American Airlines Group Inc.
Form 10-K
February 25, 2015
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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, 2014

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Transition Period From to

Commission file number 1-8400

American Airlines Group Inc.

(Exact name of registrant as specified in its charter)

Delaware	**75-1825172**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
4333 Amon Carter Blvd., Fort Worth, Texas 76155	**(817) 963-1234**

(Address of principal executive offices, including zip code)	*Registrant s telephone number, including area code*

(Former name, former address and former fiscal year, if changed since last report)

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

	Name of Exchange on Which Registered
Common Stock, $0.01 par value per share	NASDAQ

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

American Airlines, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**13-1502798**
(State or other jurisdiction of	*(I.R.S. Employer*
incorporation or organization)	*Identification No.)*
4333 Amon Carter Blvd., Fort Worth, Texas 76155	**(817) 963-1234**
(Address of principal executive offices, including zip code)	*Registrant s telephone number, including area code*

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

American Airlines Group Inc.	Yes þ	No ¨
American Airlines, Inc.	Yes þ	No ¨

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

American Airlines Group Inc.	Yes ¨	No þ
American Airlines, Inc.	Yes ¨	No þ

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.

American Airlines Group Inc.	Yes þ	No ¨
American Airlines, Inc.	Yes þ	No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

American Airlines Group Inc.	Yes þ	No ¨
American Airlines, Inc.	Yes þ	No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of 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.

American Airlines Group Inc.	¨
American Airlines, Inc.	þ

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.

American Airlines Group Inc. þ	Large Accelerated Filer ¨	Accelerated Filer ¨	Non-accelerated Filer ¨	Smaller Reporting Company
American Airlines, Inc. ¨	Large Accelerated Filer ¨	Accelerated Filer þ	Non-accelerated Filer ¨	Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

American Airlines Group Inc.	Yes ¨	No þ
American Airlines, Inc.	Yes ¨	No þ

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

American Airlines Group Inc.	Yes þ	No ¨
American Airlines, Inc.	Yes þ	No ¨

As of February 20, 2015, there were 696,649,850 shares of American Airlines Group Inc. common stock outstanding. The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2014, was approximately $31 billion.

As of February 20, 2015, there were 1,000 shares of American Airlines, Inc. common stock outstanding, all of which were held by American Airlines Group Inc.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement related to American Airlines Group Inc. s 2015 Annual Meeting of Stockholders, which proxy statement will be filed under the Securities Exchange Act of 1934 within 120 days of the end of American Airlines Group Inc. s fiscal year ended December 31, 2014, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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American Airlines Group Inc.

American Airlines, Inc.

Form 10-K

Year Ended December 31, 2014

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This combined Annual Report on Form 10-K is filed by American Airlines Group Inc. (formerly named AMR Corporation) (AAG) and its wholly-owned subsidiary American Airlines, Inc. (American). References in this Annual Report on Form 10-K to we, us, our, the Company ar similar terms refer to AAG and its consolidated subsidiaries. As more fully described below, on December 9, 2013, a subsidiary of AMR Corporation merged with and into US Airways Group, Inc. (US Airways Group), which survived as a wholly-owned subsidiary of AAG (the Merger). Accordingly, unless otherwise indicated, information in this Annual Report on Form 10-K regarding the Company s consolidated results of operations includes the results of US Airways Group and its wholly-owned subsidiaries, including US Airways, Inc. (US Airways) for the post-Merger period from December 9, 2013 to December 31, 2013 and for the year ended December 31, 2014. AMR or AMR Corporation refers to the Company during the period of time prior to its emergence from Chapter 11 and its acquisition of US Airways Group. References in this Annual Report on Form 10-K to mainline refer to the operations of American and US Airways, as applicable, and exclude regional operations.

Glossary of Terms

For the convenience of the reader, the definitions of certain capitalized industry and other terms used in this report have been consolidated into a Glossary beginning on page 23.

Note Concerning Forward-Looking Statements

Certain of the statements contained in this report should be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may be identified by words such as may, will, expect, intend, anticipa believe, estimate, plan, project, could, should, would, continue, seek, target, guidance, outlook, if current trends co and other similar words. Such statements include, but are not limited to, statements about the benefits of the Merger, including future financial and operating results, our plans, objectives, expectations and intentions, and other statements that are not historical facts, such as, without limitation, statements that 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. These forward-looking statements are based on our current objectives, beliefs and expectations, and they are subject to significant risks and uncertainties that may cause actual results and financial position and timing of certain events to differ materially from the information in the forward-looking statements. These risks and uncertainties include, but are not limited to, those described below under Part I, Item 1A. Risk Factors and the following: significant operating losses in the future; downturns in economic conditions that adversely affect our business; the impact of continued periods of high volatility in fuel costs, increased fuel prices and significant disruptions in the supply of aircraft fuel; competitive practices in the industry, including the impact of low cost carriers, airline alliances and industry consolidation; the challenges and costs of integrating operations and realizing anticipated synergies and other benefits of the Merger; our substantial indebtedness and other obligations and the effect they could have on our business and liquidity; an inability to obtain sufficient financing or other capital to operate successfully and in accordance with our current business plan; increased costs of financing, a reduction in the availability of financing and fluctuations in interest rates; the effect our high level of fixed obligations may have on our ability to fund general corporate requirements, obtain additional financing and respond to competitive developments and adverse economic and industry conditions; our significant pension and other post-employment benefit funding obligations; the impact of any failure to comply with the covenants contained in financing arrangements; provisions in credit card processing and other commercial agreements that may materially reduce our liquidity; the limitations of our historical consolidated financial information, which is not directly comparable to our financial information for prior or future periods; the impact of union disputes, employee strikes and other labor-related disruptions; any inability to maintain labor costs at competitive levels; interruptions or disruptions in service at one or more of our hub airports; costs of ongoing data security compliance requirements and the impact of any significant data security breach; any inability to obtain and maintain adequate facilities, infrastructure and Slots to operate our flight schedule and expand or change our route network; our reliance on third-party regional operators or third-party service providers that have the ability to affect our revenue and the

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public s perception about our services; any inability to effectively manage the costs, rights and functionality of third-party distribution channels on which we rely; extensive government regulation, which may result in increases in our costs, disruptions to our operations, limits on our operating flexibility, reductions in the demand for air travel, and competitive disadvantages; the impact of the heavy taxation on the airline industry; changes to our business model that may not successfully increase revenues and may cause operational difficulties or decreased demand; the loss of key personnel or inability to attract and retain additional qualified personnel; the impact of conflicts overseas, terrorist attacks and ongoing security concerns; the global scope of our business and any associated economic and political instability or adverse effects of events, circumstances or government actions beyond our control, including the impact of foreign currency exchange rate fluctuations and limitations on the repatriation of cash held in foreign countries; the impact of environmental regulation; our reliance on technology and automated systems and the impact of any failure of these technologies or systems; challenges in integrating our computer, communications and other technology systems; losses and adverse publicity stemming from any accident involving any of our aircraft or the aircraft of our regional or codeshare operators; delays in scheduled aircraft deliveries, or other loss of anticipated fleet capacity, and failure of new aircraft to perform as expected; our dependence on a limited number of suppliers for aircraft, aircraft engines and parts; the impact of changing economic and other conditions beyond our control, including global events that affect travel behavior such as an outbreak of a contagious disease, and volatility and fluctuations in our results of operations due to seasonality; the effect of a higher than normal number of pilot retirements and a potential shortage of pilots; the impact of possible future increases in insurance costs or reductions in available insurance coverage; the effect of a lawsuit that was filed in connection with the Merger remains pending; an inability to use net operating losses (NOLs) carried over from prior taxable years (NOL Carryforwards); any impairment in the amount of goodwill we recorded as a result of the application of the acquisition method of accounting and an inability to realize the full value of AAG s and American s respective intangible or long-lived assets and any material impairment charges that would be recorded as a result; price volatility of our common stock; the effects of our capital deployment program and the limitation, suspension or discontinuation of our share repurchase program or dividend payments thereunder; delay or prevention of stockholders ability to change the composition of our Board of Directors and the effect this may have on takeover attempts that some of our stockholders might consider beneficial; the effect of provisions of our Restated Certificate of Incorporation (the Certificate of Incorporation) and Amended and Restated Bylaws (the Bylaws) that limit ownership and voting of our equity interests, including our common stock; the effect of limitations in our Certificate of Incorporation on acquisitions and dispositions of our common stock designed to protect our NOL Carryforwards and certain other tax attributes, which may limit the liquidity of our common stock; other economic, business, competitive, and/or regulatory factors affecting our business, including those set forth in this Annual Report on Form 10-K (especially in Part I, Item 1A. Risk Factors and Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations) and in our other filings with the Securities and Exchange Commission (the SEC), and other risks and uncertainties listed from time to time in our filings with the SEC.

All of the forward-looking statements are qualified in their entirety by reference to the factors discussed in Part I, Item 1A. Risk Factors and elsewhere in this report. There may be other factors of which we are not currently aware that may affect matters discussed in the forward-looking statements and may also cause actual results to differ materially from those discussed. We do not assume any obligation to publicly update or supplement any forward-looking statement to reflect actual results, changes in assumptions or changes in other factors affecting such statements other than as required by law. Forward-looking statements speak only as of the date of this Annual Report on Form 10-K or as of the dates indicated in the statements.

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PART I

ITEM 1. BUSINESS
Overview

American Airlines Group Inc. (AAG), a Delaware corporation, is a holding company and its principal, wholly-owned subsidiaries are American Airlines, Inc. (American), US Airways Group, Inc. (US Airways Group) and Envoy Aviation Group Inc. (Envoy, formerly known as AMR Eagle Holding Corporation). US Airways Group s principal subsidiary is US Airways, Inc. (US Airways) and its other wholly-owned subsidiaries include Piedmont Airlines, Inc. (Piedmont), and PSA Airlines, Inc. (PSA). AAG was formed in 1982 under the name AMR Corporation (AMR) as the parent company of American which was founded in 1934. On December 9, 2013, a subsidiary of AMR merged with and into US Airways Group, which survived as a wholly-owned subsidiary of AAG, and AAG emerged from Chapter 11. Upon closing of the Merger and emergence from Chapter 11, AMR changed its name to American Airlines Group Inc. Virtually all of AAG s operations fall within the airline industry.

AAG s and American s principal executive offices are located at 4333 Amon Carter Boulevard, Fort Worth, Texas 76155. AAG s and American s telephone number is 817-963-1234, and their Internet address is *www.aa.com*. Information contained on AAG s and American s website is not and should not be deemed a part of this report or any other report or filing filed with or furnished to the SEC.

Chapter 11 Reorganization

On November 29, 2011 (the Petition Date), AMR Corporation, its principal subsidiary, American, and certain of AMR s other direct and indirect domestic subsidiaries (collectively, the Debtors), filed voluntary petitions for relief (the Chapter 11 Cases) under Chapter 11 of the United States Bankruptcy Code (the Bankruptcy Code) in the United States Bankruptcy Court for the Southern District of New York (the Bankruptcy Court). On October 21, 2013, the Bankruptcy Court entered an order (the Confirmation Order) approving and confirming the Debtors fourth amended joint plan of reorganization (as amended, the Plan).

On December 9, 2013 (the Effective Date), the Debtors consummated their reorganization pursuant to the Plan, principally through the transactions contemplated by an Agreement and Plan of Merger (as amended, the Merger Agreement), dated as of February 13, 2013, by and among AMR, AMR Merger Sub, Inc. (Merger Sub) and US Airways Group, pursuant to which Merger Sub merged with and into US Airways Group (the Merger), with US Airways Group surviving as a wholly-owned subsidiary of AMR following the Merger.

In connection with the Chapter 11 Cases, trading in AMR s common stock and certain debt securities on the New York Stock Exchange (NYSE) was suspended on January 5, 2012, and AMR s common stock and such debt securities were delisted by the SEC from the NYSE on January 30, 2012. On January 5, 2012, AMR s common stock began trading under the symbol AAMRQ (CUSIP 001765106) on the OTCQB marketplace, operated by OTC Markets Group. Pursuant to the Plan, on the Effective Date (i) all existing shares of AAG s old common stock formerly traded under the symbol AAMRQ were canceled and (ii) the Company was authorized to issue up to approximately 544 million shares of common stock, par value $0.01 per share, of AAG (AAG Common Stock) by operation of the Plan (excluding shares of AAG Common Stock issuable pursuant to the Merger Agreement). On the Effective Date, the AAG Common Stock was listed on the NASDAQ Global Select Market under the symbol AAL, and AAMRQ ceased trading on the OTCQB marketplace.

Upon emergence from Chapter 11, AAG issued approximately 53 million shares of AAG Common Stock to AMR s old equity holders and certain of the Debtors employees, and issued 168 million shares of AAG Series A Convertible Preferred Stock, par value $0.01 per share (the AAG Series A Preferred Stock), which was mandatorily convertible into new AAG Common Stock during the 120-day period after the Effective Date, to certain creditors and employees of the Debtors (including shares deposited in the Disputed Claims Reserve (as defined in the Plan)). In accordance with the terms of the Plan, former holders of AMR common stock (previously traded under the symbol AAMRQ) received, for each share of AMR common stock, an initial distribution of approximately 0.0665 shares of the AAG Common Stock as of the Effective Date. Following the Effective Date, former holders of AMR common stock and those deemed to be treated as such in connection with the elections made pursuant to the Plan have received through December 31, 2014, additional aggregate distributions of shares of AAG Common Stock of approximately 0.6776 shares of AAG Common Stock for each share of AMR common stock previously held, and may continue to receive additional distributions. As of the Effective Date, the adjusted total Double-Dip General Unsecured Claims (as defined in the Plan) were approximately $2.45 billion and the Allowed Single-Dip General Unsecured Claims (as defined in the Plan) were approximately $2.45 billion. The Disputed Claims Reserve established under the Plan initially was issued 30.4 million shares, which shares are reserved for distributions to holders of disputed Single-Dip Unsecured Claims (Single-Dip Equity Obligations) whose claims ultimately become allowed as well as to certain AMR labor groups and employees who received a deemed claim amount based upon a fixed percentage of the distributions to be made to general unsecured claimholders. As of December 31, 2014, the Disputed Claims Reserve held 26.8 million shares of AAG Common Stock pending distribution of those shares in accordance with the Plan.

See Part II, Item 5. Market for American Airlines Group s Common Stock, Related Stockholder Matters and Issuer Purchases, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, Note 2 and Note 4 to AAG s Consolidated Financial Statements in Item 8A and Note 2 to American s Consolidated Financial Statements in Item 8B for further information regarding the Chapter 11 Cases, the Merger and the Disputed Claims Reserve.

Merger

Pursuant to the Merger Agreement and consistent with the Plan, each share of common stock, par value $0.01 per share, of US Airways Group (the US Airways Group Common Stock) was converted into the right to receive one share of AAG Common Stock. The aggregate number of shares of AAG Common Stock issuable in the Merger to holders of US Airways Group equity instruments (including stockholders, holders of convertible notes, optionees, and holders of restricted stock units (RSUs)) represented 28% of the diluted equity ownership of AAG. The remaining 72% diluted equity ownership in AAG (up to approximately 544 million shares) was or is distributable, pursuant to the Plan (see *Chapter 11 Reorganization* above), to stakeholders, labor unions, certain employees of AMR and the other Debtors, and former holders of AMR common stock (previously traded under the symbol AAMRQ) such that the aggregate number of shares of AAG Common Stock issuable under the Plan will not exceed 72% of the diluted equity ownership of AAG as of the time of the Merger.

In connection with the completion of the Merger, the NYSE suspended trading in the US Airways Group Common Stock prior to the opening of the market on December 9, 2013. The US Airways Group Common Stock was delisted from the NYSE and registration of the US Airways Group Common Stock under Section 12(b) of the Exchange Act was terminated.

See Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations *American Airlines Group Year in Review*, Management s Discussion and Analysis of Financial Condition and Results of Operations *AAG Results of Operations*, Note 2 and Note 4 to AAG s Consolidated Financial Statements in Item 8A and Note 2 to American s Consolidated Financial Statements in Item 8B for further information regarding the Chapter 11 Cases and the Merger.

Airline Operations

As noted above, AAG is a holding company whose primary business activity is the operation of two major network carriers through its principal, wholly-owned mainline operating subsidiaries: American and, as of December 9, 2013, US Airways.

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We continue to move toward operating under the single brand name of American Airlines through our mainline operating subsidiaries. We have made substantial progress towards integrating the operations of our mainline operating subsidiaries and towards obtaining a single operating certificate, which we expect to obtain in 2015. We are the largest airline in the world as measured by revenue passenger miles (RPMs) and available seat miles (ASMs). Together with our wholly-owned regional airline subsidiaries and third-party regional carriers operating as American Eagle and US Airways Express, our airlines operate an average of nearly 6,700 flights per day to 339 destinations in 54 countries from our hubs in Charlotte, Chicago, Dallas/Fort Worth (DFW), Los Angeles, Miami, New York, Philadelphia, Phoenix and Washington, D.C. In 2014, we had approximately 197 million passengers boarding our mainline and regional flights. As of December 31, 2014, we operated 983 mainline jets and were supported by our regional airline subsidiaries and third-party regional carriers, which operated an additional 566 regional aircraft.

American and US Airways are members of the **one**world® alliance whose members and members-elect serve nearly 1,000 destinations with 14,250 daily flights to 150 countries.

See Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations *American Airlines Group Year in Review*, *AAG Results of Operations* and *American s Results of Operations* for further discussion of AAG s and American s operating results an operating performance. Also, see Note 17 to AAG s Consolidated Financial Statements in Part II, Item 8A and Note 14 to American s Consolidated Financial Statements in Part II, Item 8B for information regarding our operating segments and operating revenue in principal geographic areas.

Regional Operations

Certain air carriers, including our wholly-owned regional carriers, Envoy, Piedmont and PSA, and third-party regional carriers, have arrangements with us to provide regional feed under the trade name American Eagle or US Airways Express. American Eagle and US Airways Express carriers are an integral component of our operating network. We rely heavily on feeder traffic from these regional carriers, which carry passengers to our hubs from low-density markets that are uneconomical for us to serve with large jets. In addition, regional carriers offer complementary service in our existing mainline markets by operating flights during off-peak periods between mainline flights. During 2014, approximately 52 million passengers boarded our regional carriers planes, approximately 45% of whom connected to or from our mainline flights. Of these passengers, approximately 25 million were enplaned by our wholly owned regional carriers and approximately 27 million were enplaned by third-party regional carriers operating under capacity purchase agreements.

The American Eagle and US Airways Express arrangements are principally in the form of capacity purchase agreements. The capacity purchase agreements provide that all revenues, including passenger, mail and freight revenues, go to us. In return, we agree to pay predetermined fees to these airlines for operating an agreed-upon number of aircraft, without regard to the number of passengers on board. In addition, these agreements provide that we will reimburse 100% of certain variable costs, such as airport landing fees and passenger liability insurance. We control marketing, scheduling, ticketing, pricing and seat inventories. A very small number of regional aircraft are operated for us under prorate agreements, under which the regional carriers receive a prorated share of ticket revenue and pay certain service fees to us. The prorate carriers are responsible for all costs incurred operating the applicable aircraft. All American Eagle and US Airways Express carriers have logos, service marks, aircraft paint schemes and uniforms similar to our mainline operations.

Cargo

Our cargo division is one of the largest air cargo operations in the world, providing a wide range of freight and mail services, with facilities and interline connections available across the globe.

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Other Revenues

Other revenues include revenue from the marketing services related to the sale of mileage credits in the AAdvantage and Dividend Miles programs as discussed below under *Frequent Flyer Program*, membership fees and related revenue from our Admirals Club operations, our US Airways Club operations, and other miscellaneous service revenue, including administrative service charges and baggage handling fees.

The U.S. Airline Industry

In 2014, the U.S. airline industry continued to experience year-over-year growth in passenger revenues driven by strong demand for air travel.

In its most recent data available, Airlines for America, the trade association for U.S. airlines, reported that annual U.S. industry passenger revenues and yields increased 4.2% and 1.8%, respectively, as compared to 2013. With respect to international versus domestic performance, Airlines for America reported that domestic markets outperformed international markets. Atlantic and Latin America markets experienced year-over-year growth in passenger revenues of 2.8% and 3.4%, respectively, while the Pacific market experienced year-over-year declines in passenger revenues of 1.4%.

Jet fuel prices continue to follow the price of Brent crude oil more closely than the price of West Texas Intermediate crude oil. On average, fuel costs were lower in 2014 as compared to 2013, driven by a significant decline in fuel prices in the fourth quarter of 2014. On December 31, 2014, the price of Brent crude oil fell to $55 per barrel, its lowest price since May 2009.

While the U.S. airline industry is currently benefiting from a favorable revenue environment and significantly reduced fuel prices as described above, uncertainty exists regarding the economic conditions driving these factors. See Part I, Item 1A. Risk Factors *Downturns in economic conditions adversely affect our business* and *Our business is dependent on the price and availability of aircraft fuel. Continued periods of high volatility in fuel costs, increased fuel prices and significant disruptions in the supply of aircraft fuel could have a significant negative impact on our operating results and liquidity.*

Competition

The markets in which we operate are highly competitive. Price competition occurs on a market-by-market basis through price discounts, changes in pricing structures, fare matching, target promotions and frequent flyer initiatives. On most of our domestic non-stop routes, we currently face competing service from at least one, and sometimes more than one, domestic airline, including: Alaska Airlines, Allegiant Air, Delta Air Lines, Frontier Airlines, Hawaiian Airlines, JetBlue Airways, Southwest Airlines, Spirit Airlines, United Airlines and Virgin America. Competition is even greater between cities that require a connection, where the major airlines compete via their respective hubs. In addition, we face competition on some of our connecting routes from airlines operating point-to-point service on such routes. We also compete with all-cargo and charter airlines and, particularly on shorter segments, ground and rail transportation.

On all of our routes, pricing decisions are affected, in large part, by the need to meet competition from other airlines. Airlines typically use discount fares and other promotions to stimulate traffic during normally slack travel periods, when they begin service to new cities or when they have excess capacity, to generate cash flow and maximize revenue per ASM and to establish, increase or preserve market share. Discount and promotional fares are generally non-refundable and may be subject to various restrictions such as minimum stay requirements, advance ticketing, limited seating and change fees. We have often elected to match discount or promotional fares initiated by other air carriers in certain markets in order to compete in those markets. Most airlines will quickly match price reductions in a particular market. Our ability to compete on the basis of price is limited by our fixed costs and depends on our ability to manage our operating costs effectively. Some of our competitors have greater

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financial or other resources and/or lower cost structures than we do. In addition, low-fare, low-cost carriers compete in many of the markets in which we operate and competition from these carriers is increasing. For example, as a result of divestitures completed in connection with gaining regulatory approval for the Merger, low-fare, low-cost carriers have gained additional access in a number of markets, including Chicago, Dallas and Washington, D.C. These low-cost carriers generally have lower cost structures than American and US Airways.

In addition to price competition, airlines compete for market share by increasing the size of their route system and the number of markets they serve. The American Eagle and US Airways Express regional carriers increase the number of markets we serve by flying to lower demand markets and providing connections at our hubs. Many of our competitors also own or have marketing agreements with regional airlines which provide similar services at their hubs and other locations. We also compete on the basis of scheduling (frequency and flight times), availability of nonstop flights, on-time performance, type of equipment, cabin configuration, amenities provided to passengers, frequent flyer programs, the automation of travel agent reservation systems, onboard products, markets served and other services. We compete with both major network airlines and low-cost airlines throughout our network.

In addition to our extensive domestic service, we provide international service to Canada, Mexico, Europe, the Middle East, the Caribbean, Central and South America, and Asia. Revenues from foreign operations (flights serving international destinations) were approximately 33% of our total operating revenues in 2014. In providing international air transportation, we compete with U.S. airlines to provide scheduled passenger and cargo service between the U.S. and various overseas locations, foreign investor-owned airlines, and foreign state-owned or state-affiliated airlines, including carriers based in the Middle East, the three largest of which we believe benefit from significant government subsidies. During 2014, international capacity grew more quickly than domestic service creating a very competitive operating environment.

Marketing and Alliance Agreements with Other Airlines

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 and US Airways, have established marketing relationships with other airlines and rail companies. American currently has marketing relationships with Air Berlin, Air Tahiti Nui, Alaska Airlines, British Airways, Cape Air, Cathay Pacific, Dragonair, EL AL, Etihad Airways, Fiji Airways, Finnair, Gulf Air, Hainan Airlines, Hawaiian Airlines, Iberia, Interjet, Japan Airlines, Jet Airways, Jetstar Group (includes Jetstar Airways and Jetstar Japan), Korean Air, LAN (includes LAN Airlines, LAN Argentina, LAN Colombia, LAN Ecuador and LAN Peru), Malaysia Airlines, Niki Airlines, Qantas Airways, Qatar Airways, Royal Jordanian, S7 Airlines, Seaborne Airlines, TAM Airlines and WestJet.

American is also a founding member of the **one**world alliance, which includes Air Berlin, British Airways, Cathay Pacific Airways, Finnair, Iberia, Japan Airlines, LAN Airlines, Malaysia Airlines, Qantas Airways, Qatar Airways, Royal Jordanian, S7 Airlines, SriLankan Airlines and TAM Airlines. The **one**world 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. Together, **one**world members and members-elect serve nearly 1,000 destinations with over 14,250 daily flights to 150 countries.

American is party to antitrust-immunized cooperation agreements with British Airways, Iberia, Finnair, Japan Airlines and Royal Jordanian. Over the last several years, American has also established joint business agreements (JBAs) with British Airways, Iberia, Japan Airlines, Qantas Airways and Finnair that enable the carriers to cooperate on flights between particular destinations and allow pooling and sharing of certain revenues and costs, enhanced frequent flyer program reciprocity and cooperation in other areas. American and its joint business partners received regulatory approval to enter into these JBAs.

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On January 23, 2014, American and US Airways began offering enhanced connectivity of their respective networks through the implementation of a codeshare agreement between the two carriers. Through the codeshare, each airline started selling tickets operated by the other carrier using its own code and flight number, providing customers the ability to easily combine flights and seamlessly transfer bags when traveling on an itinerary that includes flights operated by both carriers.

US Airways was previously a member of the Star Alliance® and joined **one**world on March 31, 2014. As part of this transition, codeshare and frequent flyer reciprocity between US Airways and many members of the Star Alliance ended on March 30, 2014. Some of the largest airlines with whom relationships were phased out at that time included United Airlines, Lufthansa, Swiss, Brussels Airlines, and All Nippon Airways, while relationships with others have been, or are in the process of being, phased out. US Airways also entered the transatlantic joint business on March 31, 2014 and is now pooling and sharing certain revenues and costs and enjoying enhanced frequent flyer program reciprocity and coordinating in other areas with British Airways, Iberia and Finnair in the same manner as American Airlines. In 2014, US Airways also entered into codeshare cooperation with British Airways, Iberia, Finnair and AirBerlin and frequent flyer reciprocity with **one**world members.

Industry Regulation and Airport Access

General

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

The FAA regulates flying operations, primarily in the areas of flight operations, maintenance, and other operational and safety areas. Pursuant to these regulations, our airline subsidiaries have FAA-approved maintenance programs for each type of aircraft they operate. The programs provide for the ongoing maintenance of such aircraft, ranging from periodic routine inspections to major overhauls. FAA requirements cover, among other things, retirement and maintenance of older aircraft, safety measures, collision avoidance systems, airborne windshear avoidance systems, noise abatement, other environmental concerns, fuel tank inerting, crew scheduling and experience, and aircraft operations. We are also progressing toward the completion of numerous airworthiness directives, a number of which will require us to perform significant maintenance work and to incur additional expenses. Based on the current implementation schedule, we expect to be in full compliance with the applicable requirements within the required time periods. Our failure to timely comply with these requirements has in the past, and could in the future, result in fines and other enforcement actions by the FAA or other regulators. The FAA also operates the air traffic control (ATC) system in the United States.

Additionally, the FAA recently implemented rules on pilot flight and duty times and finalized rules on minimum requirements for all pilots operating commercial aircraft. Both rules have increased our costs and reduced staffing flexibility, particularly during irregular operations. We are also working with the FAA on integrating US Airways and American into a single operating certificate under the American operations specifications.

Airlines are obligated to collect a federal excise tax, commonly referred to as the ticket tax, on domestic and international air transportation. Airlines collect the ticket tax, along with certain other U.S. and foreign taxes and user fees on air transportation, and pass along the collected amounts to the appropriate governmental agencies. Although these taxes are not our operating expenses, they represent an additional cost to our customers. See *Industry Regulation and Airport Access Security,* below for a discussion of passenger fees.

Most major U.S. airports impose a passenger facility charge (PFC). The ability of airports to increase this charge (and the ability of airlines to contest such increases) is restricted by federal legislation, DOT regulations

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and judicial decisions. With certain exceptions, air carriers pass these charges on to passengers. However, our ability to pass through the total amount of the PFC to our customers is subject to various factors, including market conditions and competitive factors. The current cap on the PFC is $4.50 per passenger, but the industry has faced repeated efforts in Congress to raise the cap to a higher level.

DOT consumer rules that took effect in 2010 require procedures for customer handling during long onboard delays, including additional reporting requirements for airlines, that have increased the cost of airline operations and reduced revenues. The DOT has been aggressively investigating alleged violations of these rules. In addition, the DOT finalized a second set of rules that further regulate airline interactions with passengers through the reservations process, at the airport and on board the aircraft. These rules require airlines to display all fares in an all in basis, with the price of the air travel and all taxes and government imposed fees rolled into the displayed fare. Enhanced disclosure of ancillary fees such as baggage fees is also required. Other rules apply to post-ticket purchase price increases and an expansion of tarmac delay regulations to international carriers. A third rulemaking that would further regulate consumer interaction with airlines is pending before DOT, with a final rule expected in 2015.

DOT has continued its efforts to further regulate airlines through increased data reporting requirements, expansion of the Air Carrier Access Act and greater oversight of the methods airlines use to describe and sell air transportation and other products and services. Each additional regulation or other form of regulatory oversight increases costs and adds greater complexity to our operation. In this environment, no assurance can be given that compliance with these new rules, anticipated rules or other forms of regulatory oversight from the Department of Justice (DOJ), the FAA or other regulatory bodies, will not have a material adverse effect on our business.

Among its regulatory responsibilities, DOT also enforces equal access to air transportation for disabled passengers. Over time, a number of carriers, including American and US Airways, have entered into consent orders with DOT over their handling of disabled passengers. DOT has been aggressive in prosecuting disability violations and seeks large penalties. We expect to see continued DOT emphasis in this area through both regulation and enforcement.

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

International

International air transportation is subject to extensive government regulation. Our 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 (EU), 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 and multilateral agreements among the U.S. and various foreign governments of countries we serve 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, Slots or other assets located abroad, or otherwise adversely affect our international operations. While the U.S. has worked to increase the number of countries with which open skies agreements are in effect, a number of important markets to us do not have open skies agreements, including China, Hong Kong and Mexico. In addition, at some foreign airports, an air carrier needs Slots and other facilities before the air carrier can introduce new service or increase existing service. The availability of Slots is not assured, and our inability to obtain and retain needed Slots and facilities could therefore inhibit our efforts to compete in certain international markets. See *Industry Regulation and Airport Access Airport Access and Operations,* below and Part I, Item 1A. Risk Factors *If we are unable to obtain and maintain adequate facilities and infrastructure throughout our system and, at some airports, adequate Slots, we may be unable to operate our existing flight schedule and to expand or change our route network in the future, which may have a material adverse impact on our operations* for additional information.

Security

The Aviation and Transportation Security Act (the Aviation Security Act) was enacted in November 2001. Under the Aviation Security Act, substantially all aspects of civil aviation security screening were federalized and a new Transportation Security Administration (TSA) under the DOT was created. The TSA was then transferred to the Department of Homeland Security pursuant to the Homeland Security Act of 2002. The Aviation Security Act, among other matters, mandates improved flight deck security; carriage of federal air marshals at no charge; enhanced security screening of passengers, baggage, cargo, mail, employees and vendors; enhanced security training; fingerprint-based background checks of all employees and vendor employees with access to secure areas of airports pursuant to regulations issued in connection with the Aviation Security Act; and the provision of certain passenger data to the U.S. Customs and Border Protection Agency. Funding for the TSA is provided by a combination of air carrier fees, passenger fees and taxpayer monies. A passenger security fee, which is collected by air carriers from their passengers, was set at a rate of $2.50 per flight segment but not more than $10 per round trip. However, the Bipartisan Budget Act of 2013 and the Consolidated Appropriations Act of 2014 increased the passenger security fee to $5.60 per one-way trip effective on July 11, 2014 on qualifying air transportation sold. On December 19, 2014, H.R. 5462 was signed into law, which set the round trip passenger security fee at not more than $11.20 per round trip on qualifying air transportation sold. The TSA continues to refine its guidance on how to calculate the round trip fee. The TSA s application of screening fees to one-way trips originating outside of the United States is currently being challenged by industry trade groups, the International Air Transport Association and Airlines for America, as outside the scope of the current legislation. In addition, an air carrier fee, or Aviation Security Infrastructure Fee (ASIF), was previously imposed with an annual cap equivalent to the amount that an individual air carrier paid in calendar year 2000 for the screening of passengers and property. The fee was repealed by federal legislation and the repeal went into effect on October 1, 2014.

Implementation of and compliance with the requirements of the Aviation Security Act have resulted and will continue to result in increased costs for us and our passengers and have resulted and will likely continue to result in service disruptions and delays. As a result of competitive pressure, we and other airlines may be unable to recover all of these additional security costs from passengers through increased fares. In addition, we cannot forecast what new security and safety requirements may be imposed in the future or the costs or financial impact of complying with any such requirements.

Airline Fares

Airlines are permitted to establish their own domestic fares without governmental regulation. DOT maintains authority over certain international fares, rates and charges, but applies this authority on a limited basis. In addition, international fares and rates are sometimes subject to the jurisdiction of the governments of the foreign countries which we serve. 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 and Operations

Domestically, any U.S. airline authorized by the DOT is generally free to operate scheduled passenger service between any two points within the U.S. and its territories, with the exception of certain airports that require landing and take-off rights and authorizations and other facilities (Slots), and certain airports that impose geographic limitations on operations or curtail operations based on the time of day. Operations at four major domestic airports and certain foreign airports we serve are regulated by governmental entities through allocations of Slots or similar regulatory mechanisms which limit the rights of carriers to conduct operations at those airports. Each Slot represents the authorization to land at or take off from the particular airport during a specified time period. In addition to Slot restrictions, operations at LaGuardia Airport in New York City and Ronald Reagan Washington National Airport (DCA) are also limited based on the stage length of the flight.

In the U.S., the FAA currently regulates the allocation of Slots, Slot exemptions, operating authorizations, or similar capacity allocation mechanisms at DCA in Washington, D.C. and three New York City airports: Newark Liberty, John F. Kennedy International Airport (JFK) and LaGuardia. There is currently a Notice of Proposed Rulemaking open for public comment concerning the management and use of Slots at the three New York City airports. Our operations at DCA and those New York City airports generally require the allocation of Slots or analogous regulatory authorities. Similarly, our operations at Frankfurt, London Heathrow, Paris and other international airports outside the U.S. are regulated by local Slot authorities pursuant to the International Air Transport Association s Worldwide Scheduling Guidelines (WSG) and applicable local law. We currently have sufficient Slots or analogous authorizations to operate our existing flights and we have generally, but not always, been able to obtain the rights to expand our operations and to change our schedules. For example, we would like to serve Tokyo s Haneda Airport but are unable to do so because of regulatory restrictions limiting the number of flights available. In addition, pursuant to the Merger clearance process in the EU, we were required to make available to other carriers certain Slots at London Heathrow. There is no assurance that we will be able to obtain sufficient slots or analogous authorizations in the future because, among other reasons, such allocations are often sought after by other airlines and are subject to changes in governmental policies.

In connection with the settlement of litigation relating to the Merger brought by the DOJ and certain states, we entered into settlement agreements that provided for certain asset divestitures, including 52 Slot pairs at DCA, 17 Slot pairs at LaGuardia and gates and related ground facilities necessary to operate those Slot pairs, and two gates at each of Boston Logan International Airport, Chicago O Hare International Airport (ORD), Dallas Love Field (DAL), Los Angeles International Airport and Miami International Airport. Our settlement agreements also require our airlines to maintain certain hub operations and continue to provide service to certain specified communities for limited periods of time. In addition, we entered into a related settlement with the DOT related to small community service from DCA. Further, as a consequence of the Merger clearance process in the EU, we made one pair of London Heathrow Slots available for use by another carrier and, along with our JBA partners, we made one pair of London Heathrow Slots available to competitors for use for up to six years in different markets.

Our ability to provide service can also be impaired at airports, such as Chicago O Hare and Los Angeles International, where the airport gate and other facilities are inadequate to accommodate all of the service that we would like to provide.

The Wright Amendment Reform Act of 2006 (the Wright Amendment Reform Act) reduced, and has now eliminated, all domestic non-stop geographic restrictions on operations at DAL. Although we held two gates at DAL, we did not operate from there in 2014 or 2013 and instead, operated solely at DFW. An element of our settlement of the antitrust litigation brought by the U.S. Department of Justice and certain states relating to the Merger included our divestiture of the two gates we held at DAL. Service from DAL competes with our hub at DFW Airport.

The DOT allows local airport authorities to implement procedures designed to abate special noise problems, provided such procedures do not unreasonably interfere with interstate or foreign commerce or the national transportation system. Certain locales, including Boston, Washington D.C., Chicago, San Diego and San Francisco, among others, have established airport restrictions to limit noise, including restrictions on aircraft types to be used and limits on the number of hourly or daily operations or the time of these operations. In some instances, these restrictions have caused curtailments in service or increases in operating costs, and these restrictions could limit the ability of our airline subsidiaries to expand their operations at the affected airports. Authorities at other airports may adopt similar noise regulations. We are continuing to see an increase in these issues throughout the country. See *Industry Regulation and Airport Access Environmental Matters*, below.

Civil Reserve Air Fleet

We participate in the Civil Reserve Air Fleet (CRAF) program, which is a voluntary program administered by the U.S. Air Force Air Mobility Command. The General Services Administration of the U.S. Government requires that airlines participate in the CRAF program in order to receive U.S. Government business. We are reimbursed at compensatory rates if aircraft are activated under the CRAF program or when participating in Department of Defense business. If a substantial number of our aircraft are activated for operation under the CRAF program at a time of war or other national emergency, our business operations and financial condition may be adversely affected. In January 2014, the U.S. Air Force proposed a radical restructuring of the CRAF program to take effect in October 2015. We do not support the new proposals as they could adversely affect our business and, together with other industry participants, we are working with the U.S. Air Force to address our concerns.

Environmental Matters

The airline industry is subject to various laws and government regulations concerning environmental matters in the U.S. and other countries. U.S. federal laws that have a particular impact on our operations include the Airport Noise and Capacity Act of 1990 (ANCA), the Clean Air Act (CAA), 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). The U.S. Environmental Protection Agency (EPA) and other federal agencies have been authorized to promulgate regulations that have an impact on our 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 laws and regulations 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 we have had sufficient scheduling flexibility to accommodate local noise restrictions imposed to date, our operations could be adversely affected if locally-imposed regulations become more restrictive or widespread.

Many aspects of our operations are subject to increasingly stringent environmental regulations and concerns about climate change and greenhouse gas (GHG) emissions. For example, the EU has established the Emissions Trading Scheme (ETS) to regulate GHG emissions in the EU. The EU adopted a directive in 2008 under which each EU member state is required to extend the ETS to aviation operations. This directive would have required us, beginning in 2012, to annually submit emission allowances in order to operate flights to and from airports in the European Economic Area (EEA), including flights between the U.S. and EU member states. However, in an effort to allow the International Civil Aviation Organization (ICAO) time to propose an alternate scheme to manage global aviation emissions, in April 2013 the EU suspended for one year the ETS application to flights entering and departing the EEA, limiting its application, for flights flown in 2012, to intra-EEA flights only. In October 2013, the ICAO Assembly adopted a resolution calling for the development through ICAO of a global, market-based scheme for aviation GHG emissions, to be finalized in 2016 and implemented in 2020. Subsequently, the EU has amended the EU ETS so that the monitoring, reporting and submission of allowances for aviation GHG emissions will continue to be limited to only intra-EEA flights through 2016, at which time the EU will evaluate the progress made by ICAO and determine what, if any, measures to take related to aviation GHG emissions from 2017 onwards. The U.S. enacted legislation in November 2012 which encourages the DOT

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to seek an international solution through ICAO and that will allow the U.S. Secretary of Transportation to prohibit U.S. airlines from participating in the ETS. Ultimately, the scope and application of ETS or other emissions trading schemes to our operations, now or in the near future, remains uncertain.

Similarly, within the U.S., there is an increasing trend toward regulating GHG emissions directly under the CAA. In response to a 2012 ruling by the U.S. Court of Appeals District of Columbia Circuit requiring the EPA to make a final determination on whether aircraft GHG emissions cause or contribute to air pollution, which may reasonably be anticipated to endanger public health or welfare, the EPA announced in September 2014 that it is in the process of making a determination regarding aircraft GHG emissions and anticipates proposing an endangerment finding by May 2015. If the EPA makes a positive endangerment finding, the EPA is obligated under the CAA to set GHG emission standards for aircraft. Several states are also considering or have adopted initiatives to regulate emissions of GHGs, primarily through the planned development of GHG emissions inventories and/or regional GHG cap and trade programs. These regulatory efforts, both internationally and in the U.S. at the federal and state levels, are still developing, and we cannot yet determine what the final regulatory programs or their impact will be in the U.S., the EU or in other areas in which we do business. Depending on the scope of such regulation, certain of our facilities and operations may be subject to additional operating and other permit requirements, potentially resulting in increased operating costs.

The environmental laws to which we are subject include those related to responsibility for potential soil and groundwater contamination. We are conducting investigation and remediation activities to address soil and groundwater conditions at several sites, including airports and maintenance bases. We anticipate that the ongoing costs of such activities will not have a material impact on our operations. In addition, we have been named as a potentially responsible party (PRP) at certain Superfund sites. Our alleged volumetric contributions at such sites are relatively small in comparison to total contributions of all PRPs; we anticipate that any future payments of costs at such sites will not have a material impact on our operations.

Future Regulatory Developments

Future regulatory developments and actions could affect operations and increase operating costs for the airline industry, including our airline subsidiaries. See Part I, Item 1A. Risk Factors *If we are unable to obtain and maintain adequate facilities and infrastructure throughout our system and, at some airports, adequate Slots, we may be unable to operate our existing flight schedule and to expand or change our route network in the future, which may have a material adverse impact on our operations,* *Our business is subject to extensive government regulation, which may result in increases in our costs, disruptions to our operations, limits on our operating flexibility, reductions in the demand for air travel, and competitive disadvantages* *and* *We are subject to many forms of environmental regulation and may incur substantial costs as a result* for additional information.

Employees and Labor Relations

The airline business is labor intensive. In 2014, salaries, wages and benefits were one of our largest expenses and represented approximately 25% of our operating expenses. The table below presents our approximate number of active full-time equivalent employees as of December 31, 2014.

	American	US Airways	Wholly-owned Regional Carriers	Total
Pilots	8,600	4,400	3,200	16,200
Flight attendants	15,900	7,700	1,800	25,