.

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

The Company must also compete with carriers that have recently reorganized under the protection of Chapter 11 of the U.S. Bankruptcy Code (Chapter 11). It is possible that one or more other competitors may seek to reorganize in or out of Chapter 11. Successful reorganizations present the Company with competitors with significantly lower operating costs derived from renegotiated labor, supply and financing contracts.

International Air Transportation   In addition to its extensive domestic service, the Company provides international service to the Caribbean, Canada, Latin America, Europe and Asia. The Company's operating revenues from foreign operations were approximately 37 percent of the Company's total operating revenues in 2007, and 37 and 36 percent of the Company's total operating revenues in 2006 and 2005, respectively. Additional information about the Company's foreign operations is included in Note 14 to the consolidated financial statements.

In providing international air transportation, the Company competes with foreign investor-owned carriers, foreign state-owned carriers and U.S. airlines that have been granted authority to provide scheduled passenger and cargo service between the U.S. and various overseas locations. In general, carriers that have the greatest ability to seamlessly connect passengers to and from markets beyond the nonstop city pair have a competitive advantage. In some cases, however, foreign governments limit U.S. air carriers' rights to carry passengers beyond designated gateway cities in foreign countries. To improve access to each other's markets, various U.S. and foreign air carriers - including American - have established marketing relationships with other airlines and rail companies. American currently has marketing relationships with Aer Lingus, Air Pacific, Air Tahiti Nui, Alaska Airlines, British Airways, Brussels Airlines, Cathay Pacific, China Eastern Airlines, Dragonair, Deutsche Bahn German Rail, EL AL, EVA Air, Finnair, Gulf Air, Hawaiian Airlines, Iberia, Japan Airlines, LAN (includes LAN Airlines, LAN Argentina, LAN Ecuador and LAN Peru), Malév Hungarian Airlines, Mexicana, Qantas Airways, Royal Jordanian, SNCF French Rail, and Turkish Airlines.

American is also a founding member of the oneworld alliance, which includes British Airways, Cathay Pacific, Finnair, Lan Airlines, Iberia, Qantas, Japan Airlines, Malev Hungarian, Dragonair, and Royal Jordanian. The

oneworld alliance links the networks of the member carriers to enhance customer service and smooth connections to the destinations served by the alliance, including linking the carriers' frequent flyer programs and access to the carriers' airport lounge facilities. Several of American's major competitors are members of marketing/operational alliances that enjoy antitrust immunity. American and British Airways, the largest members of the oneworld alliance, are restricted in their relationship because they lack antitrust immunity. They are, therefore, at a competitive disadvantage vis-à-vis other alliances that have antitrust immunity.

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

In recent years, a number of low-cost carriers (LCCs) have entered the domestic market. Several major airlines, including the Company, have implemented efforts to lower their costs since lower cost structures enable airlines to offer lower fares. In addition, several air carriers have recently reorganized under Chapter 11, including United, Delta, US Airways and Northwest Airlines. These cost reduction efforts and bankruptcy reorganizations have allowed carriers to decrease operating costs. In the past, lower cost structures have generally resulted in fare reductions. If fare reductions are not offset by increases in passenger traffic, changes in the mix of traffic that improve yields (passenger revenue per passenger mile) and/or cost reductions, the Company's operating results will be negatively impacted.

Regulation

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

The FAA regulates flying operations generally, including establishing standards for personnel, aircraft and certain security measures. As part of that oversight, the FAA has implemented a number of requirements that the Company has incorporated and is incorporating into its maintenance programs. The Company is progressing toward the completion of over 180 airworthiness directives including Boeing fuel tank safety directives, Boeing 757 and Boeing 767 pylon improvements, McDonnell Douglas MD-80 horizontal stabilizer, cargo door and aft pressure bulkhead improvements, Boeing 737 horizontal stabilizer actuator and digital flight recorder improvements and Airbus A300 structural improvements. Based on its current implementation schedule, the Company expects to be in compliance with the applicable requirements within the required time periods.

The Department of Justice (DOJ) has jurisdiction over airline antitrust matters. The U.S. Postal Service has jurisdiction over certain aspects of the transportation of mail and related services. Labor relations in the air transportation industry are regulated under the Railway Labor Act, which vests in the National Mediation Board certain regulatory functions with respect to disputes between airlines and labor unions relating to union representation and collective bargaining agreements.

On December 21, 2007, a New York federal judge dismissed the Air Transport Association's ("ATA") challenge to a recently enacted New York law requiring airlines to provide certain services to onboard passengers whose flights are delayed on the ground prior to takeoff for more than three hours. The ATA plans to appeal the ruling. The law became effective in New York on January 1, 2008. In addition, legislation similar to the New York law has been proposed in Congress and several state legislatures. Legislation of this type requires airlines to pay compensation to passengers for delayed or cancelled flights and delayed, damaged, or lost luggage; sets limits on how long delayed flights can remain on the tarmac without returning to the gate; and presents numerous other service issues. The Company expects that the requirement of such services in New York and elsewhere could adversely impact the Company, but the magnitude of that impact cannot currently be determined.

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

In April 2007, the United States and the European Union approved an “open skies” air services agreement that provides airlines from the United States and EU member states open access to each other’s markets, with freedom of pricing and unlimited rights to fly beyond the United States and any airport in the EU including London’s Heathrow Airport. The provisions of the agreement will take effect on March 30, 2008. Under the agreement, every U.S. and EU airline is authorized to operate between airports in the United States and Heathrow. Notwithstanding the open skies agreement, Heathrow is a slot-controlled airport. Only three airlines besides American were previously allowed to provide that Heathrow service. The agreement will result in the Company facing increased competition in serving Heathrow to the extent that additional carriers are able to obtain necessary slots and terminal facilities which could have an adverse impact on the Company. In addition, the Company will face additional competition in European markets. However, the Company believes that American and the other carriers who currently have existing authorities and the related slots and facilities will continue to hold an advantage after the advent of open skies. See Item 1A, Risk Factors, and Note 11 to the consolidated financial statements for additional information.

Security   In November 2001, the Aviation and Transportation Security Act (ATSA) was enacted in the United States. The ATSA created a new government agency, the Transportation Security Administration (TSA), which is part of the Department of Homeland Security and is responsible for aviation security. The ATSA mandates that the TSA provide for the screening of all passengers and property, including U.S. mail, cargo, carry-on and checked baggage, and other articles that will be carried aboard a passenger aircraft. The ATSA also provides for security in flight decks of aircraft and requires federal air marshals to be present on certain flights.

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

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

Airport Access   Historically, the FAA designated JFK, LaGuardia, and Washington Reagan airports as high-density traffic airports. The high-density rule limits the number of Instrument Flight Rule operations - take-offs and landings - permitted per hour and requires that a “take-off/landing slot right” support each operation. In April 2000, the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (Air 21 Act) was enacted. It eliminated slot

restrictions at JFK and LaGuardia airports effective January 1, 2007; slot restrictions remain in effect at Washington Reagan.

Although slot restrictions were eliminated at JFK in January 2007, on December 19, 2007, the United States transportation secretary announced an agreement had been reached between the Department of Transportation ("DOT") and domestic airlines to ease congestion at JFK by shifting the timing of certain flights. As a result, the DOT does not currently expect to order a reduction in the number of flights per hour or to reimplement and auction landing slots at JFK. The shifting of timing of flights has not caused a significant impact to flights to or from JFK.

In order to remedy congestion at LaGuardia that was exacerbated by the elimination of slot restrictions, the FAA placed caps on total operations, and required carriers at LaGuardia to hold operating authorizations. In addition, the FAA has proposed rules for carriers operating at LaGuardia that would fundamentally change the manner in which operating authorizations are held and distributed at that airport. The Company, along with other carriers and interested parties, filed comments with the FAA seeking changes in the proposed rules, which remain pending. The proposed rules, as currently drafted, could require the Company to change the routes and service it currently operates at LaGuardia, which could adversely impact the Company.

Under the high-density rule, still in effect at Washington Reagan Airport, the FAA permits the purchasing, selling, leasing or transferring of slots, except those slots designated as international, and essential air service slots. Trading of any domestic slot is permitted subject to certain parameters. The FAA's proposed rules for carriers operating at LaGuardia, described above, also contemplate certain restrictions. Some foreign airports, including London Heathrow, a major European destination for American, also have slot allocations. Most foreign authorities do not officially recognize the purchasing, selling or leasing of slots.

In 2006, the FAA issued an order requiring carriers to hold arrival authorizations to land during certain hours at Chicago O'Hare. The FAA's O'Hare order places some limits on the ability to buy and sell arrival authorizations. The Company has not experienced any significant adverse impact from this order. In addition, the DOT is considering imposing a schedule reduction order at Newark airport, which could include slot controls at that airport. The Company could be adversely affected if such an order is imposed.

Although the Company is constrained by slots, it currently has sufficient slot authorizations to operate its existing flights. However, there is no assurance that the Company will be able to obtain slots in the future to expand its operations or change its schedules because, among other factors, slot allocations are subject to changes in government policies.

On October 13, 2006, the Wright Amendment Reform Act of 2006 (the Act) was signed into law by the President. The Act is based on an agreement by the cities of Dallas and Fort Worth, Texas, DFW International Airport, Southwest, and the Company to modify the Wright Amendment, which authorizes certain flight operations at Dallas Love Field within limited geographic areas. Among other things, the Act eventually eliminates domestic geographic restrictions on operations while limiting the maximum number of gates at Love Field. The Company believes the Act is a pragmatic resolution of the issues related to the Wright Amendment and the use of Love Field.

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

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

Many aspects of the Company's operations are subject to increasingly stringent environmental regulations. Concerns about climate change and greenhouse gas emissions, in particular, may result in the imposition of additional regulation. For example, the European Commission is currently seeking to impose emissions controls on all flights coming into Europe. Such regulatory action by the U.S. or foreign governments in the future may adversely affect the Company's business and financial results.

American is a named potentially responsible party (PRP) at the former Operating Industries, Inc. Landfill in Monterrey Park, CA (OII). American is participating with a number of other PRPs in a Steering Committee that have entered into a series of partial consent decrees with EPA and the State of California which address specific aspects of investigation and cleanup at OII. American's alleged volumetric contributions at OII are small when compared with those of other PRPs, and American expects that any future payments will be immaterial.

American also has been named as a PRP for soil contamination at the Double Eagle Superfund Site in Oklahoma City, OK (Double Eagle). American's alleged volumetric contributions are small when compared with those of other PRPs. American is participating with a number of other PRPs at Double Eagle in a Joint Defense Group that is currently conducting settlement negotiations with the EPA and state officials. The group is seeking a settlement on behalf of its members that will enable American to resolve its past and present liabilities at Double Eagle in exchange for a one-time, lump-sum settlement payment. American expects that its payment will be immaterial.

American, along with most other tenants at the San Francisco International Airport (SFIA), has been ordered by the California Regional Water Quality Control Board to engage in various studies of potential environmental contamination at the airport and to undertake remedial measures, if necessary. In 1997, the SFIA pursued a cost recovery action in the U.S. District Court of Northern California against certain airport tenants to recover past and future costs associated with historic airport contamination. American entered an initial settlement for accrued past costs in 2000. In 2004, American resolved its liability for all remaining past and future costs. Based on SFIA's cost projections, the value of American's second settlement is immaterial and is payable over a 30 year period.

In 1999, American was ordered by the New York State Department of Environmental Conservation (NYSDEC) to conduct remediation of environmental contamination located at Terminals 8 and 9 at JFK. In 2004, American entered a Consent Order with NYSDEC for the remediation of a JFK off-terminal hangar facility. American expects that the projected costs associated with the completion of the JFK remediation will be immaterial.

In 1996, American and Executive, along with other tenants at the Luis Munoz Marin International Airport in San Juan, Puerto Rico (SJU) were notified by the SJU Port Authority that it considered them potentially responsible for environmental contamination at the airport. In 2003, the SJU Port Authority requested that American, among other airport tenants, fund an ongoing subsurface investigation and site assessment. American denied liability for the related costs. No further action has been taken against American or Executive.

Pursuant to an Administrative Order on Consent entered into with NYSDEC, American Eagle is implementing a final remedy to address contamination at an inactive hazardous waste site in Poughkeepsie, New York. The costs of this final remedy are immaterial.

The Company does not expect these matters, individually or collectively, to have a material adverse impact on the Company. See Note 4 to the consolidated financial statements for additional information on accruals related to environmental issues.

Labor

The airline business is labor intensive. Wages, salaries and benefits represented approximately 31 percent of the Company's consolidated operating expenses for the year ended December 31, 2007. The average full-time equivalent number of employees of the Company's subsidiaries for the year ended December 31, 2007 was 85,500.

The majority of these employees are represented by labor unions and covered by collective bargaining agreements. Relations with such labor organizations are governed by the Railway Labor Act (RLA). Under this act, the collective bargaining agreements among the Company's subsidiaries and these organizations generally do not expire but instead become amendable as of a stated date. If either party wishes to modify the terms of any such agreement, it must notify the other party in the manner agreed to by the parties. Under the RLA, after receipt of such notice, the parties must meet for direct negotiations, and if no agreement is reached, either party may request the National Mediation Board (NMB) to appoint a federal mediator. The RLA prescribes no set timetable for the direct negotiation and mediation process. It is not unusual for those processes to last for many months, and even for a few years. If no agreement is reached in mediation, the NMB in its discretion may declare at some time that an impasse exists, and if an impasse is declared, the NMB proffers binding arbitration to the parties. Either party may decline to submit to arbitration. If arbitration is rejected by either party, a 30-day "cooling off" period commences. During that

period (or after), a Presidential Emergency Board (PEB) may be established, which examines the parties' positions and recommends a solution. The PEB process lasts for 30 days and is followed by another "cooling off" period of 30 days. At the end of a "cooling off" period, unless an agreement is reached or action is taken by Congress, the labor organization may strike and the airline may resort to "self-help", including the imposition of any or all of its proposed amendments and the hiring of new employees to replace any striking workers.

In April 2003, American reached agreements (the Labor Agreements) with its three major unions - the Allied Pilots Association (the APA) which represents American's pilots, the Transport Workers Union of America (AFL-CIO) (the TWU), which represents seven different employee groups, and the Association of Professional Flight Attendants (the APFA), which represents American's flight attendants. The Labor Agreements substantially moderated the labor costs associated with the employees represented by the unions. In conjunction with the Labor Agreements, American also implemented various changes in the pay plans and benefits for non-unionized personnel, including officers and other management (the Management Reductions). While the Labor Agreements do not become amendable until 2008, they do allow the parties to begin contract discussions in or after 2006. In 2006, American and the APA commenced negotiations under the RLA. In early 2008, the APA asked that the NMB appoint a mediator. In response, the NMB noted that it is required to docket all facially valid mediation applications. The NMB also expressed an interest in exploring with the parties alternative methods of narrowing the issues prior to entering formal mediation in light of the fact that as of January 29, 2008, no issues had been agreed upon between the parties. Also in 2006, American and the TWU commenced negotiations with respect only to dispatchers, one of the seven groups at American represented by the TWU. In November 2007, American and the TWU commenced negotiations under the RLA with respect to the other employee groups represented by the TWU. The negotiations between American and the APA and TWU employees are still in their early stages. It is anticipated that negotiations between American and the APFA will commence in the first half of 2008.

The Air Line Pilots Association (ALPA), which represents American Eagle pilots, reached agreement with American Eagle effective September 1, 1997, to have all of the pilots of the American Eagle® carriers (currently American Eagle Airlines, Inc. and Executive Airlines, Inc.) covered by a single contract. This agreement lasts until October 31, 2013. The agreement provides to the parties the right to seek limited changes in 2000, 2004, 2008 and 2012. If the parties are unable to agree on the limited changes, the agreement provides that any issues would be resolved by interest arbitration, without the exercise of self-help (such as a strike). ALPA and American Eagle negotiated a tentative agreement in 2000, but that agreement failed in ratification. Thereafter, the parties participated in interest arbitration. The interest arbitration panel determined the limited changes that should be made and these changes were appropriately effected. In 2004, the parties successfully negotiated limited changes that became effective on January 1, 2005. The quadrennial process described above is scheduled to occur in 2008.

The Association of Flight Attendants (AFA) represents the flight attendants of the American Eagle carriers. The current agreement between the American Eagle carriers and the AFA is amendable on October 27, 2009; however, the parties have agreed that contract openers may be exchanged 90 days prior to that date.

The other union employees at the American Eagle carriers are covered by separate agreements with the TWU. The agreements between the American Eagle carriers and the TWU were amendable beginning on October 1, 2007. Negotiations commenced in that month and the parties have reached a tentative agreement on a number of articles. Negotiations are ongoing.

Fuel

The Company's operations and financial results are significantly affected by the availability and price of jet fuel. The Company's fuel costs and consumption for the years 2005 through 2007 were:

Year	Gallons Consumed (in millions)	Total Cost (in millions)	Average Cost Per Gallon (in cents)	Percent of AMR's Operating Expenses
2005	3,237	$ 5,615	173.5	27.0%

2006	3,178	6,402	201.4	29.8
2007	3,130	6,670	213.1	30.4

The impact of fuel price changes on the Company and its competitors depends on various factors, including hedging strategies. The Company has a fuel hedging program in which it enters into jet fuel and heating oil hedging contracts to dampen the impact of the volatility of jet fuel prices. During 2007, 2006 and 2005, the Company's fuel hedging program reduced the Company's fuel expense by approximately $239 million, $97 million and $64 million, respectively. As of January 2008, the Company had hedged, with option contracts, primarily heating oil collars and call options, approximately 24 percent of its estimated 2008 fuel requirements. The consumption hedged for 2008 is capped at an average price of approximately $2.31 per gallon of jet fuel excluding taxes and transportation costs. A deterioration of the Company's financial position could negatively affect the Company's ability to hedge fuel in the future. See the Risk Factors under Item 1A for additional information regarding fuel.

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

Frequent Flyer Program

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

American sells mileage credits and related services to other participants in the AAdvantage program. There are over 1,000 program participants, including a leading credit card issuer, hotels, car rental companies and other products and services companies in the AAdvantage program. The Company believes that program participants benefit from the sustained purchasing behavior of AAdvantage members, which translates into a recurring stream of revenues for AAdvantage. Under its agreements with AAdvantage members and program participants, the Company reserves the right to change the AAdvantage program at any time without notice, and may end the program with six months notice. As of December 31, 2007, AAdvantage had approximately 60 million total members, and 613 billion outstanding award miles. During 2007, AAdvantage issued approximately 200 billion miles, of which approximately one-half were sold to program participants. See Critical Accounting Policies and Estimates under Item 7 for more information on AAdvantage.

Other Matters

Seasonality and Other Factors The Company's results of operations for any interim period are not necessarily indicative of those for the entire year, since the air transportation business is subject to seasonal fluctuations. Higher demand for air travel has traditionally resulted in more favorable operating and financial results for the second and third quarters of the year than for the first and fourth quarters. Fears of terrorism or war, fare initiatives, fluctuations in fuel prices, labor actions, weather and other factors could impact this seasonal pattern. Unaudited quarterly financial data for the two-year period ended December 31, 2007 is included in Note 15 to the consolidated financial statements. In addition, the results of operations in the air transportation business have also significantly fluctuated in the past in response to general economic conditions.

No material part of the business of AMR and its subsidiaries is dependent upon a single customer or very few customers. Consequently, the loss of the Company's largest few customers would not have a materially adverse effect upon the Company.

Insurance The Company carries insurance for public liability, passenger liability, property damage and all-risk coverage for damage to its aircraft.

As a result of the terrorist attacks of September 11, 2001 (the Terrorist Attacks), aviation insurers significantly reduced the amount of insurance coverage available to commercial air carriers for 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, these insurers significantly increased the premiums for aviation insurance in general.

The U.S. government has agreed to provide commercial war-risk insurance for U.S. based airlines until August 31, 2008, covering losses to employees, passengers, third parties and aircraft. If the U.S. government does not extend the policy beyond August 31, 2008, or if the U.S. government at anytime thereafter ceases to provide such insurance, or reduces the coverage provided by such insurance, the Company will attempt to purchase similar coverage with narrower scope from commercial insurers at an additional cost. To the extent this coverage is not available at commercially reasonable rates, the Company would be adversely affected. While the price of commercial insurance has declined since the premium increases immediately after the Terrorist Attacks, in the event commercial insurance carriers further reduce the amount of insurance coverage available to the Company, or significantly increase its cost, the Company would be adversely affected.

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

Available Information The Company makes its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 available free of charge under the Investor Relations page on its website, www.aa.com, as soon as reasonably practicable after such reports are electronically filed with the Securities and Exchange Commission. In addition, the Company's code of ethics, which applies to all employees of the Company, including the Company's Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Controller, is posted under the Investor Relations page on its website, www.aa.com. The Company intends to disclose any amendments to the code of ethics, or waivers of the code of ethics on behalf of the CEO, CFO or Controller, under the Investor Relations page on the Company's website, www.aa.com. The charters for the AMR Board of Directors' standing committees (the Audit, Compensation, Diversity and Nominating/Corporate Governance Committees), as well as the Board of Directors' Governance Policies (the Governance Policies), are likewise available on the Company's website, www.aa.com. Upon request, copies of the charters or the Governance Policies are available at no cost. Information on the Company's website is not incorporated into or otherwise made a part of this Report.

ITEM 1A. RISK FACTORS

Our ability to become consistently profitable and our ability to continue to fund our obligations on an ongoing basis will depend on a number of risk factors, many of which are largely beyond our control. Some of the factors that may have a negative impact on us are described below:

As a result of significant losses in recent years, our financial condition has been materially weakened.

We incurred significant losses in recent prior years: $857 million in 2005, $751 million in 2004, $1.2 billion in 2003, $3.5 billion in 2002 and $1.8 billion in 2001. As a result, our financial condition was materially weakened, and although we earned a profit in 2007 and 2006, we remain vulnerable both to unexpected events (such as additional terrorist attacks or a sudden spike in jet fuel prices) and to general declines in the operating environment (such as that resulting from a recession or significant increased competition).

Our initiatives to generate additional revenues and to reduce our costs may not be adequate or successful.

As we seek to improve our financial condition, we must continue to take steps to generate additional revenues and to reduce our costs. Although we have a number of initiatives underway to address our cost and revenue challenges, some of these initiatives involve changes to our business which we may be unable to implement. In addition, we expect that, as time goes on, it will be progressively more difficult to identify and implement significant revenue enhancement and cost savings initiatives. The adequacy and ultimate success of our initiatives to generate additional revenues and reduce our costs are not known at this time and cannot be assured. Moreover, whether our initiatives will be adequate or successful depends in large measure on factors beyond our control, notably the overall industry environment, including passenger demand, yield and industry capacity growth, and fuel prices. Given the competitive challenges we face and other factors, such as high fuel prices, that are beyond our control, we must continue to aggressively pursue profit improvement initiatives to achieve long-term success.

Our business is affected by many changing economic and other conditions beyond our control, and our results of operations tend to be volatile and fluctuate due to seasonality.

Our business and our results of operations are affected by many changing economic and other conditions beyond our control, including among others:

- actual or potential changes in international, national, regional and local economic, business and financial conditions, including recession, inflation and higher interest rates, war, terrorist attacks or political instability;
- changes in consumer preferences, perceptions, spending patterns or demographic trends;
- changes in the competitive environment due to industry consolidation and other factors;
- actual or potential disruptions to the air traffic control system;
- increases in costs of safety, security and environmental measures;
- outbreaks of diseases that affect travel behavior; and
- weather and natural disasters.

As a result, our results of operations tend to be volatile and subject to rapid and unexpected change. In addition, due to generally greater demand for air travel during the summer, our revenues in the second and third quarters of the year tend to be stronger than revenues in the first and fourth quarters of the year.

Our indebtedness and other obligations are substantial and could adversely affect our business and liquidity.

We have and will continue to have a significant amount of indebtedness and obligations to make future payments on aircraft equipment and property leases, and a high proportion of debt to equity capital. We may incur substantial additional debt, including secured debt, and lease obligations in the future. We also have substantial pension funding obligations. Our substantial indebtedness and other obligations could have important consequences. For example, they could:

- limit our ability to obtain additional financing for working capital, capital expenditures, acquisitions and general corporate purposes, or adversely affect the terms on which such financing could be obtained;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness and other obligations, thereby reducing the funds available for other purposes;
- make us more vulnerable to economic downturns;
- limit our ability to withstand competitive pressures and reduce our flexibility in responding to changing business and economic conditions; or
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate.

We may be unable to comply with our financial covenants.

American has a secured bank credit facility which consists of an undrawn $255 million revolving credit facility with a final maturity on June 17, 2009, and a fully drawn $440 million term loan facility, with a final maturity on December 17, 2010 (the Revolving Facility and the Term Loan Facility, respectively, and collectively, the Credit Facility). The Credit Facility contains a liquidity covenant and a ratio of cash flow to fixed charges covenant. We complied with these covenants as of December 31, 2007 and expect to be able to continue to comply with these covenants. However, given fuel prices that are high by historical standards and the volatility of fuel prices and revenues, it is difficult to assess whether we will, in fact, be able to continue to comply with these covenants, and there are no assurances that we will be able to do so. Failure to comply with these covenants would result in a default under the Credit Facility which - - if we did not take steps to obtain a waiver of, or otherwise mitigate, the default - - could result in a default under a significant amount of our other debt and lease obligations, and otherwise have a material adverse impact on us.

We are being adversely affected by increases in fuel prices, and we would be adversely affected by disruptions in the supply of fuel.

Our results are very significantly affected by the price and availability of jet fuel, which are in turn affected by a number of factors beyond our control. Fuel prices are volatile, increased significantly in 2007, and remain very high by historical standards.

Due to the competitive nature of the airline industry, we may not be able to pass on increased fuel prices to customers by increasing fares. In fact, recent history would indicate that we have limited ability to pass along the increased costs of fuel. If fuel prices decline in the future, increased fare competition and lower revenues may offset any potential benefit of lower fuel prices.

While we do not currently anticipate a significant reduction in fuel availability, dependency on foreign imports of crude oil, limited refining capacity and the possibility of changes in government policy on jet fuel production, transportation and marketing make it impossible to predict the future availability of jet fuel. If there are additional outbreaks of hostilities or other conflicts in oil producing areas or elsewhere, or a reduction in refining capacity (due to weather events, for example), or governmental limits on the production or sale of jet fuel, there could be reductions

in the supply of jet fuel and significant increases in the cost of jet fuel. Major reductions in the availability of jet fuel or significant increases in its cost, or a continuation of current high prices for a significant period of time, would have a material adverse impact on us.

While we seek to manage the price risk of fuel costs by using derivative contracts, there can be no assurance that, at any given time, we will have derivatives in place to provide any particular level of protection against increased fuel costs. In addition, a deterioration of our financial position could negatively affect our ability to enter into derivative contracts in the future.

The airline industry is fiercely competitive, may undergo consolidation and we are subject to increasing competition.

Service over almost all of our routes is highly competitive and fares remain at low levels by historical standards. We face vigorous, and in some cases, increasing competition from major domestic airlines, national, regional, all-cargo and charter carriers, foreign air carriers, low-cost carriers and, particularly on shorter segments, ground and rail transportation. We also face increasing and significant competition from marketing/operational alliances formed by our competitors. The percentage of routes on which we compete with carriers having substantially lower operating costs than ours has grown significantly over the past decade, and, as of December 31, 2007, we now compete with low-cost carriers on approximately 78 percent of our domestic non-stop mainline network.

Certain alliances have been granted immunity from anti-trust regulations by governmental authorities for specific areas of cooperation, such as joint pricing decisions. To the extent alliances formed by our competitors can undertake activities that are not available to us, our ability to effectively compete may be hindered.

Pricing decisions are significantly affected by competition from other airlines. Fare discounting by competitors has historically had a negative effect on our financial results because we must generally match competitors' fares, since failing to match would result in even less revenue. We have faced increased competition from carriers with simplified fare structures, which are generally preferred by travelers. Any fare reduction or fare simplification initiative may not be offset by increases in passenger traffic, a reduction in costs or changes in the mix of traffic that would improve yields. Moreover, decisions by our competitors that increase – or reduce – overall industry capacity, or capacity dedicated to a particular domestic or foreign region, market or route, can have a material impact on related fare levels.

There have been numerous mergers and acquisitions within the U.S. airline industry since its deregulation in 1978, and there may be additional mergers and acquisitions in the future. Any airline industry consolidation could substantially alter the competitive landscape and may result in changes in our corporate or business strategy. We regularly assess and explore the potential for consolidation in our industry, our strategic position and ways to enhance our competitiveness, including the possibilities for our participation in merger activity. Consolidation involving other participants in our industry could result in the formation of one or more airlines with greater financial resources, more extensive networks, and/or lower cost structures than exist presently, which could have a material adverse effect on us.

We compete with reorganized carriers, which may result in competitive disadvantages for us or fare reductions.

We must compete with air carriers that have recently reorganized under the protection of Chapter 11, including United, the second largest U.S. air carrier, Delta, the third largest U.S. air carrier and Northwest, the fourth largest U.S. air carrier. It is possible that other competitors may seek to reorganize in or out of Chapter 11. United emerged from Chapter 11 in the first quarter of 2006, while Delta and Northwest emerged in the second quarter of 2007. We cannot predict the consequences of such a large portion of the airline industry’s capacity being provided by recently reorganized air carriers.

Successful reorganizations by other carriers present us with competitors with significantly lower operating costs and a stronger financial position derived from renegotiated labor, supply, and financing contracts, which could lead to further fare reductions. These competitive pressures may limit our ability to adequately price our services, may require us to further reduce our operating costs, and could have a material adverse impact on us.

Fares are at low levels and our reduced pricing power adversely affects our ability to achieve adequate pricing, especially with respect to business travel.

While we have recently been able to implement some fare increases on certain domestic and international routes, our passenger yield remains low by historical standards. We believe this is due in large part to a corresponding decline in our pricing power. Our reduced pricing power is the product of several factors including: greater cost sensitivity on the part of travelers (particularly business travelers); pricing transparency resulting from the use of the Internet;

greater competition from low-cost carriers and from carriers that have recently reorganized under the protection of Chapter 11; other carriers being well hedged against rising fuel costs and able to better absorb the current high jet fuel prices; and fare simplification efforts by certain carriers. We believe that our reduced pricing power could persist indefinitely.

We may need to raise additional funds to maintain sufficient liquidity, but we may be unable to do so on acceptable terms.

To maintain sufficient liquidity as we continue to implement our restructuring and cost reduction initiatives, and because we have significant debt, lease, pension and other obligations in the next several years, we may need continued access to additional funding.

Our ability to obtain future financing has been reduced because we have had fewer unencumbered assets available than in years past. A very large majority of our aircraft assets (including most of our aircraft eligible for the benefits of Section 1110 of the U.S. Bankruptcy Code) have been encumbered. Also, the market value of our aircraft assets has declined in recent years and those assets may not maintain their current market value.

Since the terrorist attacks of September 2001, which we refer to as the Terrorist Attacks, our credit ratings have been lowered to significantly below investment grade. These reductions have increased our borrowing costs and otherwise adversely affected borrowing terms, and limited borrowing options. Additional reductions in our credit ratings could further increase borrowing or other costs and further restrict the availability of future financing.

A number of other factors, including our financial results in recent years, our substantial indebtedness, the difficult revenue environment we face, our reduced credit ratings, high fuel prices, and the financial difficulties experienced in the airline industry, adversely affect the availability and terms of financing for us. As a result, there can be no assurance that financing will be available to us on acceptable terms, if at all. An inability to obtain additional financing on acceptable terms could have a material adverse impact on us and on our ability to sustain our operations over the long term.

Our corporate or business strategy may change.

In light of the rapid changes in the airline industry, we evaluate our assets on an ongoing basis with a view to maximizing their value to us and determining which are core to our operations. We also regularly evaluate our corporate and business strategies, and they are influenced by factors beyond our control, including changes in the competitive landscape we face. Our corporate and business strategies are, therefore, subject to change.

In October 2007, we announced that we were conducting a strategic value review involving, among other things, AMR Eagle, our regional airline, American Beacon Advisors, our investment advisory subsidiary and AAdvantage, the world’s most popular frequent flyer program, and this review is continuing. The purpose of the review is to determine whether there exists the potential for unlocking additional stockholder value with respect to one or more of these strategic assets through some type of separation transaction. A separation may take the form of a spin-off transaction, a public offering of securities, a sale to a third party or otherwise, and we may have discussions from time-to-time with third parties involving these possibilities. Pursuant to this review, we announced on November 28, 2007 that we plan to divest AMR Eagle. There can be no assurances that our strategic review will lead to the completion of any separation transactions or as to the impact of these transactions on stockholder value or on us.

Our business is subject to extensive government regulation, which can result in increases in our costs, limits on our operating flexibility, reductions in the demand for air travel, and competitive disadvantages.

Airlines are subject to extensive domestic and international regulatory requirements. Many of these requirements result in significant costs. For example, the FAA from time to time issues directives and other regulations relating to the maintenance and operation of aircraft, and compliance with those requirements drives significant expenditures. In addition, the ability of U.S. carriers to operate international routes is subject to change because the applicable arrangements between the United States and foreign governments may be amended from time to time, or because

appropriate slots or facilities are not made available.

Moreover, additional laws, regulations, taxes and airport rates and charges have been enacted from time to time that have significantly increased the costs of airline operations, reduced the demand for air travel or restricted the way we can conduct our business. For example, the Aviation and Transportation Security Act, which became law in 2001, mandated the federalization of certain airport security procedures and resulted in the imposition of additional security requirements on airlines. In addition, many aspects of our operations are subject to increasingly stringent environmental regulations, and concerns about climate change, in particular, may result in the imposition of additional regulation. For example, the European Commission is currently seeking to impose emissions controls on all flights coming into Europe. Laws or regulations similar to those described above or other U.S. or foreign governmental actions in the future may adversely affect our business and financial results.

The results of our operations, demand for air travel, and the manner in which we conduct our business each may be affected by changes in law and future actions taken by governmental agencies, including:

- changes in law which affect the services that can be offered by airlines in particular markets and at particular airports;
- the granting and timing of certain governmental approvals (including foreign government approvals) needed for codesharing alliances and other arrangements with other airlines;
- restrictions on competitive practices (for example court orders, or agency regulations or orders, that would curtail an airline's ability to respond to a competitor);
- the adoption of regulations that impact customer service standards (for example new passenger security standards, passenger bill of rights); or
- the adoption of more restrictive locally-imposed noise restrictions.

In addition, the air traffic control (ATC) system, which is operated by the FAA, is not successfully managing the growing demand for U.S. air travel. U.S. airlines carry about 740 million passengers a year and are forecasted to accommodate a billion passengers annually by 2015. Air-traffic controllers rely on outdated technologies that routinely overwhelm the system and compel airlines to fly inefficient, indirect routes. The Company supports a common-sense approach to ATC modernization that would allocate costs to all ATC system users in proportion to the services they consume. The Company expects the U.S. Congress to address the reauthorization of legislation that funds the Federal Aviation Administration in 2008, which includes proposals regarding upgrades to the ATC system.

We could be adversely affected by conflicts overseas or terrorist attacks.

Actual or threatened U.S. military involvement in overseas operations has, on occasion, had an adverse impact on our business, financial position (including access to capital markets) and results of operations, and on the airline industry in general. The continuing conflict in Iraq and Afghanistan, or other conflicts or events in the Middle East or elsewhere, may result in similar adverse impacts.

The Terrorist Attacks had a material adverse impact on us. The occurrence of another terrorist attack (whether domestic or international and whether against us or another entity) could again have a material adverse impact on us.

Our international operations could be adversely affected by numerous events, circumstances or government actions beyond our control.

Our current international activities and prospects could be adversely affected by factors such as reversals or delays in the opening of foreign markets, exchange controls, currency and political risks, environmental regulation, taxation and changes in international government regulation of our operations, including the inability to obtain or retain needed route authorities and/or slots.

For example, in April 2007, the United States and the European Union approved an "open skies" air services agreement that provides airlines from the United States and EU member states open access to each other's markets, with freedom

of pricing and unlimited rights to fly beyond the United States and any airport in the EU including London's Heathrow Airport. The provisions of the agreement will take effect on March 30, 2008. The agreement will result in the Company facing increased competition in serving Heathrow to the extent that additional carriers are able to obtain necessary slots and terminal facilities, which could have an adverse impact on the Company.

We could be adversely affected by an outbreak of a disease that affects travel behavior.

In 2003, there was an outbreak of Severe Acute Respiratory Syndrome (SARS), which primarily had an adverse impact on our Asia operations. More recently, there have been concerns about a potential outbreak of avian flu. If there were another outbreak of a disease (such as SARS or avian flu) that affects travel behavior, it could have a material adverse impact on us.

Our labor costs are higher than those of our competitors.

Wages, salaries and benefits constitute a significant percentage of our total operating expenses. In 2007, they constituted approximately 31 percent of our total operating expenses. All of the major hub-and-spoke carriers with whom American competes have achieved significant labor cost savings through or outside of bankruptcy proceedings. We believe American's labor costs are higher than those of its primary competitors, and it is unclear how long this labor cost disadvantage may persist.

We could be adversely affected if we are unable to maintain satisfactory relations with any unionized or other employee work group.

Our operations could be adversely affected if we fail to maintain satisfactory relations with any labor union representing our employees. In addition, any significant dispute we have with, or any disruption by, an employee work group could adversely impact us. Moreover, one of the fundamental tenets of our strategic Turnaround Plan is increased union and employee involvement in our operations. To the extent that we are unable to maintain satisfactory relations with any unionized or other employee work group, our ability to execute our strategic plans could be adversely affected.

Our insurance costs have increased substantially and further increases in insurance costs or reductions in coverage could have an adverse impact on us.

We carry insurance for public liability, passenger liability, property damage and all-risk coverage for damage to our aircraft. As a result of the Terrorist Attacks, aviation insurers significantly reduced the 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, these insurers significantly increased the premiums for aviation insurance in general.

The U.S. government has agreed to provide commercial war-risk insurance for U.S. based airlines until August 31, 2008, covering losses to employees, passengers, third parties and aircraft. If the U.S. government does not extend the policy beyond August 31, 2008, or if the U.S. government at anytime thereafter ceases to provide such insurance, or reduces the coverage provided by such insurance, we will attempt to purchase similar coverage with narrower scope from commercial insurers at an additional cost. To the extent this coverage is not available at commercially reasonable rates, we would be adversely affected.

While the price of commercial insurance has declined since the period immediately after the Terrorist Attacks, in the event commercial insurance carriers further reduce the amount of insurance coverage available to us, or significantly increase its cost, we would be adversely affected.

We may be unable to retain key management personnel.

Since the Terrorist Attacks, a number of our key management employees have elected to retire early or leave for more financially favorable opportunities at other companies, both within and outside of the airline industry. There can be no assurance that we will be able to retain our key management employees. Any inability to retain our key management employees, or attract and retain additional qualified management employees, could have a negative impact on us.

We could be adversely affected by a failure or disruption of our computer, communications or other technology systems.

We are heavily and increasingly dependent on technology to operate our business. The computer and communications systems on which we rely could be disrupted due to various events, some of which are beyond our control, including natural disasters, power failures, terrorist attacks, equipment failures, software failures and computer viruses and hackers. We have taken certain steps to help reduce the risk of some (but not all) of these potential disruptions. There can be no assurance, however, that the measures we have taken are adequate to prevent or remedy disruptions or failures of these systems. Any substantial or repeated failure of these systems could impact our operations and customer service, result in the loss of important data, loss of revenues, and increased costs, and generally harm our business. Moreover, a failure of certain of our vital systems could limit our ability to operate our flights for an extended period of time, which would have a material adverse impact on our operations and our business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

The Company had no unresolved Securities and Exchange Commission staff comments at December 31, 2007.

ITEM 2. PROPERTIES

Flight Equipment – Operating

Owned and leased aircraft operated by the Company at December 31, 2007 included:

Equipment Type	Average Seating Capacity	Owned	Capital Leased	Operating Leased	Total	Average Age (Years)
American Airlines Aircraft						
Airbus A300-600R	267	10	-	24	34	18
Boeing 737-800	148	67	-	10	77	8
Boeing 757-200	188	87	6	31	124	13
Boeing 767-200 Extended Range	167	3	11	1	15	21
Boeing 767-300 Extended Range	225	47	-	11	58	14
Boeing 777-200 Extended Range	246	47	-	-	47	7
McDonnell Douglas MD-80	139	126	67	107	300	18
Total		387	84	184	655	15
AMR Eagle Aircraft						
Bombardier CRJ-700	70	25	-	-	25	5
Embraer 135	37	39	-	-	39	8
Embraer 140	44	59	-	-	59	5
Embraer 145	50	108	-	-	108	5
Super ATR	64/66	39	-	-	39	14
Saab 340B/340B Plus	34	24	-	2	26	15
Total		294	-	2	296	8

A very large majority of the Company's owned aircraft are encumbered by liens granted in connection with financing transactions entered into by the Company.

Flight Equipment – Non-Operating

Owned and leased aircraft not operated by the Company at December 31, 2007 included:

Equipment Type	Owned	Capital Leased	Operating Leased	Total
American Airlines Aircraft				
Boeing 757-200TW	-	-	5	5
Boeing 767-200 Extended Range	-	-	1	1
Fokker 100	-	-	4	4
McDonnell Douglas MD-80	13	11	13	37
Total	13	11	23	47
AMR Eagle Aircraft				
Embraer 145	10	-	-	10
Saab 340B/340B Plus	23	-	6	29
Total	33	-	6	39

In the fourth quarter of 2007, the Company permanently grounded and held for disposal 24 McDonnell Douglas MD-80 airframes and certain other equipment, all 24 of which had previously been in temporary storage. Of these 24 aircraft, 12 are owned by the Company, five are accounted for as capital leases and seven are accounted for as operating leases.

AMR Eagle has leased its 10 owned Embraer 145s not operated by the Company to Trans States Airlines, Inc.

For information concerning the estimated useful lives and residual values for owned aircraft, lease terms for leased aircraft and amortization relating to aircraft under capital leases, see Notes 1 and 5 to the consolidated financial statements.

Lease expirations for the aircraft included in the table of capital and operating leased flight equipment operated by the Company as of December 31, 2007 are:

Equipment Type	2008	2009	2010	2011	2012	2013 and Thereafter
American Airlines Aircraft						
Airbus A300-600R	3	3	9	9	-	-
Boeing 737-800	-	-	-	-	-	10
Boeing 757-200	5	1	-	1	-	30
Boeing 767-200 Extended Range	-	1	1	2	2	6
Boeing 767-300 Extended Range	3	-	-	-	-	8
McDonnell Douglas MD-80	-	-	11	21	23	119
	11	5	21	33	25	173
AMR Eagle Aircraft						
Saab 340B/340B Plus	8	-	-	-	-	-
	8	-	-	-	-	-

Substantially all of the Company's aircraft leases include an option to purchase the aircraft or to extend the lease term, or both, with the purchase price or renewal rental to be based essentially on the market value of the aircraft at the end of the term of the lease or at a predetermined fixed amount.

Ground Properties

The Company leases, or has built as leasehold improvements on leased property: most of its airport and terminal facilities; its training facilities in Fort Worth, Texas; its principal overhaul and maintenance bases at Tulsa International Airport (Tulsa, Oklahoma), Kansas City International Airport (Kansas City, Missouri) and Alliance Airport (Fort Worth, Texas); its regional reservation offices; and local ticket and administration offices throughout the system. The Company owns its headquarters building in Fort Worth, Texas, on which a mortgage loan is payable. American has entered into agreements with the Tulsa Municipal Airport Trust; the Alliance Airport Authority, Fort Worth, Texas; the New York City Industrial Development Agency; and the Dallas/Fort Worth, Chicago O'Hare, Newark, San Juan, and Los Angeles airport authorities to provide funds for constructing, improving and modifying facilities and acquiring equipment which are or will be leased to the Company. The Company also uses public airports for its flight operations under lease or use arrangements with the municipalities or governmental agencies owning or controlling them and leases certain other ground equipment for use at its facilities.

For information concerning the estimated lives and residual values for owned ground properties, lease terms and amortization relating to ground properties under capital leases, and acquisitions of ground properties, see Notes 1 and 5 to the consolidated financial statements.

ITEM 3. LEGAL PROCEEDINGS

On July 26, 1999, a class action lawsuit was filed, and in November 1999 an amended complaint was filed, against AMR, American, AMR Eagle, Airlines Reporting Corporation, and the Sabre Group Holdings, Inc. in the United States District Court for the Central District of California, Western Division (Westways World Travel, Inc. v. AMR Corp., et al.). The lawsuit alleges that requiring travel agencies to pay debit memos to American for violations of American's fare rules (by customers of the agencies): (1) breaches the Agent Reporting Agreement between American and AMR Eagle and the plaintiffs; (2) constitutes unjust enrichment; and (3) violates the Racketeer Influenced and Corrupt Organizations Act of 1970 (RICO). On July 9, 2003, the court certified a class that included all travel agencies who have been or will be required to pay money to American for debit memos for fare rules violations from July 26, 1995 to the present. The plaintiffs sought to enjoin American from enforcing the pricing rules in question and to recover the amounts paid for debit memos, plus treble damages, attorneys' fees, and costs. On February 24, 2005, the court decertified the class. The claims against Airlines Reporting Corporation have been dismissed, and in September 2005, the Court granted Summary Judgment in favor of the Company and all other defendants. Plaintiffs appealed to the United States Court of Appeals for the Ninth Circuit. On January 22, 2008, the Ninth Circuit affirmed the decertification of the class and summary judgment on the RICO claims, but remanded the remaining claims to the trial court for factual determinations. The remaining claims, even if determined in favor of the plaintiffs, would not have a material adverse impact on the Company.

Between April 3, 2003 and June 5, 2003, three lawsuits were filed by travel agents, some of whom opted out of a prior class action (now dismissed) to pursue their claims individually against American, other airline defendants, and in one case against certain airline defendants and Orbitz LLC. The cases, Tam Travel et. al., v. Delta Air Lines et. al., in the United States District Court for the Northern District of California, San Francisco (51 individual agencies), Paula Fausky d/b/a Timeless Travel v. American Airlines, et. al, in the United States District Court for the Northern District of Ohio, Eastern Division (29 agencies) and Swope Travel et al. v. Orbitz et. al. in the United States District Court for the Eastern District of Texas, Beaumont Division (71 agencies) were consolidated for pre-trial purposes in the United States District Court for the Northern District of Ohio, Eastern Division. Collectively, these lawsuits seek damages and injunctive relief alleging that the certain airline defendants and Orbitz LLC: (i) conspired to prevent travel agents from acting as effective competitors in the distribution of airline tickets to passengers in violation of Section 1 of the Sherman Act; (ii) conspired to monopolize the distribution of common carrier air travel between airports in the United States in violation of Section 2 of the Sherman Act; and that (iii) between 1995 and the present, the airline defendants conspired to reduce commissions paid to U.S.-based travel agents in violation of Section 1 of the Sherman Act. On September 23, 2005, the Fausky plaintiffs dismissed their claims with prejudice. On September 14, 2006, the court dismissed with prejudice 28 of the Swope plaintiffs. On October 29, 2007, the court dismissed all of the Swope plaintiffs' claims. The Swope plaintiffs have appealed the court's decision. American continues to vigorously defend these lawsuits. A final adverse court decision awarding substantial money damages or placing material restrictions on the Company's distribution practices would have a material adverse impact on the Company.

On July 12, 2004, a consolidated class action complaint that was subsequently amended on November 30, 2004, was filed against American and the Association of Professional Flight Attendants (APFA), the union which represents American's flight attendants (Ann M. Marcoux, et al., v. American Airlines Inc., et al. in the United States District Court for the Eastern District of New York). While a class has not yet been certified, the lawsuit seeks on behalf of all of American's flight attendants or various subclasses to set aside, and to obtain damages allegedly resulting from, the April 2003 Collective Bargaining Agreement referred to as the Restructuring Participation Agreement (RPA). The RPA was one of three labor agreements American successfully reached with its unions in order to avoid filing for bankruptcy in 2003. In a related case (Sherry Cooper, et al. v. TWA Airlines, LLC, et al., also in the United States District Court for the Eastern District of New York), the court denied a preliminary injunction against implementation of the RPA on June 30, 2003. The Marcoux suit alleges various claims against the APFA and American relating to the RPA and the ratification vote on the RPA by individual APFA members, including: violation of the Labor

Management Reporting and Disclosure Act (LMRDA) and the APFA's Constitution and By-laws, violation by the APFA of its duty of fair representation to its members, violation by American of provisions of the Railway Labor Act (RLA) through improper coercion of flight attendants into voting or changing their vote for ratification, and violations of the Racketeer Influenced and Corrupt Organizations Act of 1970 (RICO). On March 28, 2006, the district court dismissed all of various state law claims against American, all but one of the LMRDA claims against the APFA, and the claimed violations of RICO. This leaves the claimed violations of the RLA and the duty of fair representation against American and the APFA (as well as one LMRDA claim and one claim against the APFA of a breach of its constitution). Although the Company believes the case against it is without merit and both American and the APFA are vigorously defending the lawsuit, a final adverse court decision invalidating the RPA and awarding substantial money damages would have a material adverse impact on the Company.

On February 14, 2006, the Antitrust Division of the United States Department of Justice (the "DOJ") served the Company with a grand jury subpoena as part of an ongoing investigation into possible criminal violations of the antitrust laws by certain domestic and foreign air cargo carriers. At this time, the Company does not believe it is a target of the DOJ investigation. The New Zealand Commerce Commission notified the Company on February 17, 2006 that it is also investigating whether the Company and certain other cargo carriers entered into agreements relating to fuel surcharges, security surcharges, war risk surcharges, and customs clearance surcharges. On February 22, 2006, the Company received a letter from the Swiss Competition Commission informing the Company that it too is investigating whether the Company and certain other cargo carriers entered into agreements relating to fuel surcharges, security surcharges, war risk surcharges, and customs clearance surcharges. On December 19, 2006 and June 12, 2007, the Company received requests for information from the European Commission, seeking information regarding the Company's corporate structure, revenue and pricing announcements for air cargo shipments to and from the European Union. On January 23, 2007, the Brazilian competition authorities, as part of an ongoing investigation, conducted an unannounced search of the Company's cargo facilities in Sao Paulo, Brazil. The authorities are investigating whether the Company and certain other foreign and domestic air carriers violated Brazilian competition laws by illegally conspiring to set fuel surcharges on cargo shipments. On June 27, 2007 and October 31, 2007, the Company received requests for information from the Australian Competition and Consumer Commission seeking information regarding fuel surcharges imposed by the Company on cargo shipments to and from Australia and regarding the structure of the Company's cargo operations. On December 18, 2007, the European Commission issued a Statement of Objection ("SO") against 26 airlines, including the Company. The SO alleges that these carriers participated in a conspiracy to set surcharges on cargo shipments in violation of EU law. The SO states that, in the event that the allegations in the SO are affirmed, the Commission will impose fines against the Company. The Company intends to vigorously contest the allegations and findings in the SO under EU laws, and it intends to cooperate fully with all other pending investigations. In the event that the SO is affirmed or other investigations uncover violations of the U.S. antitrust laws or the competition laws of some other jurisdiction, such findings and related legal proceedings could have a material adverse impact on the Company.

Approximately 44 purported class action lawsuits have been filed in the U.S. against the Company and certain foreign and domestic air carriers alleging that the defendants violated U.S. antitrust laws by illegally conspiring to set prices and surcharges on cargo shipments. These cases, along with other purported class action lawsuits in which the Company was not named, were consolidated in the United States District Court for the Eastern District of New York as In re Air Cargo Shipping Services Antitrust Litigation, 06-MD-1775 on June 20, 2006. Plaintiffs are seeking trebled money damages and injunctive relief. The Company has not been named as a defendant in the consolidated complaint filed by the plaintiffs. However, the plaintiffs have not released any claims that they may have against the Company, and the Company may later be added as a defendant in the litigation. If the Company is sued on these claims, it will vigorously defend the suit, but any adverse judgment could have a material adverse impact on the Company. Also, on January 23, 2007, the Company was served with a purported class action complaint filed against the Company, American, and certain foreign and domestic air carriers in the Supreme Court of British Columbia in

Canada (McKay v. Ace Aviation Holdings, et al.). The plaintiff alleges that the defendants violated Canadian competition laws by illegally conspiring to set prices and surcharges on cargo shipments. The complaint seeks compensatory and punitive damages under Canadian law. On June 22, 2007, the plaintiffs agreed to dismiss their claims against the Company. The dismissal is without prejudice and the Company could be brought back into the litigation at a future date. If litigation is recommenced against the Company in the Canadian courts, the Company will vigorously defend itself; however, any adverse judgment could have a material adverse impact on the Company.

On June 20, 2006, the DOJ served the Company with a grand jury subpoena as part of an ongoing investigation into possible criminal violations of the antitrust laws by certain domestic and foreign passenger carriers. At this time, the Company does not believe it is a target of the DOJ investigation. The Company intends to cooperate fully with this investigation. On September 4, 2007, the Attorney General of the State of Florida served American with a Civil Investigative Demand as part of its investigation of possible violations of federal and Florida antitrust laws regarding the pricing of air passenger transportation. In the event that this or other investigations uncover violations of the U.S. antitrust laws or the competition laws of some other jurisdiction, such findings and related legal proceedings could have a material adverse impact on the Company. Approximately 52 purported class action lawsuits have been filed in the U.S. against the Company and certain foreign and domestic air carriers alleging that the defendants violated U.S. antitrust laws by illegally conspiring to set prices and surcharges for passenger transportation. These cases, along with other purported class action lawsuits in which the Company was not named, were consolidated in the United States District Court for the Northern District of California as In re International Air Transportation Surcharge Antitrust Litigation, M 06-01793 on October 25, 2006. On July 9, 2007, the Company was named as a defendant in the consolidated complaint. Plaintiffs are seeking trebled money damages and injunctive relief. American will vigorously defend these lawsuits; however, any adverse judgment could have a material adverse impact on the Company.

American is defending a lawsuit (Love Terminal Partners, L.P. et al. v. The City of Dallas, Texas et al.) filed on July 17, 2006 in the United States District Court in Dallas. The suit was brought by two lessees of facilities at Dallas Love Field Airport against American, the cities of Fort Worth and Dallas, Southwest Airlines, Inc., and the Dallas/Fort Worth International Airport Board. The suit alleges that an agreement by and between the five defendants with respect to Dallas Love Field violates Sections 1 and 2 of the Sherman Act. Plaintiffs seek injunctive relief and compensatory and statutory damages. On October 31, 2007, the court entered an order dismissing all of the plaintiffs' claims. The plaintiffs have appealed. American will vigorously defend this lawsuit; however, any adverse judgment could have a material adverse impact on the Company.

On August 21, 2006, a patent infringement lawsuit was filed against American and American Beacon Advisors, Inc. (a wholly-owned subsidiary of the Company), in the United States District Court for the Eastern District of Texas (Ronald A. Katz Technology Licensing, L.P. v. American Airlines, Inc., et al.). This case has been consolidated in the Central District of California for pre-trial purposes with numerous other cases brought by the plaintiff against other defendants. The plaintiff alleges that American and American Beacon infringe a number of the plaintiff's patents, each of which relates to automated telephone call processing systems. The plaintiff is seeking past and future royalties, injunctive relief, costs and attorneys' fees. Although the Company believes that the plaintiff's claims are without merit and is vigorously defending the lawsuit, a final adverse court decision awarding substantial money damages or placing material restrictions on existing automated telephone call system operations would have a material adverse impact on the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Company's security holders during the last quarter of its fiscal year ended December 31, 2007.

Executive Officers of the Registrant

The following information relates to the executive officers of AMR as of the filing of this Form 10-K.

Gerard J. Arpey	Mr. Arpey was elected Chairman, President and Chief Executive Officer of AMR and American in May 2004. He was elected Chief Executive Officer of AMR and American in April 2003. He served as President and Chief Operating Officer of AMR and American from April 2002 to April 2003. He served as Executive Vice President – Operations of American from January 2000 to April 2002, Chief Financial Officer of AMR from 1995 through 2000 and Senior Vice President – Planning of American from 1992 to January 1995. Prior to that, he served in various management positions at American since 1982. Age 49.
Daniel P. Garton	Mr. Garton was elected Executive Vice President – Marketing of American in September 2002. He is also an Executive Vice President of AMR. He served as Executive Vice President – Customer Services of American from January 2000 to September 2002 and Senior Vice President – Customer Services of American from 1998 to January 2000. Prior to that, he served as President of AMR Eagle from 1995 to 1998. Except for two years service as Senior Vice President and Chief Financial Officer of Continental between 1993 and 1995, he has been with the Company in various management positions since 1984. Age 50.
Thomas W. Horton	Mr. Horton was elected Executive Vice President of Finance and Planning and Chief Financial Officer of AMR and American in March 2006 upon returning to American from AT&T Corp., a telecommunications company, where he had been Vice Chairman and Chief Financial Officer. Prior to leaving for AT&T Corp., Mr. Horton was Senior Vice President and Chief Financial Officer of AMR and American from January 2000 to 2002. From 1994 to January 2000 Mr. Horton served as a Vice President of American and has served in various management positions of American since 1985. Age 46.
Robert W. Reding	Mr. Reding was elected Executive Vice President – Operations for American in September 2007. He is also an Executive Vice President of AMR. He served as Senior Vice President – Technical Operations for American from May 2003 to September 2007. He joined the Company in March 2000 and served as Chief Operations Officer of AMR Eagle through May 2003. Prior to joining the Company, Mr. Reding served as President and Chief Executive Officer of Reno Air from 1992 to 1998 and President and Chief Executive Officer of Canadian Regional Airlines from 1998 to March 2000. Age 58.

Gary F. Kennedy	Mr. Kennedy was elected Senior Vice President and General Counsel of AMR and American in January 2003. He is also the Company's Chief Compliance Officer. He served as Vice President – Corporate Real Estate of American from 1996 to January 2003. Prior to that, he served as an attorney and in various management positions at American since 1984. Age 52.

There are no family relationships among the executive officers of the Company named above.

There have been no events under any bankruptcy act, no criminal proceedings, and no judgments or injunctions material to the evaluation of the ability and integrity of any director or executive officer during the past five years.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's common stock is traded on the New York Stock Exchange (symbol AMR). The approximate number of record holders of the Company's common stock at February 13, 2008 was 16,267.

The range of closing market prices for AMR's common stock on the New York Stock Exchange was:

	2007		2006	
	High	Low	High	Low
Quarter Ended				
March 31	$ 40.66	$ 30.14	$ 28.88	$ 18.76
June 30	33.12	25.34	28.76	21.88
September 30	28.83	20.77	27.66	18.83
December 31	25.64	14.03	34.10	24.10

No cash dividends on common stock were declared for any period during 2007 or 2006

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

(in millions, except per share amounts)

	2007 2,3,6	2006 1,2	2005 1,3	2004 1,3	2003 1,3,4
Total operating revenues	$ 22,935	$ 22,563	$ 20,712	$ 18,645	$ 17,440
Operating income (loss)	965	1,060	(89)	(134)	(843)
Net income (loss)	504	231	(857)	(751)	(1,227)
Net income (loss) per share:					
Basic	2.06	1.13	(5.18)	(4.68)	(7.75)
Diluted	1.78	0.98	(5.18)	(4.68)	(7.75)
Total assets	28,571	29,145	29,495	28,773	29,330
Long-term debt, less current maturities	9,413	11,217	12,530	12,436	11,901
Obligations under capital leases, less current obligations	680	824	926	1,088	1,225
Obligation for pension and postretirement benefits	3,620	5,341	4,998	4,743	4,803
Stockholders' equity (deficit) 5	2,657	(606)	(1,430)	(537)	80

1 Includes the impact of adopting FSP AUG AIR-1 "Accounting for Planned Major Maintenance Activities".
2 Includes the impact of adopting Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" as described in Note 9 to the consolidated financial statements.
3 Includes restructuring charges. In 2003 and 2004, respectively, these restructuring charges consisted of $427 million and $63 million primarily related to aircraft and employee charges (for further discussion of these items for 2005 and 2007 see Note 2 to the consolidated financial statements).
4 Includes U.S. government grant of $358 million (net of payments to independent regional affiliates) which reimbursed air carriers for increased security costs.
5 The Company recorded a reduction to the additional minimum pension liability resulting in a credit to stockholders' equity (deficit) of approximately $337 million for the year ended December 31, 2003 and $129 million for the year ended December 31, 2004. The Company recorded an additional charge resulting in a debit to stockholders' equity (deficit) of $379 million for the year ended December 31, 2005. Effective December 31, 2006, the Company adopted SFAS 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans". This adoption decreased Stockholders' equity by $1.0 billion and increased the obligation for pension and other postretirement benefits by $880 million. As a result of actuarial changes including the discount rate and the impact of legislation changing pilot retirement age to 65, the Company recorded a $1.7 billion reduction in pension and other postretirement benefits and a corresponding increase in stockholders' equity in 2007.
6 Includes the impact of the $138 million gain on the sale of ARINC as described in Note 3 to the consolidated financial statements.

No cash dividends were declared on AMR's common shares during any of the periods above.

Information on the comparability of results is included in Item 7, Management's Discussion and Analysis and the notes to the consolidated financial statements.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Information

The discussions under Business, Risk Factors, Properties and Legal Proceedings and the following discussions under Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures about Market Risk contain various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which represent the Company's expectations or beliefs concerning future events. When used in this document and in documents incorporated herein by reference, the words "expects," "plans," "anticipates," “indicates,” “believes,” “forecast,” “guidance,” “outlook,” “may,” “will,” “should,” and similar expressions are intended to identify forward-looking statemen Forward-looking statements include, without limitation, the Company’s expectations concerning operations and financial conditions, including changes in capacity, revenues, and costs, future financing plans and needs, overall economic conditions, plans and objectives for future operations, and the impact on the Company of its results of operations in recent years and the sufficiency of its financial resources to absorb that impact. Other forward-looking statements include statements which do not relate solely to historical facts, such as, without limitation, statements which discuss the possible future effects of current known trends or uncertainties, or which indicate that the future effects of known trends or uncertainties cannot be predicted, guaranteed or assured. All forward-looking statements in this report are based upon information available to the Company on the date of this report. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise. The Risk Factors listed in Item 1A, in addition to other possible factors not listed, could cause the Company's actual results to differ materially from historical results and from those expressed in forward-looking statements.

Overview

The Company recorded net earnings of $504 million in 2007, its second consecutive annual profit and a $273 million increase over 2006. Improved results reflected an increase in operating revenue of $372 million or 1.6 percent on 2.3 percent less capacity, partially offset by higher fuel prices and increases in certain other costs. While the Company recorded positive earnings in 2007 and 2006, it lost more than $8 billion in the five years prior to 2006 and remains heavily indebted.

The Company’s improved revenue results were a function of stronger passenger load factors and higher passenger yield. The Company’s 2007 load factor was 80.9 percent, 1.2 points higher year-over-year and its fifth consecutive year of record load factor. Passenger yield, which is an industry measure of average fares, increased 2.4 percent versus 2006. However, passenger yield remains low by historical standards and well below the Company’s peak yield set in the year 2000. The Company believes this is the result of a fragmented industry with numerous competitors and excess capacity, increased low cost carrier competition, increased price competition due to the internet, and other factors. Since deregulation in 1978, the Company’s passenger yield has increased 75 percent, while the Consumer Price Index (CPI), as measured by the US Department of Labor Bureau of Labor Statistics, has grown by 218 percent. The Company believes increases in passenger yield will continue to significantly lag CPI indefinitely.

Offsetting improved revenue, the Company’s fuel price increased from 201.4 cents to 213.1 cents per gallon year-over-year driving $365 million in incremental expense. Since 2002, the Company’s fuel price has increased by 136.9 cents per gallon representing $4.3 billion in additional annual expense based on the Company’s 2007 fuel consumption. The Company’s fuel hedging program offset $239 million in fuel expense in 2007.

The Company's 2007 earnings reflect the continuing joint efforts between the Company and its employees to drive continuous revenue and cost improvement under the Turnaround Plan. This plan was established in 2003 and is the Company's strategic framework for achieving sustained profitability and has four tenets: (i) lower costs to compete, (ii) fly smart – give customers what they value, (iii) pull together, win together and (iv) build a financial foundation.

Under the Turnaround Plan, the Company has implemented hundreds of cost savings initiatives estimated to save approximately $3.8 billion in annual expense. In combination with the Company's 2003 restructuring of labor and other contracts, these initiatives have more than offset the Company's non-fuel inflationary and other cost pressures during this period. Although the Company's cost per available seat mile increased from 11.54 cents in 2002 to 11.98 cents in 2007, the fuel component of unit cost increased from 1.43 cents to 3.63 cents over the same period. All other components of unit cost decreased from 10.11 cents in 2002, to 8.35 cents in 2007, or 17.4 percent. Employee productivity (measured in available seat miles per full time equivalent head) and aircraft productivity (measured in miles flown per day) consistently increased during this period.

The Company has also implemented numerous efforts to find additional revenue sources and increase existing ones. In addition to improving core passenger and cargo revenues, these efforts have contributed to an increase in Other revenue from $966 million in 2002 to $1.4 billion in 2007. Examples of new revenue sources over this period include onboard food sales, single day passes for AAdmirals Club admission, reservations ticketing fees, First Class upgrades on day of departure, and numerous other initiatives.

As a key part of these efforts, the Company has sought to engage its labor unions and its employees in jointly working together. The Company believes heightened employee engagement has directly contributed to its progress under the Turnaround Plan.

Lastly, under the Turnaround Plan, the Company has worked to reduce debt, increase the funded status of employee pension plans and improve financial flexibility for the future. Historically, airline industry earnings are highly cyclical with frequent and extended periods of significant losses, and an airline's liquidity and borrowing capacity can be critical to sustaining operations. The Company has reduced its balance sheet debt (Short-Term Debt plus Long-Term Debt) from $13.2 billion at the end of 2002 to $11.1 billion at year end 2007. Over the same period, total Cash and Short-term investments (including restricted cash and short-term investments) have increased by $2.3 billion to $5.0 billion and the ratio of the fair value of plan assets to the accumulated benefit obligations of the employee pension programs has increased from 75 percent to 96 percent.

On November 28, 2007, the Company announced that it plans to divest AMR Eagle (American Eagle Airlines, Inc., and Executive Airlines, Inc.), its wholly-owned regional carrier. AMR believes that a divestiture of AMR Eagle is in the long-term best interests of the Company and its shareholders. The Company continues to evaluate the form of the divestiture, which may include a spin-off to AMR shareholders, a sale to a third party, or some other form of separation from AMR. The Company expects to complete the divestiture in 2008; however, the completion of any transaction and its timing will depend on a number of factors, including general economic, industry and financial market conditions, as well as the ultimate form of the divestiture. The impact on AMR of divesting AMR Eagle is not currently quantifiable due to these uncertainties and the potential restructuring of assets, liabilities and the capacity purchase agreement between American and AMR Eagle. In addition, AMR Eagle's historical financial information is not indicative of the AMR Eagle's future results of operations, financial position and cash flows if AMR Eagle had been a stand-alone entity.

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

Liquidity and Capital Resources

Cash, Short-Term Investments and Restricted Assets At December 31, 2007, the Company had $4.5 billion in unrestricted cash and short-term investments and $428 million in restricted cash and short-term investments.

Significant Indebtedness and Future Financing Indebtedness is a significant risk to the Company as discussed in the Risk Factors listed in Item 1A. During 2005, 2006 and 2007, in addition to refinancing its Credit Facility and certain other debt (see Note 6 to the consolidated financial statements), the Company raised an aggregate of approximately $2.5 billion in financing to fund capital commitments (mainly for aircraft and ground properties), debt maturities, and employee pension obligations, and to bolster its liquidity. The Company believes that it should have sufficient liquidity to fund its operations for the foreseeable future, including repayment of debt and capital leases, capital expenditures and other contractual obligations, including those relating to the anticipated accelerated delivery of 47 Boeing 737 aircraft that American had previously committed to acquire in 2013 through 2015. Through December 31, 2007, the Company had advanced 18 of these deliveries and announced its intent to accelerate the remainder, depending on a number of factors including future economic conditions and the financial condition of the Company. In addition to advancing prior commitments, the Company had also ordered five incremental Boeing 737 aircraft. The Company continues to examine its future aircraft needs and may need additional financing to continue to execute its fleet renewal plan.

However, because the Company has significant debt, lease and other obligations in the next several years, including commitments to purchase aircraft as well as substantial pension funding obligations (refer to Contractual Obligations in this Item 7), the Company may need access to additional funding to maintain sufficient liquidity. The Company currently has no committed financing for any aircraft that it is committed to purchase. The Company’s possible financing sources primarily include: (i) a limited amount of additional secured aircraft debt (a most of the Company’s owned aircraft, including most of the Company’s Section 1110-eligible aircraft, are encumbered) or sale-leaseback transactions involving owned aircraft, (ii) debt secured by new aircraft deliveries, (iii) debt secured by other assets, (iv) securitization of future operating receipts, (v) the sale or monetization of certain strategic assets, (vi) unsecured debt and (vii) issuance of equity and/or equity-like securities. However, the availability and level of these financing sources cannot be assured, particularly in light of the Company’s and American’s recent financial results, substantial indebtedness, reduced credit ratings, high fuel prices, revenues that are weak by historical standards, and the financial difficulties being experienced in the airline industry. The inability of the Company to obtain additional funding on acceptable terms could have a material adverse impact on the Company and on the ability of the Company to sustain its operations over the long-term.

Credit Ratings AMR’s and American’s credit ratings are significantly below investment grade. Additional reductions in AMR's or American's credit ratings could further increase its borrowing or other costs and further restrict the availability of future financing.

Credit Facility Covenants American has a secured bank credit facility which consists of an undrawn $255 million revolving credit facility with a final maturity on June 17, 2009, and a fully drawn $440 million term loan facility, with a final maturity on December 17, 2010 (the Revolving Facility and the Term Loan Facility, respectively, and collectively, the Credit Facility). On March 30, 2007, American paid in full the principal balance of the Revolving Facility and as of December 31, 2007, it remained undrawn. American’s obligations under the Credit Facility are guaranteed by AMR.

The Credit Facility contains a covenant (the Liquidity Covenant) requiring American to maintain, as defined, unrestricted cash, unencumbered short term investments and amounts available for drawing under committed revolving credit facilities of not less than $1.25 billion for each quarterly period through the life of the Credit Facility. In addition, the Credit Facility contains a covenant (the EBITDAR Covenant) requiring AMR to maintain a ratio of cash flow (defined as consolidated net income, before interest expense (less capitalized interest), income taxes, depreciation and amortization and rentals, adjusted for certain gains or losses and non-cash items) to fixed charges (comprising interest expense (less capitalized interest) and rentals). The required ratio was 1.40 to 1.00 for the four quarter period ending December 31, 2007 and will increase to 1.50 to 1.00 for the four quarter period ending June 30, 2009. AMR and American were in compliance with the Liquidity Covenant and the EBITDAR covenant as of December 31, 2007 and expect to be able to continue to comply with these covenants. However, given fuel prices that are high by historical standards and the volatility of fuel prices and revenues, it is difficult to assess whether AMR and American will, in fact, be able to continue to comply with these covenants, and there are no assurances that AMR and American will be able to do so. Failure to comply with these covenants would result in a default under the Credit Facility which - - if the Company did not take steps to obtain a waiver of, or otherwise mitigate, the default - - could result in a default under a significant amount of the Company’s other debt and lease obligations and otherwise have a material adverse impact on the Company. See Note 6 for further information regarding the Credit Facility.

Cash Flow Activity The Company’s cash flow from operating activities during the year ended December 31, 2007 generated $1.9 billion.

Capital expenditures during 2007 were $714 million and primarily included aircraft modifications and the cost of improvements at JFK. Substantially all of the Company’s construction costs at JFK are being reimbursed through a fund established from a previous financing transaction. See Note 6 to the consolidated financial statements for additional information.

The Company also reduced long-term debt by $2.3 billion including prepayment of approximately $1 billion in debt instruments.

During the first quarter of 2007, the Company issued and sold 13 million shares of its common stock. The Company realized $497 million from the equity sale.

During the third quarter of 2007, the Company sold its interests in ARINC, Incorporated (“ARINC”), a military and aviation communications company. The Company received $192 million in proceeds for its interest in ARINC, $138 million of which was recognized as a gain.

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

Compensation As described in Note 9 to the consolidated financial statements, during 2006 and January 2007, the AMR Board of Directors approved the amendment and restatement of all of the outstanding performance share plans, the related performance share agreements and deferred share agreements that required settlement in cash. The plans were amended to permit settlement in cash and/or stock; however, the amendments did not impact the fair value of the awards under the plans. These changes were made in connection with a grievance filed in 2006 by the Company’s three labor unions in which they argued that the entirely cash settlement of the 2003-2005 Performance Unit Plan may be contrary to a component of the Company’s 2003 Annual Incentive Program agreement with the unions.

On January 15, 2008, the Compensation Committee of the Board of Directors of AMR approved the 2008 Annual Incentive Plan (AIP) for American. All U.S. based employees of American are eligible to participate in the AIP. The AIP is American's annual bonus plan and provides for the payment of awards in the event certain financial and/or customer service metrics are satisfied.

Working Capital AMR (principally American) historically operates with a working capital deficit, as do most other airline companies. In addition, the Company has historically relied heavily on external financing to fund capital expenditures. More recently, the Company has also relied on external financing to fund operating losses, employee pension obligations and debt maturities.

Off Balance Sheet Arrangements American has determined that it holds a significant variable interest in, but is not the primary beneficiary of, certain trusts that are the lessors under 84 of its aircraft operating leases. These leases contain a fixed price purchase option, which allows American to purchase the aircraft at a predetermined price on a specified date. However, American does not guarantee the residual value of the aircraft. As of December 31, 2007, future lease payments required under these leases totaled $2.0 billion.

Certain special facility revenue bonds have been issued by certain municipalities primarily to purchase equipment and improve airport facilities that are leased by American and accounted for as operating leases. Approximately $1.7 billion of these bonds (with total future payments of approximately $4.1 billion as of December 31, 2007) are guaranteed by American, AMR, or both. Approximately $395 million of these special facility revenue bonds contain mandatory tender provisions that require American to make operating lease payments sufficient to repurchase the bonds at various times: $218 million in 2008, $112 million in 2014 and $65 million in 2015. Although American has the right to remarket the bonds, there can be no assurance that these bonds will be successfully remarketed. Any payments to redeem or purchase bonds that are not remarketed would generally reduce existing rent leveling accruals or be considered prepaid facility rentals and would reduce future operating lease commitments.

In addition, the Company had other operating leases, primarily for aircraft and airport facilities, with total future lease payments of $4.1 billion as of December 31, 2007. Entering into aircraft leases allows the Company to obtain aircraft without immediate cash outflows.

Contractual Obligations

The following table summarizes the Company's obligations and commitments as of December 31, 2007 (in millions):

		Payments Due by Year(s) Ended December 31,			
Contractual Obligations	Total	2008	2009 and 2010	2011 and 2012	2013 and Beyond
Operating lease payments for aircraft and facility obligations 1	$ 10,168	$ 1,037	$ 1,798	$ 1,535	$ 5,798
Firm aircraft commitments 2	2,771	269	432	442	1,628
Capacity purchase agreements 3	119	97	22		
Long-term debt 4	14,702	1,512	3,798	3,671	5,721
Capital lease obligations	1,369	243	324	243	559
Other purchase obligations 5	1,139	323	355	308	153
Other long-term liabilities 6, 7	3,051	255	408	542	1,846
Total obligations and commitments	33,319	3,736	7,137	6,741	15,705

1. Certain special facility revenue bonds issued by municipalities - which are supported by operating leases executed by American - are guaranteed by AMR and/or American. The special facility revenue bonds with mandatory tender provisions discussed above are included in this table under their ultimate maturity date rather than their mandatory tender provision date. See Note 5 to the consolidated financial statements for additional information.
2. As of December 31, 2007, the Company had firm commitments to acquire 23 Boeing 737-800s in 2009 and an aggregate of 29 Boeing 737 aircraft and seven Boeing 777 aircraft in 2013 through 2015. Future payments for all aircraft, including the estimated amounts for price escalation, are currently estimated to be approximately $2.8 billion, with the majority occurring in 2011 through 2015. Additional information about the Company's obligations is included in Note 4 to the consolidated financial statements.
3. The table reflects minimum required payments under capacity purchase contracts between American and two regional airlines, Chautauqua Airlines, Inc. (Chautauqua) and Trans States Airlines Inc. If the Company terminates its contract with Chautauqua without cause, Chautauqua has the right to put its 15 Embraer aircraft to the Company. If this were to happen, the Company would take possession of the aircraft and become liable for lease obligations totaling approximately $21 million per year with lease expirations in 2018 and 2019. These lease obligations are not included in the table above. See Note 4 to the consolidated financial statements for additional information.
4. Amounts represent contractual amounts due, including interest. Interest on variable rate debt was estimated based on the current rate at December 31, 2007.
5. Includes noncancelable commitments to purchase goods or services, primarily construction related costs at JFK and information technology related support. The Company has made estimates as to the timing of certain payments primarily for construction related costs. The actual timing of payments may vary from these estimates. Substantially all of the Company's purchase orders issued for other purchases in the ordinary course of business contain a 30-day cancellation clause that allows the Company to cancel an order with 30 days notice.
6. Includes minimum pension contributions based on actuarially determined estimates and other postretirement benefit payments based on estimated payments through 2017. See Note 10 to the consolidated financial statements.
7. Excludes a $2.1 billion accident liability, related to the Terrorist Attacks and flight 587, recorded in Other liabilities and deferred credits, as discussed in Note 2 to the consolidated financial statements. This liability is offset in its entirety by a receivable, recorded in Other assets, which the Company expects to receive from

insurance carriers as claims are resolved.

Pension Obligations The Company is required to make minimum contributions to its defined benefit pension plans under the minimum funding requirements of the Employee Retirement Income Security Act (ERISA). The Company's estimated 2008 contributions to its defined benefit pension plans are approximately $350 million, which exceeds the amount required to be contributed under the provisions of the Pension Funding Equity Act of 2004 and the Pension Protection Act of 2006.

Results of Operations

The Company recorded net earnings of $504 million in 2007 compared to $231 million in 2006. The Company's 2007 results reflected an improvement in revenues somewhat offset by fuel prices and certain other costs that were higher in 2007 compared to 2006. The 2007 and 2006 results were impacted by productivity improvements and by cost reductions resulting from progress under the Turnaround Plan. The 2007 results include the impact of several items including: a $138 million gain on the sale of AMR's stake in ARINC included in Other Income, Miscellaneous – net, a $39 million gain to reflect the positive impact of the change to an 18-month expiration of AAdvantage miles included in Passenger revenue, and a $63 million charge associated with the retirement and planned disposal of 24 MD-80 aircraft and certain other equipment that previously had been temporarily stored included in Other operating expenses.

The Company's 2005 results were impacted by a $155 million aircraft charge, a $73 million facility charge, an $80 million charge for the termination of a contract, a $37 million gain related to the resolution of a debt restructuring and a $22 million credit for the reversal of an insurance reserve. All of these amounts are included in Other operating expenses in the consolidated statement of operations, except for a portion of the facility charge which is included in Other rentals and landing fees. Also included in the 2005 results was a $69 million fuel tax credit. Of this amount, $55 million is included in Aircraft fuel expense and $14 million is included in Interest income in the consolidated statement of operations. The Company did not record a tax provision or benefit associated with its 2007 or 2006 earnings or 2005 losses.

Revenues

2007 Compared to 2006 The Company's revenues increased approximately $372 million, or 1.6 percent, to $22.9 billion in 2007 compared to 2006. American's passenger revenues increased by 2.1 percent, or $373 million, despite a capacity (available seat mile) (ASM) decrease of 2.4 percent. American's passenger load factor increased 1.4 points to 81.5 percent and passenger revenue yield per passenger mile increased 2.8 percent to 13.17 cents. This resulted in an increase in passenger revenue per available seat mile (RASM) of 4.6 percent to 10.73 cents. In 2007, American derived approximately 63 percent of its passenger revenues from domestic operations and approximately 37 percent from international operations. Following is additional information regarding American's domestic and international RASM and capacity:

	Year Ended December 31, 2007			
	RASM (cents)	Y-O-Y Change	ASMs (billions)	Y-O-Y Change
DOT Domestic	10.5	3.0%	108.5	(2.6)%
International	11.1	7.4	61.4	(2.0)
DOT Latin America	11.4	5.9	29.6	0.9
DOT Atlantic	10.9	5.2	25.0	(0.5)
DOT Pacific	10.2	20.2	6.8	(17.1)

Regional Affiliates' passenger revenues, which are based on industry standard proration agreements for flights connecting to American flights, decreased $32 million, or 1.3 percent, to $2.5 billion as a result of decreased capacity and load factors. Regional Affiliates' traffic decreased 1.2 percent to 9.8 billion revenue passenger miles (RPMs), while capacity decreased 1.0 percent to 13.4 billion ASMs, resulting in a 0.2 point decrease in passenger load factor to 73.4 percent.

Cargo revenues decreased 0.2 percent, or $2 million primarily as a result of lower freight traffic.

Other revenues increased 2.4 percent, or $33 million, to $1.4 billion due in part to increases in certain passenger fees and higher passenger volumes.

2006 Compared to 2005 The Company's revenues increased approximately $1.9 billion, or 8.9 percent, to $22.6 billion in 2006 compared to 2005. American's passenger revenues increased by 7.5 percent, or $1.2 billion, despite a capacity (available seat mile) (ASM) decrease of 1.2 percent. American's passenger load factor increased 1.5 points to 80.1 percent and passenger revenue yield per passenger mile increased 6.7 percent to 12.81 cents. This resulted in an increase in passenger revenue per available seat mile (RASM) of 8.8 percent to 10.26 cents. In 2006, American derived approximately 64 percent of its passenger revenues from domestic operations and approximately 36 percent from international operations. Following is additional information regarding American's domestic and international RASM and capacity:

	Year Ended December 31, 2006			
	RASM (cents)	Y-O-Y Change	ASMs (billions)	Y-O-Y Change
DOT Domestic	10.24	9.3%	111	(3.2)%
International	10.30	7.8	63	2.7
DOT Latin America	10.78	13.7	30	(2.1)
DOT Atlantic	10.34	2.6	25	4.6
DOT Pacific	8.49	4.6	8	16.7

Regional Affiliates' passenger revenues, which are based on industry standard proration agreements for flights connecting to American flights, increased $354 million, or 16.5 percent, to $2.5 billion as a result of increased capacity and load factors. Regional Affiliates' traffic increased 11.5 percent to 10.0 billion revenue passenger miles (RPMs), while capacity increased 6.6 percent to 13.6 billion ASMs, resulting in a 3.2 point increase in passenger load factor to 73.6 percent.

Cargo revenues increased 5.5 percent, or $43 million as a result of a $31 million increase in mail revenue and a $26 million increase in freight fuel surcharges.

Other revenues increased 17.7 percent, or $206 million, to $1.4 billion due in part to increased third-party maintenance contracts obtained by the Company's maintenance and engineering group and increases in certain passenger fees.

Operating Expenses

2007 Compared to 2006 The Company's total operating expenses increased 2.2 percent, or $467 million, to $22.0 billion in 2007 compared to 2006. American's mainline operating expenses per ASM in 2007 increased 4.4 percent compared to 2006 to 11.38 cents. This increase in operating expenses per ASM is due primarily to a 5.6 percent increase in American's price per gallon of fuel (net of the impact of fuel hedging) in 2007 relative to 2006.

(in millions) Operating Expenses	Year ended December 31, 2007	Change from 2006	Percentage Change	
Wages, salaries and benefits	$ 6,770	$ (43)	(0.6)%	
Aircraft fuel	6,670	268	4.2	(a)
Other rentals and landing fees	1,278	(5)	(0.4)	
Depreciation and amortization	1,202	45	3.9	
Maintenance, materials and repairs	1,057	86	8.9	(b)
Commissions, booking fees and credit card expense	1,028	(47)	(4.5)	
Aircraft rentals	591	(15)	(2.5)	
Food service	534	26	5.1	
Other operating expenses	2,840	152	5.7	(c)
Total operating expenses	$ 21,970	$ 467	2.2%	

(a) Aircraft fuel expense increased primarily due to a 5.6 percent increase in American's price per gallon of fuel (net of the impact of fuel hedging) offset by a 1.6 percent decrease in American's fuel consumption.
(b) Maintenance, materials and repairs expense increased due to $57 million a heavier workscope of scheduled airframe maintenance overhauls, repair costs and volume, and contractual engine repair rates, which are driven be aircraft age.
(c) Other operating expenses increased due to charges taken in 2007. Included in 2007 expenses was a $63 million charge for the retirement of 24 MD-80 aircraft and certain related equipment. In addition, Other operating expenses increased due to technology investments and development, and other costs associated with improving the customer experience.

2006 Compared to 2005   The Company's total operating expenses increased 3.4 percent, or $702 million, to $21.5 billion in 2006 compared to 2005. American's mainline operating expenses per ASM in 2006 increased 3.8 percent compared to 2005 to 10.90 cents. This increase in operating expenses per ASM is due primarily to a 16.5 percent increase in American's price per gallon of fuel (net of the impact of a fuel tax credit and fuel hedging) in 2006 relative to 2005.

(in millions) Operating Expenses	Year ended December 31, 2006	Change from 2005	Percentage Change	
Wages, salaries and benefits	$ 6,813	$ 58	0.9%	
Aircraft fuel	6,402	787	14.0	(a)
Other rentals and landing fees	1,283	21	1.7	
Depreciation and amortization	1,157	(7)	(0.6)	
Commissions, booking fees and credit card expense	1,076	(37)	(3.3)	
Maintenance, materials and repairs	971	(14)	(1.4)	
Aircraft rentals	606	15	2.5	