

Edgar Filing: American Airlines Group Inc. - Form 10-Q

American Airlines Group Inc.
Form 10-Q
July 26, 2018

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended June 30, 2018
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)
Commission file number 1-2691	

American
Airlines,
Inc.
(Exact
name of
registrant
as
specified
in its
charter)

Delaware	13-1502798
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4333 Amon Carter Blvd., Fort Worth, Texas 76155	(817) 963-1234

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(Address of principal executive offices, including zip code) (Registrant's telephone number, including area code)
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 No

American Airlines, Inc. Yes No

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

American Airlines Group Inc. Yes No

American Airlines, Inc. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

American Airlines Group Inc.	Large Accelerated Filer	Accelerated Filer	Non-accelerated Filer	Smaller Reporting Company	Emerging Growth Company
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American Airlines, Inc.	Large Accelerated Filer	Accelerated Filer	Non-accelerated Filer	Smaller Reporting Company	Emerging Growth Company
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If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

American Airlines Group Inc.

American Airlines, Inc.

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

American Airlines Group Inc. Yes No

American Airlines, Inc. Yes No

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 No

American Airlines, Inc. Yes No

As of July 20, 2018, there were 460,509,216 shares of American Airlines Group Inc. common stock outstanding.

As of July 20, 2018, there were 1,000 shares of American Airlines, Inc. common stock outstanding, all of which were held by American Airlines Group Inc.

American Airlines Group Inc.
 American Airlines, Inc.
 Form 10-Q
 Quarterly Period Ended June 30, 2018
 Table of Contents

	Page
PART I: FINANCIAL INFORMATION	
Item 1A. <u>Condensed Consolidated Financial Statements of American Airlines Group Inc.</u>	<u>4</u>
<u>Condensed Consolidated Statements of Operations</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>5</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>7</u>
<u>Notes to the Condensed Consolidated Financial Statements</u>	<u>8</u>
Item 1B. <u>Condensed Consolidated Financial Statements of American Airlines, Inc.</u>	<u>23</u>
<u>Condensed Consolidated Statements of Operations</u>	<u>23</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>24</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>25</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>26</u>
<u>Notes to the Condensed Consolidated Financial Statements</u>	<u>27</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>42</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>71</u>
Item 4. <u>Controls and Procedures</u>	<u>72</u>
PART II: OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	<u>73</u>
Item 1A. <u>Risk Factors</u>	<u>74</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>93</u>
Item 6. <u>Exhibits</u>	<u>93</u>
<u>SIGNATURES</u>	<u>96</u>

This report is filed by American Airlines Group Inc. (formerly named AMR Corporation) (AAG) and its wholly-owned subsidiary American Airlines, Inc. (American). References in this report to “we,” “us,” “our,” the “Company” and similar terms refer to AAG and its consolidated subsidiaries. “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, Inc. (US Airways Group) on December 9, 2013. References to “US Airways Group” and “US Airways,” a subsidiary of US Airways Group, represent the entities during the period of time prior to the dissolution of those entities in connection with AAG’s internal corporate restructuring on December 30, 2015. References in this report to “mainline” refer to the operations of American only and exclude regional operations.

Note Concerning Forward-Looking Statements

Certain of the statements contained in this report should be considered forward-looking statements within the meaning of the Securities Act of 1933, as amended (the Securities Act), the Securities Exchange Act of 1934, as amended (the Exchange Act), and the Private Securities Litigation Reform Act of 1995. These forward-looking statements may be identified by words such as “may,” “will,” “expect,” “intend,” “anticipate,” “believe,” “estimate,” “plan,” “project,” “could,” “continue,” “seek,” “target,” “guidance,” “outlook,” “if current trends continue,” “optimistic,” “forecast” and other similar words. Forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations, intentions, estimates and strategies for the future, and other statements that are not historical facts. 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 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations, Part II, Item 1A. Risk Factors and other risks and uncertainties listed from time to time in our filings with the Securities and Exchange Commission (the SEC).

All of the forward-looking statements are qualified in their entirety by reference to the factors discussed in Part II, 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 report or as of the dates indicated in the statements.

PART I: FINANCIAL INFORMATION

This report on Form 10-Q is filed by both AAG and American and includes the Condensed Consolidated Financial Statements of each company in Item 1A and Item 1B, respectively.

3

ITEM 1A. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES GROUP INC.

AMERICAN AIRLINES GROUP INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except shares and per share amounts)(Unaudited)

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2018	2017	2018	2017
Operating revenues:				
Passenger	\$10,674	\$10,353	\$20,154	\$19,350
Cargo	261	219	488	410
Other	708	655	1,402	1,287
Total operating revenues	11,643	11,227	22,044	21,047
Operating expenses:				
Aircraft fuel and related taxes	2,103	1,510	3,866	2,912
Salaries, wages and benefits	3,093	3,037	6,111	5,898
Regional expenses	1,793	1,620	3,490	3,194
Maintenance, materials and repairs	505	495	973	987
Other rent and landing fees	490	452	952	892
Aircraft rent	305	294	609	589
Selling expenses	385	376	742	694
Depreciation and amortization	463	418	908	822
Special items, net	152	202	347	320
Other	1,326	1,224	2,587	2,403
Total operating expenses	10,615	9,628	20,585	18,711
Operating income	1,028	1,599	1,459	2,336
Nonoperating income (expense):				
Interest income	30	24	55	45
Interest expense, net	(266)	(263)	(530)	(520)
Other income (expense), net	(23)	29	58	63
Total nonoperating expense, net	(259)	(210)	(417)	(412)
Income before income taxes	769	1,389	1,042	1,924
Income tax provision	203	525	289	720
Net income	\$566	\$864	\$753	\$1,204
Earnings per common share:				
Basic	\$1.22	\$1.76	\$1.61	\$2.42
Diluted	\$1.22	\$1.75	\$1.60	\$2.41
Weighted average shares outstanding (in thousands):				
Basic	463,533	490,818	467,915	497,360
Diluted	464,618	492,965	469,608	500,381
Cash dividends declared per common share	\$0.10	\$0.10	\$0.20	\$0.20

See accompanying notes to condensed consolidated financial statements.

AMERICAN AIRLINES GROUP INC.
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (In millions)(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$566	\$864	\$753	\$1,204
Other comprehensive loss, net of tax:				
Pension, retiree medical and other postretirement benefits	(17)	(15)	(33)	(29)
Investments	2	—	—	—
Total other comprehensive loss, net of tax	(15)	(15)	(33)	(29)
Total comprehensive income	\$551	\$849	\$720	\$1,175

See accompanying notes to condensed consolidated financial statements.

AMERICAN AIRLINES GROUP INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (In millions, except shares and par value)

	June 30, 2018	December 31, 2017
	(Unaudited)	
ASSETS		
Current assets		
Cash	\$293	\$ 295
Short-term investments	4,381	4,771
Restricted cash and short-term investments	183	318
Accounts receivable, net	1,941	1,752
Aircraft fuel, spare parts and supplies, net	1,522	1,359
Prepaid expenses and other	856	651
Total current assets	9,176	9,146
Operating property and equipment		
Flight equipment	40,854	40,318
Ground property and equipment	8,903	8,267
Equipment purchase deposits	1,392	1,217
Total property and equipment, at cost	51,149	49,802
Less accumulated depreciation and amortization	(16,725)	(15,646)
Total property and equipment, net	34,424	34,156
Other assets		
Goodwill	4,091	4,091
Intangibles, net of accumulated amortization of \$643 and \$622, respectively	2,157	2,203
Deferred tax asset	1,399	1,816
Other assets	1,375	1,373
Total other assets	9,022	9,483
Total assets	\$52,622	\$ 52,785
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Current maturities of long-term debt and capital leases	\$2,213	\$ 2,554
Accounts payable	2,053	1,688
Accrued salaries and wages	1,299	1,672
Air traffic liability	5,512	4,042
Loyalty program liability	3,191	3,121
Other accrued liabilities	2,401	2,281
Total current liabilities	16,669	15,358
Noncurrent liabilities		
Long-term debt and capital leases, net of current maturities	21,863	22,511
Pension and postretirement benefits	7,118	7,497
Loyalty program liability	5,484	5,701
Other liabilities	2,357	2,498
Total noncurrent liabilities	36,822	38,207
Commitments and contingencies		
Stockholders' equity (deficit)		
Common stock, \$0.01 par value; 1,750,000,000 shares authorized, 460,502,096 shares issued and outstanding at June 30, 2018; 475,507,887 shares issued and outstanding at December 31,	5	5

2017

Additional paid-in capital	4,923	5,714
Accumulated other comprehensive loss	(5,187)	(5,154)
Accumulated deficit	(610)	(1,345)
Total stockholders' deficit	(869)	(780)
Total liabilities and stockholders' equity (deficit)	\$52,622	\$ 52,785

See accompanying notes to condensed consolidated financial statements.

6

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

	Six Months Ended June 30, 2018		2017	
Net cash provided by operating activities	\$ 2,883		\$ 3,938	
Cash flows from investing activities:				
Capital expenditures and aircraft purchase deposits	(1,731)	)	(3,194))
Proceeds from sale of property and equipment and sale-leaseback transactions	258		313	
Purchases of short-term investments	(1,184)	)	(3,829))
Sales of short-term investments	1,579		3,373	
Decrease in restricted short-term investments	43		73	
Net cash used in investing activities	(1,035)	)	(3,264))
Cash flows from financing activities:				
Proceeds from issuance of long-term debt	892		1,625	
Payments on long-term debt and capital leases	(1,885)	)	(1,101))
Deferred financing costs	(28)	)	(39))
Treasury stock repurchases	(837)	)	(1,013))
Dividend payments	(94)	)	(102))
Other financing activities	11		9	
Net cash used in financing activities	(1,941)	)	(621))
Net increase (decrease) in cash and restricted cash	(93)	)	53)
Cash and restricted cash at beginning of period	398		436	
Cash and restricted cash at end of period	\$ 305		\$ 489	

(a)

Supplemental
information:

Interest paid, net	542	516
Income taxes paid	13	9

(a) The following table provides a reconciliation of cash and restricted cash to amounts reported within the condensed consolidated balance sheets:

Cash	\$293	\$386
Restricted cash included in restricted cash and short-term investments	12	103
Total cash and restricted cash	\$305	\$489

See accompanying notes to condensed consolidated financial statements.

7

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES GROUP INC.

(Unaudited)

1. Basis of Presentation and Recent Accounting Pronouncements

(a) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of American Airlines Group Inc. (we, us, our and similar terms, or AAG) should be read in conjunction with the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2017. The accompanying unaudited condensed consolidated financial statements include the accounts of AAG and its wholly-owned subsidiaries. AAG's principal subsidiary is American Airlines, Inc. (American). All significant intercompany transactions have been eliminated. On December 9, 2013, a subsidiary of AMR Corporation (AMR) merged with and into US Airways Group, Inc. (US Airways Group), a Delaware corporation, which survived as a wholly-owned subsidiary of AAG, and AAG emerged from Chapter 11 (the Merger). Upon closing of the Merger and emergence from Chapter 11, AMR changed its name to American Airlines Group Inc. On December 30, 2015, in order to simplify AAG's internal corporate structure, US Airways Group merged with and into AAG, with AAG as the surviving corporation. Immediately thereafter, US Airways, Inc. (US Airways), a wholly-owned subsidiary of US Airways Group, merged with and into American, with American as the surviving corporation.

Management believes that all adjustments necessary for the fair presentation of results, consisting of normally recurring items, have been included in the unaudited condensed consolidated financial statements for the interim periods presented. The preparation of financial statements in accordance with accounting principles generally accepted in the United States (GAAP) requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The most significant areas of judgment relate to passenger revenue recognition, impairment of goodwill, impairment of long-lived and intangible assets, the loyalty program, valuation allowance for deferred tax assets, as well as pension and retiree medical and other postretirement benefits.

(b) Recent Accounting Pronouncements

Standards Effective for 2018 Reporting Periods

Effective January 1, 2018, we adopted the accounting pronouncements described below.

ASU 2014-09: Revenue from Contracts with Customers (Topic 606) (the New Revenue Standard)

The New Revenue Standard applies to all companies that enter into contracts with customers to transfer goods or services. We adopted the New Revenue Standard using the full retrospective method, which resulted in the recast of prior reporting periods.

The adoption of the New Revenue Standard impacted our accounting for outstanding mileage credits earned through travel by AAdvantage loyalty program members. There was no change in accounting for sales of mileage credits to co-branded card or other partners. Prior to the adoption of the New Revenue Standard, we used the incremental cost method to account for the portion of our loyalty program liability related to mileage credits earned through travel, which were valued based on the estimated incremental cost of carrying one additional passenger. The New Revenue Standard required us to change our policy to the deferred revenue method and apply a relative selling price approach whereby a portion of each passenger ticket sale attributable to mileage credits earned is deferred and recognized in passenger revenue upon future mileage redemption. The value of the earned mileage credits is materially greater under the deferred revenue method than the value attributed to these mileage credits under the incremental cost method.

The New Revenue Standard also required certain reclassifications, principally the reclassification of certain ancillary revenues previously classified and reported as other revenue to passenger revenue and as applicable to cargo revenue. Additionally, the New Revenue Standard required a gross presentation on the face of our condensed consolidated statement of operations for certain revenues and expenses that had previously been presented on a net basis.

See recast condensed consolidated statement of operations data for the three and six months ended June 30, 2017 and recast consolidated balance sheet data as of December 31, 2017 presented below for the effects of adoption.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES GROUP INC.

(Unaudited)

ASU 2017-07: Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (the New Retirement Standard)

The New Retirement Standard required all components of our net periodic benefit cost (income), with the exception of service cost, previously reported within operating expenses as salaries, wages and benefits, to be reclassified and reported within nonoperating income (expense). The New Retirement Standard was applied retrospectively, which resulted in the recast of each prior reporting period presented. The adoption of the New Retirement Standard had no impact on pre-tax income or net income reported.

See recast condensed consolidated statement of operations data for the three and six months ended June 30, 2017 presented below for the effects of adoption.

ASU 2016-01: Financial Instruments - Overall (Subtopic 825-10)

This ASU made several modifications to Subtopic 825-10, including the elimination of the available-for-sale classification of equity investments, and it required equity investments with readily determinable fair values to be measured at fair value with changes in fair value recognized in net income. This standard was adopted prospectively as of January 1, 2018 and resulted in a \$77 million cumulative effect adjustment credit to retained earnings related to our investment in China Southern Airlines Company Limited (China Southern Airlines), which was previously accounted for under the cost method.

ASU 2016-18: Statement of Cash Flows (Topic 230): Restricted Cash

This ASU required that the change in total cash, cash at beginning of period and cash at end of period on the statement of cash flows include restricted cash and restricted cash equivalents and also requires companies who report cash and restricted cash separately on the balance sheet to reconcile those amounts to the statement of cash flows. This standard was applied retrospectively, which resulted in the recast of the prior reporting period in the statement of cash flows. For the six months ended June 30, 2018 and 2017, \$12 million and \$103 million, respectively, of restricted cash is included in the total of cash and restricted cash balance at the end of period. A reconciliation of cash and restricted cash from our condensed consolidated statement of cash flows to the amounts reported within our condensed consolidated balance sheet is also included in a table below our condensed consolidated statement of cash flows.

Impacts to Prior Period Results

The effects of adoption of the New Revenue Standard and New Retirement Standard to our condensed consolidated statement of operations for the three and six months ended June 30, 2017 were as follows (in millions, except per share amounts):

Three Months Ended June 30, 2017	As Reported	New Revenue Standard Deferred Revenue Method	New Retirement Standard Reclassifications	As Recast
Operating revenues:				
Passenger	\$ 9,582	\$ 98 \$ 673	\$ —	\$ 10,353
Cargo	196	— 23	—	219
Other	1,327	— (672)	—	655
Total operating revenues	11,105	98 24	—	11,227
Total operating expenses	9,570	— 24	34	9,628
Operating income	1,535	98 —	(34)	1,599
Total nonoperating expense, net	(244)	— —	34	(210)
Income before income taxes	1,291	98 —	—	1,389
Income tax provision	488	37 —	—	525
Net income	\$ 803	\$ 61 \$ —	\$ —	\$ 864

Diluted earnings per common share \$ 1.63

\$1.75

9

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES GROUP INC.

(Unaudited)

Six Months Ended June 30, 2017	As Reported	New Revenue Standard Deferred Revenue Method	Reclassifications	New Retirement Standard Reclassifications	As Recast
Operating revenues:					
Passenger	\$17,737	\$268	\$ 1,345	\$ —	\$19,350
Cargo	368	—	42	—	410
Other	2,624	—	(1,337)	—	1,287
Total operating revenues	20,729	268	50	—	21,047
Total operating expenses	18,593	—	50	68	18,711
Operating income	2,136	268	—	(68)	2,336
Total nonoperating expense, net	(480)	—	—	68	(412)
Income before income taxes	1,656	268	—	—	1,924
Income tax provision	619	101	—	—	720
Net income	\$1,037	\$167	\$ —	\$ —	\$1,204
Diluted earnings per common share	\$2.07				\$2.41

The effects of adoption of the New Revenue Standard to our December 31, 2017 consolidated balance sheet are as follows (in millions):

	As Reported	New Revenue Standard	As Recast
Deferred tax asset	\$ 427	\$ 1,389	\$1,816
Air traffic liability	3,978	64	4,042
Current loyalty program liability	2,791	330	3,121
Noncurrent loyalty program liability	—	5,701	5,701
Total stockholders' equity (deficit)	3,926	(4,706)	(780)

Standards Effective for 2019 Reporting Periods

ASU 2016-02: Leases (Topic 842) (the New Lease Standard)

The New Lease Standard requires lessees to recognize a lease liability and a right-of-use asset on the balance sheet and aligns many of the underlying principles of the new lessor model with those in the New Revenue Standard. The New Lease Standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. We will adopt the New Lease Standard effective January 1, 2019. We are currently evaluating how the adoption of the New Lease Standard will impact our consolidated financial statements. Interpretations are on-going and could have a material impact on our implementation. Currently, we expect that the adoption of the New Lease Standard will have a material impact on our consolidated balance sheet due to the recognition of right-of-use assets and lease liabilities principally for certain leases currently accounted for as operating leases.

ASU 2018-02: Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

This ASU provides financial statement preparers with an option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings due to the U.S. federal corporate income tax rate change as a result of H.R. 1, the 2017 Tax Cuts and Jobs Act (the 2017 Tax Act). The amount of the reclassification is the difference between the amount initially charged or credited directly to other comprehensive income at the previously enacted U.S. federal corporate income tax rate that remains in accumulated other comprehensive income and the amount that

would have been charged or credited directly to other comprehensive income using the newly enacted U.S. federal corporate income tax rate, excluding the effect of any valuation allowance previously charged to income from continuing operations. This standard is effective for interim and annual reporting periods beginning after December 15, 2018, and early adoption is permitted. We expect we will adopt this standard effective January 1, 2019. The adoption of the standard may impact tax amounts stranded in accumulated other comprehensive income related to our pension and retiree medical and other postretirement benefit plans.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES GROUP INC.

(Unaudited)

2. Special Items, Net

Special items, net in the condensed consolidated statements of operations consisted of the following expenses (income) (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Fleet restructuring expenses ⁽¹⁾	\$83	\$48	\$166	\$111
Merger integration expenses ⁽²⁾	60	68	120	130
Mark-to-market adjustments on bankruptcy obligations ⁽³⁾	(57)	38	(56)	20
Intangible asset impairment ⁽⁴⁾	26	—	26	—
Litigation settlement	5	—	45	—
Labor contract expenses	—	45	13	45
Other operating charges, net	35	3	33	14
Mainline operating special items, net	152	202	347	320
Regional operating special items, net	—	1	—	4
Mark-to-market adjustments on equity investments ⁽⁵⁾	66	—	66	—
Debt refinancing and extinguishment charges	14	2	14	7
Nonoperating special items, net	80	2	80	7
Income tax special items, net ⁽⁶⁾	18	—	40	—

(1) Fleet restructuring expenses principally included the acceleration of depreciation and impairments for aircraft and related equipment grounded or expected to be grounded earlier than planned.

(2) Merger integration expenses included costs associated with our remaining integration projects, principally our flight attendant, human resources, payroll and technical operations integrations.

(3) Bankruptcy obligations will ultimately be settled in shares of our common stock. Accordingly, fluctuations in our stock price result in mark-to-market adjustments to these obligations.

(4) Intangible asset impairment includes a non-cash charge to write-off our Brazil route authority as a result of ratification of the U.S.-Brazil open skies agreement.

(5) Mark-to-market adjustments on equity investments principally relate to unrealized losses on our investment in China Southern Airlines.

(6) Income tax special items for the three months ended June 30, 2018 included an \$18 million charge related to an international income tax matter. Additionally, the six months ended June 30, 2018 included a \$22 million charge to income tax expense to establish a required valuation allowance related to our estimated refund for Alternative Minimum Tax (AMT) credits.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES GROUP INC.

(Unaudited)

3. Earnings Per Common Share

The following table sets forth the computation of basic and diluted earnings per common share (EPS) (in millions, except share and per share amounts):

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2017	
Basic EPS:				
Net income	\$ 566	\$ 864	\$ 753	\$ 1,204
Weighted average common shares outstanding (in thousands)	463,534	490,818	467,914	497,360
Basic EPS	\$ 1.22	\$ 1.76	\$ 1.61	\$ 2.42
Diluted EPS:				
Net income for purposes of computing diluted EPS	\$ 566	\$ 864	\$ 753	\$ 1,204
Share computation for diluted EPS (in thousands):				
Basic weighted average common shares outstanding	463,534	490,818	467,914	497,360
Dilutive effect of stock awards	1,085	2,147	1,693	3,021
Diluted weighted average common shares outstanding	464,619	492,965	469,608	500,381
Diluted EPS	\$ 1.22	\$ 1.75	\$ 1.60	\$ 2.41
Restricted stock unit awards excluded from the calculation of diluted EPS because inclusion would be antidilutive (in thousands)	1,690	837	845	616

4. Share Repurchase Programs and Dividends

In April 2018, we announced that our Board of Directors authorized a new \$2.0 billion share repurchase program that expires on December 31, 2020. Since July 2014, our Board of Directors has approved seven share repurchase programs aggregating \$13.0 billion of authority. As of June 30, 2018, there was \$1.7 billion remaining authority to repurchase shares under our new \$2.0 billion share repurchase program. Share repurchases under our repurchase programs may be made through a variety of methods, which may include open market purchases, privately negotiated transactions, block trades or accelerated share repurchase transactions. Any such repurchases will be made from time to time subject to market and economic conditions, applicable legal requirements and other relevant factors. We are not obligated to repurchase any specific number of shares and our repurchase of common stock may be limited, suspended or discontinued at any time at our discretion.

During the three months ended June 30, 2018, we repurchased 8.2 million shares of AAG common stock for \$350 million at a weighted average cost per share of \$42.81. During the six months ended June 30, 2018, we repurchased 16.6 million shares of AAG common stock for \$800 million at a weighted average cost per share of \$48.15. Since the inception of our share repurchase programs in July 2014, we have repurchased 278.9 million shares of AAG common stock for \$11.3 billion at a weighted average cost per share of \$40.69.

Our Board of Directors declared a cash dividend of \$0.10 per share for stockholders of record as of May 8, 2018 and paid on May 22, 2018, totaling \$46 million. For the first six months of 2018, we paid total quarterly cash dividends of \$94 million.

5. Revenue Recognition

(a) Revenue

Effective January 1, 2018, we adopted the New Revenue Standard using the full retrospective method, which resulted in the recast of prior reporting periods. See Recent Accounting Pronouncements in Note 1(b) above for effects of adoption on our condensed consolidated statement of operations for the three and six months ended June 30, 2017 and

on our consolidated balance sheet as of December 31, 2017. Under the New Revenue Standard, revenue is recognized upon transfer of control of promised products or services to our customers in an amount that reflects the consideration we expect to receive in exchange for those products or services.

12

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES GROUP INC.

(Unaudited)

The following are the significant categories comprising our reported operating revenues (in millions):

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
Passenger revenue:				
Passenger travel	\$9,877	\$9,600	\$18,507	\$17,795
Loyalty revenue - travel ⁽¹⁾	797	753	1,647	1,555
Total passenger revenue	10,674	10,353	20,154	19,350
Cargo	261	219	488	410
Other:				
Loyalty revenue - marketing services	582	533	1,152	1,047
Other revenue	126	122	250	240
Total other revenue	708	655	1,402	1,287
Total operating revenues	\$11,643	\$11,227	\$22,044	\$21,047

Loyalty revenue included in passenger revenue is principally comprised of mileage credit redemptions for air travel ⁽¹⁾ awards from mileage credits earned through travel and mileage credits sold to co-branded card and other partners.

See discussion of Loyalty Revenue below.

The following is our total passenger revenue by geographic region (in millions):

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
Domestic	\$7,685	\$7,578	\$14,648	\$14,359
Latin America	1,284	1,209	2,729	2,440
Atlantic	1,298	1,182	1,967	1,806
Pacific	407	384	810	745
Total passenger revenue	\$10,674	\$10,353	\$20,154	\$19,350

We attribute passenger revenue by geographic region based upon the origin and destination of each flight segment.

Passenger Revenue

We recognize all revenues generated from transportation on American and our regional flights operated under the brand name American Eagle, including associated baggage fees, ticketing change fees and other inflight services, as passenger revenue when transportation is provided. Ticket and other related sales for transportation that has not yet been provided are initially deferred and recorded as air traffic liability on the condensed consolidated balance sheets. The air traffic liability principally represents tickets sold for future travel dates and estimated future refunds and exchanges of tickets sold for past travel dates.

The majority of tickets sold are nonrefundable. A small percentage of tickets, some of which are partially used tickets, expire unused. Due to complex pricing structures, refund and exchange policies, and interline agreements with other airlines, certain amounts are recognized in passenger revenue using estimates regarding both the timing of the revenue recognition and the amount of revenue to be recognized. These estimates are generally based on the analysis of our historical data. We have consistently applied this accounting method to estimate revenue from forfeited tickets at the date of travel. Estimated future refunds and exchanges included in the air traffic liability are routinely evaluated based on subsequent activity to validate the accuracy of our estimates. Any adjustments resulting from periodic evaluations of the estimated air traffic liability are included in passenger revenue during the period in which the evaluations are completed.

Various taxes and fees assessed on the sale of tickets to end customers are collected by us as an agent and remitted to taxing authorities. These taxes and fees have been presented on a net basis in the accompanying condensed consolidated statements of operations and recorded as a liability until remitted to the appropriate taxing authority.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES GROUP INC.

(Unaudited)

Loyalty Revenue

We currently operate the loyalty program, AAdvantage. This program awards mileage credits to passengers who fly on American, any oneworld airline or other partner airlines, or by using the services of other program participants, such as the Citi and Barclays US co-branded cards, hotels and car rental companies. Mileage credits can be redeemed for travel on American and other participating partner airlines as well as other non-air travel awards such as hotels and rental cars. For mileage credits earned by AAdvantage loyalty program members, we apply the deferred revenue method in accordance with the New Revenue Standard.

Mileage credits earned through travel

For mileage credits earned through travel, we apply a relative selling price approach whereby the total amount collected from each passenger ticket sale is allocated between the air transportation and the mileage credits earned. The portion of each passenger ticket sale attributable to mileage credits earned is initially deferred and then recognized in passenger revenue when mileage credits are redeemed and transportation is provided. The estimated selling price of mileage credits is determined using an equivalent ticket value approach which uses historical data, including award redemption patterns by geographic region and class of service as well as similar fares as those used to settle award redemptions. The estimated selling price of miles is adjusted for an estimate of miles that will not be redeemed based on historical redemption patterns.

Mileage credits sold to co-branded cards and other partners

We sell mileage credits to participating airline partners and non-airline business partners including our co-branded card partners, under contracts with terms extending generally for one to nine years. Sales of mileage credits to non-airline business partners are comprised of two components, transportation and marketing. We allocate the consideration received from the sale of mileage credits based on the relative selling price of each product or service delivered.

Our most significant partner agreements are our co-branded card program agreements with Citi and Barclays US that we entered into in 2016. We identified the following revenue elements in these co-branded card agreements: the transportation component; and the use of intellectual property including the American brand and access to loyalty program member lists, which is the predominant element in the agreements, as well as advertising (collectively, the marketing component). Accordingly, we recognize the marketing component in other revenue in the period of the mileage sale following the sales-based royalty method.

The transportation component represents the estimated selling price of future travel awards and is determined using the same equivalent ticket value approach described above. The portion of each mileage credit sold attributable to transportation is initially deferred and then recognized in passenger revenue when mileage credits are redeemed and transportation is provided.

For the portion of our outstanding mileage credits that we estimate will not be redeemed, we recognize the associated value proportionally as the remaining mileage credits are redeemed. Our estimates are based on analysis of historical redemptions.

Cargo Revenue

Cargo revenue is recognized when we provide the transportation.

Other Revenue

Other revenue includes revenue associated with our loyalty program, which is comprised principally of the marketing component of mileage sales to co-branded card and other partners and other marketing related payments. For the three and six months ended June 30, 2018, loyalty revenue included in other revenue was \$582 million and \$1.2 billion, respectively. For the three and six months ended June 30, 2017, loyalty revenue included in other revenue was \$533 million and \$1.0 billion, respectively. The accounting and recognition for the loyalty program marketing services are discussed above in Loyalty Revenue. The remaining amounts included within other revenue relate to airport clubs, advertising and vacation-related services.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES GROUP INC.

(Unaudited)

(b) Contract Balances

Our significant contract liabilities are comprised of (1) outstanding loyalty program mileage credits that may be redeemed for future travel and other non-air travel awards, reported as loyalty program liability on our condensed consolidated balance sheet and (2) ticket sales for transportation that has not yet been provided, reported as air traffic liability on our condensed consolidated balance sheet.

	June 30, December 31,	
	2018	2017
	(In millions)	
Loyalty program liability	\$8,675	\$ 8,822
Air traffic liability	5,512	4,042
Total	\$14,187	\$ 12,864

The balance of the loyalty program liability fluctuates based on seasonal patterns, which impact the volume of mileage credits issued through travel or sold to co-branded card and other partners (deferral of revenue) and mileage credits redeemed (recognition of revenue). Changes in loyalty program liability are as follows (in millions):

Balance at December 31, 2017	\$8,822
Deferral of revenue	1,586
Recognition of revenue ⁽¹⁾	(1,733)
Balance at June 30, 2018 ⁽²⁾	\$8,675

Principally relates to revenue recognized from the redemption of mileage credits for both air and non-air travel awards. Mileage credits are combined in one homogenous pool and are not separately identifiable. As such, the revenue is comprised of miles that were part of the loyalty program deferred revenue balance at the beginning of the period as well as miles that were issued during the period.

Mileage credits can be redeemed at any time and do not expire as long as that AAdvantage member has any type of qualifying activity at least every 18 months. As of June 30, 2018, our current loyalty program liability was \$3.2 billion and represents our current estimate of revenue expected to be recognized in the next twelve months based on historical trends, with the balance reflected in long-term loyalty program liability expected to be recognized as revenue in periods thereafter.

The air traffic liability principally represents tickets sold for future travel dates and estimated future refunds and exchanges of tickets sold for past travel dates. The balance in our air traffic liability also fluctuates with seasonal travel patterns. The contract duration of passenger tickets is one year. Accordingly, any revenue associated with tickets sold for future travel dates will be recognized within twelve months. For the six months ended June 30, 2018, \$2.9 billion of revenue was recognized in passenger revenue that was included in our air traffic liability at December 31, 2017.

With respect to contract receivables, reflected as accounts receivable, net on the accompanying condensed consolidated balance sheet, these primarily include receivables for tickets sold to individual passengers through the use of major credit cards. These receivables are short-term, mostly settled within seven days after sale. Bad debt losses, which have been minimal in the past, have been considered in establishing allowances for doubtful accounts.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES GROUP INC.

(Unaudited)

6. Debt

Long-term debt and capital lease obligations included in the condensed consolidated balance sheets consisted of (in millions):

	June 30, 2018	December 31, 2017
Secured		
2013 Credit Facilities, variable interest rate of 3.85%, installments through 2025	\$1,825	\$ 1,825
2014 Credit Facilities, variable interest rate of 4.05%, installments through 2021	728	728
April 2016 Credit Facilities, variable interest rate of 4.09%, installments through 2023	980	990
December 2016 Credit Facilities, variable interest rate of 4.07%, installments through 2023	1,238	1,238
Aircraft enhanced equipment trust certificates (EETCs), fixed interest rates ranging from 3.00% to 9.75%, averaging 4.24%, maturing from 2018 to 2029	11,906	11,881
Equipment loans and other notes payable, fixed and variable interest rates ranging from 3.40% to 8.48%, averaging 4.07%, maturing from 2018 to 2029	4,797	5,259
Special facility revenue bonds, fixed interest rates ranging from 5.00% to 8.00%, maturing from 2018 to 2035	857	857
Other secured obligations, fixed interest rates ranging from 3.81% to 12.24%, maturing from 2021 to 2028	728	773
	23,059	23,551
Unsecured		
5.50% senior notes, interest only payments until due in 2019	750	750
4.625% senior notes, interest only payments until due in 2020	500	500
6.125% senior notes, interest only payments until due in 2018	—	500
	1,250	1,750
Total long-term debt and capital lease obligations	24,309	25,301
Less: Total unamortized debt discount, premium and issuance costs	233	236
Less: Current maturities	2,213	2,554
Long-term debt and capital lease obligations, net of current maturities	\$21,863	\$ 22,511

The table below shows the maximum availability under revolving credit facilities, all of which were undrawn, as of June 30, 2018 (in millions):

2013 Revolving Facility	\$1,200
2014 Revolving Facility	1,000
April 2016 Revolving Facility	300
Total	\$2,500

The December 2016 Credit Facilities provide for a revolving credit facility that may be established in the future.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES GROUP INC.

(Unaudited)

2018 Aircraft Financing Activities

2017-2 EETCs

As of June 30, 2018, all remaining net proceeds of the Series 2017-2 Class AA, Class A and Class B EETCs (the 2017-2 EETCs), had been used to purchase equipment notes issued by American in connection with the financing of 30 aircraft financed under the 2017-2 EETCs. During the first six months of 2018, \$283 million of the \$1.0 billion total net proceeds from the issuance of certain enhanced equipment trust certificates in August and October 2017 (the 2017-2 EETCs) were used to purchase equipment notes issued by American in connection with financing 6 of the 30 aircraft financed under the 2017-2 EETCs. Approximately \$735 million of proceeds from the 2017-2 EETCs were used in 2017 to purchase equipment notes issued by American in connection with the financing of 24 aircraft. Interest and principal payments on equipment notes issued in connection with the 2017-2 EETCs are payable semi-annually in April and October of each year, with interest payments beginning in April 2018 and principal payments beginning in October 2018. These equipment notes are secured by liens on the aircraft financed with the proceeds of the 2017-2 EETCs.

Certain information regarding the 2017-2 EETC equipment notes as of June 30, 2018 is set forth in the table below.

	2017-2 EETCs		
	Series AA	Series A	Series B
Aggregate principal issued	\$545 million	\$252 million	\$221 million
Fixed interest rate per annum	3.35%	3.60%	3.70%
Maturity date	October 2029	October 2029	October 2025

2012-2C(R) EETCs

On May 15, 2018, American created a pass-through trust which issued \$100 million aggregate face amount of the Series 2012-2 Class C(R) EETCs (the 2012-2C(R) EETCs). Interest and principal payments on equipment notes issued in connection with the 2012-2C(R) EETCs are payable semiannually in June and December of each year, beginning in December 2018.

American had previously issued \$100 million aggregate face amount of Series 2012-2 Class C Certificates on June 6, 2013 (the 2012-2C Certificates) in connection with the financing of 11 aircraft previously delivered to American between May 2013 and October 2013. On June 1, 2018, American redeemed the Series C Equipment Notes relating to such 2012-2C Certificates (the 2012-2C Equipment Notes), which were scheduled to mature on June 3, 2018. The proceeds received from the 2012-2C(R) EETCs were used for the redemption of the 2012-2 Series C Equipment Notes and the repayment of the 2012-2C Certificates.

Certain information regarding the 2012-2 Class C(R) EETC equipment notes as of June 30, 2018 is set forth in the table below.

	2012-2C(R) EETCs
	Series C(R)
Aggregate principal issued	\$100 million
Fixed interest rate per annum	4.70%
Maturity date	June 2021

Equipment Loans and Other Notes Payable Issued in 2018

In the first six months of 2018, American entered into agreements under which it borrowed \$509 million in connection with the financing of certain aircraft. Debt incurred under these agreements matures in 2023 through 2029.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES GROUP INC.

(Unaudited)

Other Financing Activities

2013 Credit Facilities

In May 2018, American and AAG entered into a Fourth Amendment (the Fourth Amendment) to the Amended and Restated Credit and Guaranty Agreement, amending the Amended and Restated Credit and Guaranty Agreement dated as of May 21, 2015, which amended and restated the Credit and Guaranty Agreement dated as of June 27, 2013 (as previously amended, the Credit Agreement, and the term loan and revolving credit facilities established thereunder, the 2013 Credit Facilities), pursuant to which American refinanced \$1.8 billion of the existing term loans outstanding under the 2013 Credit Facilities with proceeds of term loans incurred under the Fourth Amendment (the Replacement Term Loans). The interest rate margin on the Replacement Term Loans was reduced from 2.00% to 1.75% for those loans with interest rates based on LIBOR and from 1.00% to 0.75% for those loans with interest rates based on an index. Additionally, the Fourth Amendment extended the maturity date of the Replacement Term Loans to June 2025.

7. Income Taxes

At December 31, 2017, we had approximately \$10.0 billion of federal net operating losses (NOLs) carried over from prior taxable years (NOL Carryforwards) to reduce future federal taxable income, substantially all of which we expect to be available for use in 2018. The federal NOL Carryforwards will expire beginning in 2022 if unused. We also had approximately \$3.4 billion of NOL Carryforwards to reduce future state taxable income at December 31, 2017, which will expire in years 2018 through 2037 if unused.

At December 31, 2017, we had an AMT credit carryforward of approximately \$339 million available for federal income tax purposes, which is expected to be substantially refunded in 2019 and 2020 as a result of the repeal of corporate AMT.

During the three and six months ended June 30, 2018, we recorded an income tax provision of \$203 million and \$289 million, respectively, which was substantially non-cash as we utilized our NOLs described above. For the three and six months ended June 30, 2018, this provision included an \$18 million special income tax charge related to an international income tax matter. Additionally, for the six months ended June 30, 2018, our income tax provision included a \$22 million special income tax charge to establish a required valuation allowance related to our estimated refund for AMT credits, which is now subject to a sequestration reduction rate of approximately 6.6%. Substantially all of our income before income taxes is attributable to the United States.

The 2017 Tax Act was enacted on December 22, 2017. The 2017 Tax Act is the most comprehensive tax change in more than 30 years. As of June 30, 2018, we have not completed our evaluation of the 2017 Tax Act; however, to the extent possible, we have made a reasonable estimate of its effects, including the impact of lower corporate income tax rates (21% vs. 35%) on our deferred tax assets and liabilities and the one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred.

The 2017 Tax Act is unclear in many respects and could be subject to potential amendments and technical corrections, as well as interpretations and implementation regulations by the Treasury and Internal Revenue Service. In addition, it is unclear how these U.S. federal income tax changes will affect state and local taxation, which often uses federal taxable income as a starting point for computing state and local tax liabilities. Accordingly, we have not yet been able to make a reasonable estimate of the impact of certain items and continue to account for those items based on the tax laws in effect prior to the 2017 Tax Act.

As further interpretations, clarifications and amendments to the 2017 Tax Act are made, our future financial statements could be materially impacted.

8. Fair Value Measurements

Assets Measured at Fair Value on a Recurring Basis

We utilize the market approach to measure fair value for our financial assets. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets. Our short-term investments classified as Level 2 primarily utilize broker quotes in a non-active market for valuation of these

securities. No changes in valuation techniques or inputs occurred during the six months ended June 30, 2018.

18

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES GROUP INC.

(Unaudited)

Assets measured at fair value on a recurring basis are summarized below (in millions):

	Fair Value Measurements as of June 30, 2018			
	Total	Level 1	Level 2	Level 3
Short-term investments ^{(1) (2)} :				
Money market funds	\$27	\$27	\$—	\$ —
Corporate obligations	1,301	—	1,301	—
Bank notes/certificates of deposit/time deposits	2,803	—	2,803	—
Repurchase agreements	250	—	250	—
	4,381	27	4,354	—
Restricted cash and short-term investments ⁽¹⁾	183	42	141	—
Long-term investments ⁽³⁾	216	216	—	—
Total	\$4,780	\$285	\$4,495	\$ —

(1) Unrealized gains or losses on short-term investments are recorded in accumulated other comprehensive loss at each measurement date.

All short-term investments are classified as available-for-sale and stated at fair value. Our short-term investments

(2) mature in one year or less except for \$475 million of bank notes/certificates of deposit/time deposits and \$100 million of corporate obligations.

(3) Long-term investments primarily include our investment in China Southern Airlines and are classified in other assets on our condensed consolidated balance sheets.

Fair Value of Debt

The fair value of our long-term debt was estimated using quoted market prices or discounted cash flow analyses, based on our current estimated incremental borrowing rates for similar types of borrowing arrangements. If our long-term debt was measured at fair value, it would have been classified as Level 2 in the fair value hierarchy.

The carrying value and estimated fair value of our long-term debt, including current maturities, were as follows (in millions):

	June 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current maturities	\$24,076	\$24,292	\$25,065	\$25,848

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES GROUP INC.

(Unaudited)

9. Employee Benefit Plans

The following table provides the components of net periodic benefit cost (income) (in millions):

	Pension Benefits		Retiree Medical and Other Postretirement Benefits	
	2018	2017	2018	2017
Three Months Ended June 30,				
Service cost	\$1	\$1	\$ 1	\$ 1
Interest cost	169	180	9	10
Expected return on assets	(226)	(197)	(6	) (5
Amortization of:				
Prior service cost (benefit)	7	7	(59	) (59
Unrecognized net loss (gain)	36	36	(5	) (6
Net periodic benefit cost (income)	\$ (13)	\$ 27	\$ (60	) \$ (59

	Pension Benefits		Retiree Medical and Other Postretirement Benefits	
	2018	2017	2018	2017
Six Months Ended June 30,				
Service cost	\$1	\$1	\$ 2	\$ 2
Interest cost	338	361	17	19
Expected return on assets	(452)	(394)	(11	) (10
Amortization of:				
Prior service cost (benefit)	14	14	(119	) (119
Unrecognized net loss (gain)	72	72	(10	) (11
Net periodic benefit cost (income)	\$ (27)	\$ 54	\$ (121	) \$ (119

Effective November 1, 2012, substantially all of our defined benefit pension plans were frozen.

The components of net periodic benefit income other than the service cost component are included in nonoperating other income, net in the condensed consolidated statements of operations.

During the first six months of 2018, we contributed \$311 million to our defined benefit pension plans, including supplemental contributions of \$272 million in addition to a \$39 million minimum required contribution.

10. Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss (AOCI) are as follows (in millions):

	Pension, Retiree Medical and Other Postretirement Benefits	Unrealized Loss on Investments	Income Tax Benefit (Provision) ⁽¹⁾	Total
Balance at December 31, 2017	\$ (4,523	) \$ (1	) \$ (630	) \$(5,154)
Amounts reclassified from AOCI	(43	) —	10	(2)(33
Net current-period other comprehensive income (loss)	(43	) —	10	(33
Balance at June 30, 2018	\$ (4,566	) \$ (1	) \$ (620	) \$(5,187)

(1) Relates principally to pension, retiree medical and other postretirement benefits obligations that will not be recognized in net income until the obligations are fully extinguished.

(2) Relates to pension, retiree medical and other postretirement benefits obligations and is recognized within the income tax provision on the condensed consolidated statement of operations.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES GROUP INC.

(Unaudited)

Reclassifications out of AOCI are as follows (in millions):

AOCI Components	Amounts reclassified from AOCI				Affected line items on the condensed consolidated statements of operations
	Three Months Ended June 30,		Six Months Ended June 30,		
	2018	2017	2018	2017	
Amortization of pension, retiree medical and other postretirement benefits:					
Prior service benefit	\$(40)	\$(33)	\$(80)	\$(67)	Nonoperating other income (expense), net
Actuarial loss	23	18	47	38	Nonoperating other income (expense), net
Total reclassifications for the period, net of tax	\$(17)	\$(15)	\$(33)	\$(29)	

11. Regional Expenses

Expenses associated with American Eagle operations are classified as regional expenses on the condensed consolidated statements of operations. Regional expenses consist of the following (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Aircraft fuel and related taxes	\$465	\$329	\$863	\$648
Salaries, wages and benefits	389	360	772	705
Capacity purchases from third-party regional carriers	364	413	717	806
Maintenance, materials and repairs	89	65	168	135
Other rent and landing fees	153	156	300	307
Aircraft rent	8	9	17	17
Selling expenses	96	94	181	174
Depreciation and amortization	82	78	165	157
Special items, net	—	1	—	4
Other	147	115	307	241
Total regional expenses	\$1,793	\$1,620	\$3,490	\$3,194

12. Legal Proceedings

Chapter 11 Cases. On November 29, 2011, AMR, American, and certain of AMR's other direct and indirect domestic subsidiaries (the Debtors) filed voluntary petitions for relief under Chapter 11 of the United States 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 approving and confirming the Debtors' fourth amended joint plan of reorganization (as amended, the Plan). On the Effective Date, December 9, 2013, the Debtors consummated their reorganization pursuant to the Plan and completed the Merger.

Pursuant to rulings of the Bankruptcy Court, the Plan established the Disputed Claims Reserve to hold shares of AAG common stock reserved for issuance to disputed claimholders at the Effective Date that ultimately become holders of allowed claims. As of June 30, 2018, there were approximately 24.5 million shares of AAG common stock remaining in the Disputed Claims Reserve. As disputed claims are resolved, the claimants will receive distributions of shares from the Disputed Claims Reserve. However, we are not required to distribute additional shares above the limits contemplated by the Plan, even if the shares remaining for distribution are not sufficient to fully pay any additional

allowed unsecured claims. To the extent that any of the reserved shares remain undistributed upon resolution of all remaining disputed claims, such shares will not be returned to us but rather will be distributed to former AMR stockholders.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES GROUP INC.

(Unaudited)

There is also pending in the Bankruptcy Court an adversary proceeding relating to an action brought by American to seek a determination that certain non-pension, postemployment benefits are not vested benefits and thus may be modified or terminated without liability to American. As of June 30, 2018, we have determined not to pursue this claim and have a motion pending in the Bankruptcy Court to this effect.

DOJ Antitrust Civil Investigative Demand. In June 2015, we received a Civil Investigative Demand (CID) from the United States Department of Justice (DOJ) as part of an investigation into whether there have been illegal agreements or coordination of air passenger capacity. The CID seeks documents and other information from us, and other airlines have announced that they have received similar requests. We are cooperating fully with the DOJ investigation.

Private Party Antitrust Action. Subsequent to announcement of the delivery of CIDs by the DOJ, we, along with Delta Air Lines, Inc., Southwest Airlines Co., United Airlines, Inc. and, in the case of litigation filed in Canada, Air Canada, have been named as defendants in approximately 100 putative class action lawsuits alleging unlawful agreements with respect to air passenger capacity. The U.S. lawsuits have been consolidated in the Federal District Court for the District of Columbia. On June 15, 2018, we reached a preliminary settlement agreement with the plaintiffs in the amount of \$45 million that, once approved, will resolve all claims in the U.S. lawsuits. That settlement received preliminary approval from the Court on June 18, 2018. We expect the Court to issue final approval of the settlement later this year.

Private Party Antitrust Action Related to the Merger. On August 6, 2013, a lawsuit captioned Carolyn Fjord, et al., v. AMR Corporation, et al., was filed in the United States Bankruptcy Court for the Southern District of New York. The complaint named as defendants US Airways Group, US Airways, AMR and American, alleged that the effect of the Merger may be to create a monopoly in violation of Section 7 of the Clayton Antitrust Act, and sought injunctive relief and/or divestiture. On November 27, 2013, the Bankruptcy Court denied plaintiffs' motion to preliminarily enjoin the Merger. On March 26, 2018, the Court held a hearing on motions for summary judgment filed by defendants and plaintiffs. The Court has not yet issued an order. We believe this lawsuit is without merit and intend to vigorously defend against the allegations.

DOJ Investigation Related to the United States Postal Service. In April 2015, the DOJ informed us of an inquiry regarding American's 2009 and 2011 contracts with the United States Postal Service for the international transportation of mail by air. In October 2015, we received a CID from the DOJ seeking certain information relating to these contracts and the DOJ has also sought information concerning certain of the airlines that transport mail on a codeshare basis. The DOJ has indicated it is investigating potential violations of the False Claims Act or other statutes. We are cooperating fully with the DOJ with regard to its investigation.

General. In addition to the specifically identified legal proceedings, we and our subsidiaries are also engaged in other legal proceedings from time to time. Legal proceedings can be complex and take many months, or even years, to reach resolution, with the final outcome depending on a number of variables, some of which are not within our control. Therefore, although we will vigorously defend ourselves in each of the actions described above and such other legal proceedings, their ultimate resolution and potential financial and other impacts on us are uncertain but could be material. See Part II, Item 1A. Risk Factors – “We may be a party to litigation in the normal course of business or otherwise, which could affect our financial position and liquidity” for additional discussion.

13. Subsequent Events

Dividend Declaration

In July 2018, we announced that our Board of Directors declared a \$0.10 per share dividend for stockholders of record as of August 7, 2018, and payable on August 21, 2018. Any future dividends that may be declared and paid from time to time will be subject to market and economic conditions, applicable legal requirements and other relevant factors.

We are not obligated to continue a dividend for any fixed period, and the payment of dividends may be suspended at any time at our discretion.

Equipment Loans

In July 2018, American entered into agreements under which it borrowed \$312 million in connection with the financing of certain aircraft. Debt incurred under these agreements matures in 2023.

ITEM 1B. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES, INC.
 AMERICAN AIRLINES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions)(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Operating revenues:				
Passenger	\$ 10,674	\$ 10,353	\$ 20,154	\$ 19,350
Cargo	261	219	488	410
Other	705	652	1,396	1,280
Total operating revenues	11,640	11,224	22,038	21,040
Operating expenses:				
Aircraft fuel and related taxes	2,103	1,510	3,866	2,912
Salaries, wages and benefits	3,090	3,034	6,104	5,891
Regional expenses	1,784	1,629	3,465	3,199
Maintenance, materials and repairs	505	495	973	987
Other rent and landing fees	490	452	952	892
Aircraft rent	305	294	609	589
Selling expenses	385	376	742	694
Depreciation and amortization	463	418	908	822
Special items, net	152	202	347	320
Other	1,326	1,223	2,587	2,404
Total operating expenses	10,603	9,633	20,553	18,710
Operating income	1,037	1,591	1,485	2,330
Nonoperating income (expense):				
Interest income	82	53	155	102
Interest expense, net	(257)	(246)	(510)	(488)
Other income (expense), net	(23)	29	59	63
Total nonoperating expense, net	(198)	(164)	(296)	(323)
Income before income taxes	839	1,427	1,189	2,007
Income tax provision	220	539	334	751
Net income	\$ 619	\$ 888	\$ 855	\$ 1,256

See accompanying notes to condensed consolidated financial statements.

AMERICAN AIRLINES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$619	\$888	\$855	\$1,256
Other comprehensive loss, net of tax:				
Pension, retiree medical and other postretirement benefits	(17)	(15)	(33)	(29)
Investments	2	—	—	—
Total other comprehensive loss, net of tax	(15)	(15)	(33)	(29)
Total comprehensive income	\$604	\$873	\$822	\$1,227

See accompanying notes to condensed consolidated financial statements.

AMERICAN AIRLINES, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (In millions, except shares and par value)

	June 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets		
Cash	\$ 282	\$ 287
Short-term investments	4,370	4,768
Restricted cash and short-term investments	183	318
Accounts receivable, net	1,993	1,755
Receivables from related parties, net	10,403	8,822
Aircraft fuel, spare parts and supplies, net	1,455	1,294
Prepaid expenses and other	853	647
Total current assets	19,539	17,891
Operating property and equipment		
Flight equipment	40,535	39,993
Ground property and equipment	8,627	8,006
Equipment purchase deposits	1,392	1,217
Total property and equipment, at cost	50,554	49,216
Less accumulated depreciation and amortization	(16,417)	(15,354)
Total property and equipment, net	34,137	33,862
Other assets		
Goodwill	4,091	4,091
Intangibles, net of accumulated amortization of \$643 and \$622, respectively	2,157	2,203
Deferred tax asset	1,556	2,071
Other assets	1,273	1,283
Total other assets	9,077	9,648
Total assets	\$ 62,753	\$ 61,401
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Current maturities of long-term debt and capital leases	\$ 2,216	\$ 2,058
Accounts payable	1,990	1,625
Accrued salaries and wages	1,241	1,613
Air traffic liability	5,512	4,042
Loyalty program liability	3,191	3,121
Other accrued liabilities	2,319	2,209
Total current liabilities	16,469	14,668
Noncurrent liabilities		
Long-term debt and capital leases, net of current maturities	20,585	21,236
Pension and postretirement benefits	7,073	7,452
Loyalty program liability	5,484	5,701
Other liabilities	2,311	2,456
Total noncurrent liabilities	35,453	36,845
Commitments and contingencies		
Stockholder's equity		
Common stock, \$1.00 par value; 1,000 shares authorized, issued and outstanding	—	—

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Additional paid-in capital	16,760	16,716
Accumulated other comprehensive loss	(5,284)	(5,251)
Accumulated deficit	(645)	(1,577)
Total stockholder's equity	10,831	9,888
Total liabilities and stockholder's equity	\$ 62,753	\$ 61,401

See accompanying notes to condensed consolidated financial statements.

25

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

	Six Months Ended June 30, 2018		2017
Net cash provided by operating activities	\$ 1,415		\$ 2,787
Cash flows from investing activities:			
Capital expenditures and aircraft purchase deposits	(1,703)		(3,163)
Proceeds from sale of property and equipment and sale-leaseback transactions	255		312
Purchases of short-term investments	(1,176)		(3,829)
Sales of short-term investments	1,579		3,373
Decrease in restricted short-term investments	43		73
Net cash used in investing activities	(1,002)		(3,234)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	892		1,625
Payments on long-term debt and capital leases	(1,385)		(1,101)
Deferred financing costs	(28)		(39)
Other financing activities	12		9
Net cash provided by (used in) financing activities	(509)		494
Net increase (decrease) in cash and restricted cash	(96)		47
Cash and restricted cash at beginning of period	390		424
Cash and restricted cash at end of period	\$ 294		\$ 471

(a)

Supplemental
information:

Interest paid, net	493	468
Income taxes paid	12	9

(a) The following table provides a reconciliation of cash and restricted cash to amounts reported within the condensed consolidated balance sheets:

Cash	\$282	\$368
Restricted cash included in restricted cash and short-term investments	12	103
Total cash and restricted cash	\$294	\$471

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES, INC.
(Unaudited)

1. Basis of Presentation and Recent Accounting Pronouncements

(a) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of American Airlines, Inc. (American) should be read in conjunction with the consolidated financial statements contained in American's Annual Report on Form 10-K for the year ended December 31, 2017. American is the principal wholly-owned subsidiary of American Airlines Group Inc. (AAG). All significant intercompany transactions have been eliminated.

On December 9, 2013, a subsidiary of AMR Corporation (AMR) merged with and into US Airways Group, Inc. (US Airways Group), a Delaware corporation, which survived as a wholly-owned subsidiary of AAG, and AAG emerged from Chapter 11 (the Merger). Upon closing of the Merger and emergence from Chapter 11, AMR changed its name to American Airlines Group Inc. On December 30, 2015, in order to simplify AAG's internal corporate structure, US Airways Group merged with and into AAG, with AAG as the surviving corporation. Immediately thereafter, US Airways, Inc. (US Airways), a wholly-owned subsidiary of US Airways Group, merged with and into American, with American as the surviving corporation.

Management believes that all adjustments necessary for the fair presentation of results, consisting of normally recurring items, have been included in the unaudited condensed consolidated financial statements for the interim periods presented. The preparation of financial statements in accordance with accounting principles generally accepted in the United States (GAAP) requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The most significant areas of judgment relate to passenger revenue recognition, impairment of goodwill, impairment of long-lived and intangible assets, the loyalty program, valuation allowance for deferred tax assets, as well as pension and retiree medical and other postretirement benefits.

(b) Recent Accounting Pronouncements

Standards Effective for 2018 Reporting Periods

Effective January 1, 2018, American adopted the accounting pronouncements described below.

ASU 2014-09: Revenue from Contracts with Customers (Topic 606) (the New Revenue Standard)

The New Revenue Standard applies to all companies that enter into contracts with customers to transfer goods or services. American adopted the New Revenue Standard using the full retrospective method, which resulted in the recast of prior reporting periods.

The adoption of the New Revenue Standard impacted American's accounting for outstanding mileage credits earned through travel by AAdvantage loyalty program members. There was no change in accounting for sales of mileage credits to co-branded card or other partners. Prior to the adoption of the New Revenue Standard, American used the incremental cost method to account for the portion of its loyalty program liability related to mileage credits earned through travel, which were valued based on the estimated incremental cost of carrying one additional passenger. The New Revenue Standard required American to change its policy to the deferred revenue method and apply a relative selling price approach whereby a portion of each passenger ticket sale attributable to mileage credits earned is deferred and recognized in passenger revenue upon future mileage redemption. The value of the earned mileage credits is materially greater under the deferred revenue method than the value attributed to these mileage credits under the incremental cost method.

The New Revenue Standard also required certain reclassifications, principally the reclassification of certain ancillary revenues previously classified and reported as other revenue to passenger revenue and as applicable to cargo revenue. Additionally, the New Revenue Standard required a gross presentation on the face of American's condensed consolidated statement of operations for certain revenues and expenses that had previously been presented on a net basis.

See recast condensed consolidated statement of operations data for the three and six months ended June 30, 2017 and recast consolidated balance sheet data as of December 31, 2017 presented below for the effects of adoption.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES, INC.
(Unaudited)

ASU 2017-07: Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (the New Retirement Standard)

The New Retirement Standard required all components of American's net periodic benefit cost (income), with the exception of service cost, previously reported within operating expenses as salaries, wages and benefits, to be reclassified and reported within nonoperating income (expense). The New Retirement Standard was applied retrospectively, which resulted in the recast of each prior reporting period presented. The adoption of the New Retirement Standard had no impact on pre-tax income or net income reported.

See recast condensed consolidated statement of operations data for the three and six months ended June 30, 2017 presented below for the effects of adoption.

ASU 2016-01: Financial Instruments - Overall (Subtopic 825-10)

This ASU made several modifications to Subtopic 825-10, including the elimination of the available-for-sale classification of equity investments, and it required equity investments with readily determinable fair values to be measured at fair value with changes in fair value recognized in net income. This standard was adopted prospectively as of January 1, 2018 and resulted in a \$77 million cumulative effect adjustment credit to retained earnings related to American's investment in China Southern Airlines Company Limited (China Southern Airlines), which was previously accounted for under the cost method.

ASU 2016-18: Statement of Cash Flows (Topic 230): Restricted Cash

This ASU required that the change in total cash, cash at beginning of period and cash at end of period on the statement of cash flows include restricted cash and restricted cash equivalents and also requires companies who report cash and restricted cash separately on the balance sheet to reconcile those amounts to the statement of cash flows. This standard was applied retrospectively, which resulted in the recast of the prior reporting period in the statement of cash flows. For the six months ended June 30, 2018 and 2017, \$12 million and \$103 million, respectively, of restricted cash is included in the total of cash and restricted cash balance at the end of period. A reconciliation of cash and restricted cash from American's condensed consolidated statement of cash flows to the amounts reported within its condensed consolidated balance sheet is also included in a table below its condensed consolidated statement of cash flows.

Impacts to Prior Period Results

The effects of adoption of the New Revenue Standard and New Retirement Standard to American's condensed consolidated statement of operations for the three and six months ended June 30, 2017 were as follows (in millions):

Three Months Ended June 30, 2017	As Reported	New Revenue Standard Deferred Revenue Method	Reclassifications	New Retirement Standard Reclassifications	As Recast
Operating revenues:					
Passenger	\$ 9,582	\$ 98	\$ 673	\$ —	\$ 10,353
Cargo	196	—	23	—	219
Other	1,324	—	(672)	—	652
Total operating revenues	11,102	98	24	—	11,224
Total operating expenses	9,575	—	24	34	9,633
Operating income	1,527	98	—	(34)	1,591
Total nonoperating expense, net	(198)	—	—	34	(164)
Income before income taxes	1,329	98	—	—	1,427
Income tax provision	502	37	—	—	539
Net income	\$ 827	\$ 61	\$ —	\$ —	\$ 888

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES, INC.
(Unaudited)

Six Months Ended June 30, 2017	As Reported	New Revenue Standard Deferred Revenue Method	Reclassifications	New Retirement Standard Reclassifications	As Recast
Operating revenues:					
Passenger	\$ 17,737	\$ 268	\$ 1,345	\$ —	\$ 19,350
Cargo	368	—	42	—	410
Other	2,617	—	(1,337)	—	1,280
Total operating revenues	20,722	268	50	—	21,040
Total operating expenses	18,592	—	50	68	18,710
Operating income	2,130	268	—	(68)	2,330
Total nonoperating expense, net	(391)	—	—	68	(323)
Income before income taxes	1,739	268	—	—	2,007
Income tax provision	650	101	—	—	751
Net income	\$ 1,089	\$ 167	\$ —	\$ —	\$ 1,256

The effects of adoption of the New Revenue Standard to American's December 31, 2017 consolidated balance sheet are as follows (in millions):

	As Reported	New Revenue Standard	As Recast
Deferred tax asset	\$ 682	\$ 1,389	\$ 2,071
Air traffic liability	3,978	64	4,042
Current loyalty program liability	2,791	330	3,121
Noncurrent loyalty program liability	—	5,701	5,701
Total stockholder's equity (deficit)	14,594	(4,706)	9,888

Standards Effective for 2019 Reporting Periods

ASU 2016-02: Leases (Topic 842) (the New Lease Standard)

The New Lease Standard requires lessees to recognize a lease liability and a right-of-use asset on the balance sheet and aligns many of the underlying principles of the new lessor model with those in the New Revenue Standard. The New Lease Standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. American will adopt the New Lease Standard effective January 1, 2019. American is currently evaluating how the adoption of the New Lease Standard will impact its consolidated financial statements. Interpretations are on-going and could have a material impact on its implementation. Currently, American expects that the adoption of the New Lease Standard will have a material impact on its consolidated balance sheet due to the recognition of right-of-use assets and lease liabilities principally for certain leases currently accounted for as operating leases.

ASU 2018-02: Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

This ASU provides financial statement preparers with an option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings due to the U.S. federal corporate income tax rate change as a result of H.R. 1, the 2017 Tax Cuts and Jobs Act (the 2017 Tax Act). The amount of the reclassification is the difference between the amount initially charged or credited directly to other comprehensive income at the previously enacted U.S. federal corporate income tax rate that remains in accumulated other comprehensive income and the amount that would have been charged or credited directly to other comprehensive income using the newly enacted U.S. federal corporate income tax rate, excluding the effect of any valuation allowance previously charged to income from

continuing operations. This standard is effective for interim and annual reporting periods beginning after December 15, 2018, and early adoption is permitted. American expects it will adopt this standard effective January 1, 2019. The adoption of the standard may impact tax amounts stranded in accumulated other comprehensive income related to American's pension and retiree medical and other postretirement benefit plans.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES, INC.
(Unaudited)

2. Special Items, Net

Special items, net in the condensed consolidated statements of operations consisted of the following expenses (income) (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Fleet restructuring expenses ⁽¹⁾	\$83	\$ 48	\$166	\$111
Merger integration expenses ⁽²⁾	60	68	120	130
Mark-to-market adjustments on bankruptcy obligations ⁽³⁾	(57)	38	(56)	20
Intangible asset impairment ⁽⁴⁾	26	—	26	—
Litigation settlement	5	—	45	—
Labor contract expenses	—	45	13	45
Other operating charges, net	35	3	33	14
Mainline operating special items, net	152	202	347	320
Regional operating special items, net	—	1	—	4
Mark-to-market adjustments on equity investments ⁽⁵⁾	66	—	66	—
Debt refinancing and extinguishment charges	14	2	14	7
Nonoperating special items, net	80	2	80	7
Income tax special items, net ⁽⁶⁾	18	—	48	—

(1) Fleet restructuring expenses principally included the acceleration of depreciation and impairments for aircraft and related equipment grounded or expected to be grounded earlier than planned.

(2) Merger integration expenses included costs associated with American's remaining integration projects, principally its flight attendant, human resources, payroll and technical operations integrations.

(3) Bankruptcy obligations will ultimately be settled in shares of AAG common stock. Accordingly, fluctuations in AAG's stock price result in mark-to-market adjustments to these obligations.

(4) Intangible asset impairment includes a non-cash charge to write-off American's Brazil route authority as a result of ratification of the U.S.-Brazil open skies agreement.

(5) Mark-to-market adjustments on equity investments principally relate to unrealized losses on American's investment in China Southern Airlines.

(6) Income tax special items for the three months ended June 30, 2018 included an \$18 million charge related to an international income tax matter. Additionally, the six months ended June 30, 2018 included a \$30 million charge to income tax expense to establish a required valuation allowance related to American's estimated refund for Alternative Minimum Tax (AMT) credits.

3. Revenue Recognition

(a) Revenue

Effective January 1, 2018, American adopted the New Revenue Standard using the full retrospective method, which resulted in the recast of prior reporting periods. See Recent Accounting Pronouncements in Note 1(b) above for effects of adoption on American's condensed consolidated statement of operations for the three and six months ended June 30, 2017 and on American's consolidated balance sheet as of December 31, 2017. Under the New Revenue

Standard, revenue is recognized upon transfer of control of promised products or services to American's customers in an amount that reflects the consideration it expects to receive in exchange for those products or services.

30

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES, INC.
(Unaudited)

The following are the significant categories comprising American's reported operating revenues (in millions):

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
Passenger revenue:				
Passenger travel	\$9,877	\$9,600	\$18,507	\$17,795
Loyalty revenue - travel ⁽¹⁾	797	753	1,647	1,555
Total passenger revenue	10,674	10,353	20,154	19,350
Cargo	261	219	488	410
Other:				
Loyalty revenue - marketing services	582	533	1,152	1,047
Other revenue	123	119	244	233
Total other revenue	705	652	1,396	1,280
Total operating revenues	\$11,640	\$11,224	\$22,038	\$21,040

Loyalty revenue included in passenger revenue is principally comprised of mileage credit redemptions for air travel ⁽¹⁾ awards from mileage credits earned through travel and mileage credits sold to co-branded card and other partners.

See discussion of Loyalty Revenue below.

The following is American's total passenger revenue by geographic region (in millions):

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
Domestic	\$7,685	\$7,578	\$14,648	\$14,359
Latin America	1,284	1,209	2,729	2,440
Atlantic	1,298	1,182	1,967	1,806
Pacific	407	384	810	745
Total passenger revenue	\$10,674	\$10,353	\$20,154	\$19,350

American attributes passenger revenue by geographic region based upon the origin and destination of each flight segment.

Passenger Revenue

American recognizes all revenues generated from transportation on American and its regional flights operated under the brand name American Eagle, including associated baggage fees, ticketing change fees and other inflight services, as passenger revenue when transportation is provided. Ticket and other related sales for transportation that has not yet been provided are initially deferred and recorded as air traffic liability on the condensed consolidated balance sheets. The air traffic liability principally represents tickets sold for future travel dates and estimated future refunds and exchanges of tickets sold for past travel dates.

The majority of tickets sold are nonrefundable. A small percentage of tickets, some of which are partially used tickets, expire unused. Due to complex pricing structures, refund and exchange policies, and interline agreements with other airlines, certain amounts are recognized in passenger revenue using estimates regarding both the timing of the revenue recognition and the amount of revenue to be recognized. These estimates are generally based on the analysis of American's historical data. American has consistently applied this accounting method to estimate revenue from forfeited tickets at the date of travel. Estimated future refunds and exchanges included in the air traffic liability are routinely evaluated based on subsequent activity to validate the accuracy of American's estimates. Any adjustments resulting from periodic evaluations of the estimated air traffic liability are included in passenger revenue during the period in which the evaluations are completed.

Various taxes and fees assessed on the sale of tickets to end customers are collected by American as an agent and remitted to taxing authorities. These taxes and fees have been presented on a net basis in the accompanying condensed consolidated statements of operations and recorded as a liability until remitted to the appropriate taxing authority.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES, INC.
(Unaudited)

Loyalty Revenue

American currently operates the loyalty program, AAdvantage. This program awards mileage credits to passengers who fly on American, any oneworld airline or other partner airlines, or by using the services of other program participants, such as the Citi and Barclays US co-branded cards, hotels and car rental companies. Mileage credits can be redeemed for travel on American and other participating partner airlines as well as other non-air travel awards such as hotels and rental cars. For mileage credits earned by AAdvantage loyalty program members, American applies the deferred revenue method in accordance with the New Revenue Standard.

Mileage credits earned through travel

For mileage credits earned through travel, American applies a relative selling price approach whereby the total amount collected from each passenger ticket sale is allocated between the air transportation and the mileage credits earned. The portion of each passenger ticket sale attributable to mileage credits earned is initially deferred and then recognized in passenger revenue when mileage credits are redeemed and transportation is provided. The estimated selling price of mileage credits is determined using an equivalent ticket value approach which uses historical data, including award redemption patterns by geographic region and class of service as well as similar fares as those used to settle award redemptions. The estimated selling price of miles is adjusted for an estimate of miles that will not be redeemed based on historical redemption patterns.

Mileage credits sold to co-branded cards and other partners

American sells mileage credits to participating airline partners and non-airline business partners including American's co-branded card partners, under contracts with terms extending generally for one to nine years. Sales of mileage credits to non-airline business partners are comprised of two components, transportation and marketing. American allocates the consideration received from the sale of mileage credits based on the relative selling price of each product or service delivered.

American's most significant partner agreements are its co-branded card program agreements with Citi and Barclays US that American entered into in 2016. American identified the following revenue elements in these co-branded card agreements: the transportation component; and the use of intellectual property including the American brand and access to loyalty program member lists, which is the predominant element in the agreements, as well as advertising (collectively, the marketing component). Accordingly, American recognizes the marketing component in other revenue in the period of the mileage sale following the sales-based royalty method.

The transportation component represents the estimated selling price of future travel awards and is determined using the same equivalent ticket value approach described above. The portion of each mileage credit sold attributable to transportation is initially deferred and then recognized in passenger revenue when mileage credits are redeemed and transportation is provided.

For the portion of American's outstanding mileage credits that it estimates will not be redeemed, American recognizes the associated value proportionally as the remaining mileage credits are redeemed. American's estimates are based on analysis of historical redemptions.

Cargo Revenue

Cargo revenue is recognized when American provides the transportation.

Other Revenue

Other revenue includes revenue associated with American's loyalty program, which is comprised principally of the marketing component of mileage sales to co-branded card and other partners and other marketing related payments. For the three and six months ended June 30, 2018, loyalty revenue included in other revenue was \$582 million and \$1.2 billion, respectively. For the three and six months ended June 30, 2017, loyalty revenue included in other revenue was \$533 million and \$1.0 billion, respectively. The accounting and recognition for the loyalty program marketing services are discussed above in Loyalty Revenue. The remaining amounts included within other revenue relate to airport clubs, advertising and vacation-related services.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES, INC.
(Unaudited)

(b) Contract Balances

American's significant contract liabilities are comprised of (1) outstanding loyalty program mileage credits that may be redeemed for future travel and other non-air travel awards, reported as loyalty program liability on American's condensed consolidated balance sheet and (2) ticket sales for transportation that has not yet been provided, reported as air traffic liability on American's condensed consolidated balance sheet.

	June 30, December 31,	
	2018	2017
	(In millions)	
Loyalty program liability	\$8,675	\$ 8,822
Air traffic liability	5,512	4,042
Total	\$14,187	\$ 12,864

The balance of the loyalty program liability fluctuates based on seasonal patterns, which impact the volume of mileage credits issued through travel or sold to co-branded card and other partners (deferral of revenue) and mileage credits redeemed (recognition of revenue). Changes in loyalty program liability are as follows (in millions):

Balance at December 31, 2017	\$8,822
Deferral of revenue	1,586
Recognition of revenue ⁽¹⁾	(1,733)
Balance at June 30, 2018 ⁽²⁾	\$8,675

Principally relates to revenue recognized from the redemption of mileage credits for both air and non-air travel awards. Mileage credits are combined in one homogenous pool and are not separately identifiable. As such, the revenue is comprised of miles that were part of the loyalty program deferred revenue balance at the beginning of the period as well as miles that were issued during the period.

Mileage credits can be redeemed at any time and do not expire as long as that AAdvantage member has any type of qualifying activity at least every 18 months. As of June 30, 2018, American's current loyalty program liability was \$3.2 billion and represents American's current estimate of revenue expected to be recognized in the next twelve months based on historical trends, with the balance reflected in long-term loyalty program liability expected to be recognized as revenue in periods thereafter.

The air traffic liability principally represents tickets sold for future travel dates and estimated future refunds and exchanges of tickets sold for past travel dates. The balance in American's air traffic liability also fluctuates with seasonal travel patterns. The contract duration of passenger tickets is one year. Accordingly, any revenue associated with tickets sold for future travel dates will be recognized within twelve months. For the six months ended June 30, 2018, \$2.9 billion of revenue was recognized in passenger revenue that was included in American's air traffic liability at December 31, 2017.

With respect to contract receivables, reflected as accounts receivable, net on the accompanying condensed consolidated balance sheet, these primarily include receivables for tickets sold to individual passengers through the use of major credit cards. These receivables are short-term, mostly settled within seven days after sale. Bad debt losses, which have been minimal in the past, have been considered in establishing allowances for doubtful accounts.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES, INC.
(Unaudited)

4. Debt

Long-term debt and capital lease obligations included in the condensed consolidated balance sheets consisted of (in millions):

	June 30, 2018	December 31, 2017
Secured		
2013 Credit Facilities, variable interest rate of 3.85%, installments through 2025	\$1,825	\$ 1,825
2014 Credit Facilities, variable interest rate of 4.05%, installments through 2021	728	728
April 2016 Credit Facilities, variable interest rate of 4.09%, installments through 2023	980	990
December 2016 Credit Facilities, variable interest rate of 4.07%, installments through 2023	1,238	1,238
Aircraft enhanced equipment trust certificates (EETCs), fixed interest rates ranging from 3.00% to 9.75%, averaging 4.24%, maturing from 2018 to 2029	11,906	11,881
Equipment loans and other notes payable, fixed and variable interest rates ranging from 3.40% to 8.48%, averaging 4.07%, maturing from 2018 to 2029	4,797	5,259
Special facility revenue bonds, fixed interest rates ranging from 5.00% to 5.50%, maturing from 2018 to 2035	828	828
Other secured obligations, fixed interest rates ranging from 3.81% to 12.24%, maturing from 2021 to 2028	728	772
Total long-term debt and capital lease obligations	23,030	23,521
Less: Total unamortized debt discount, premium and issuance costs	229	227
Less: Current maturities	2,216	2,058
Long-term debt and capital lease obligations, net of current maturities	\$20,585	\$ 21,236

The table below shows the maximum availability under revolving credit facilities, all of which were undrawn, as of June 30, 2018 (in millions):

2013 Revolving Facility	\$ 1,200
2014 Revolving Facility	1,000
April 2016 Revolving Facility	300
Total	\$2,500

The December 2016 Credit Facilities provide for a revolving credit facility that may be established in the future.

2018 Aircraft Financing Activities

2017-2 EETCs

As of June 30, 2018, all remaining net proceeds of the Series 2017-2 Class AA, Class A and Class B EETCs (the 2017-2 EETCs), had been used to purchase equipment notes issued by American in connection with the financing of 30 aircraft financed under the 2017-2 EETCs. During the first six months of 2018, \$283 million of the \$1.0 billion total net proceeds from the issuance of certain enhanced equipment trust certificates in August and October 2017 (the 2017-2 EETCs) were used to purchase equipment notes issued by American in connection with financing 6 of the 30 aircraft financed under the 2017-2 EETCs. Approximately \$735 million of proceeds from the 2017-2 EETCs were used in 2017 to purchase equipment notes issued by American in connection with the financing of 24 aircraft. Interest and principal payments on equipment notes issued in connection with the 2017-2 EETCs are payable semi-annually in April and October of each year, with interest payments beginning in April 2018 and principal payments beginning in October 2018. These equipment notes are secured by liens on the aircraft financed with the proceeds of the 2017-2 EETCs.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES, INC.
(Unaudited)

Certain information regarding the 2017-2 EETC equipment notes as of June 30, 2018 is set forth in the table below.

	2017-2 EETCs		
	Series AA	Series A	Series B
Aggregate principal issued	\$545 million	\$252 million	\$221 million
Fixed interest rate per annum	3.35%	3.60%	3.70%
Maturity date	October 2029	October 2029	October 2025

2012-2C(R) EETCs

On May 15, 2018, American created a pass-through trust which issued \$100 million aggregate face amount of the Series 2012-2 Class C(R) EETCs (the 2012-2C(R) EETCs). Interest and principal payments on equipment notes issued in connection with the 2012-2C(R) EETCs are payable semiannually in June and December of each year, beginning in December 2018.

American had previously issued \$100 million aggregate face amount of Series 2012-2 Class C Certificates on June 6, 2013 (the 2012-2C Certificates) in connection with the financing of 11 aircraft previously delivered to American between May 2013 and October 2013. On June 1, 2018, American redeemed the Series C Equipment Notes relating to such 2012-2C Certificates (the 2012-2C Equipment Notes), which were scheduled to mature on June 3, 2018. The proceeds received from the 2012-2C(R) EETCs were used for the redemption of the 2012-2 Series C Equipment Notes and the repayment of the 2012-2C Certificates.

Certain information regarding the 2012-2 Class C(R) EETC equipment notes as of June 30, 2018 is set forth in the table below.

	2012-2C(R) EETCs
	Series C(R)
Aggregate principal issued	\$100 million
Fixed interest rate per annum	4.70%
Maturity date	June 2021

Equipment Loans and Other Notes Payable Issued in 2018

In the first six months of 2018, American entered into agreements under which it borrowed \$509 million in connection with the financing of certain aircraft. Debt incurred under these agreements matures in 2023 through 2029.

Other Financing Activities

2013 Credit Facilities

In May 2018, American and AAG entered into a Fourth Amendment (the Fourth Amendment) to the Amended and Restated Credit and Guaranty Agreement, amending the Amended and Restated Credit and Guaranty Agreement dated as of May 21, 2015, which amended and restated the Credit and Guaranty Agreement dated as of June 27, 2013 (as previously amended, the Credit Agreement, and the term loan and revolving credit facilities established thereunder, the 2013 Credit Facilities), pursuant to which American refinanced \$1.8 billion of the existing term loans outstanding under the 2013 Credit Facilities with proceeds of term loans incurred under the Fourth Amendment (the Replacement Term Loans). The interest rate margin on the Replacement Term Loans was reduced from 2.00% to 1.75% for those loans with interest rates based on LIBOR and from 1.00% to 0.75% for those loans with interest rates based on an index. Additionally, the Fourth Amendment extended the maturity date of the Replacement Term Loans to June 2025.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES, INC.
(Unaudited)

5. Income Taxes

At December 31, 2017, American had approximately \$10.6 billion of federal net operating losses (NOLs) carried over from prior taxable years (NOL Carryforwards) to reduce future federal taxable income, substantially all of which, American expects to be available for use in 2018. American is a member of AAG's consolidated federal and certain state income tax returns. The amount of federal NOL Carryforwards available in those returns is \$10.0 billion, substantially all of which is expected to be available for use in 2018. The federal NOL Carryforwards will expire beginning in 2022 if unused. American also had approximately \$3.2 billion of NOL Carryforwards to reduce future state taxable income at December 31, 2017, which will expire in years 2018 through 2037 if unused.

At December 31, 2017, American had an AMT credit carryforward of approximately \$452 million available for federal income tax purposes.

During the three and six months ended June 30, 2018, American recorded an income tax provision of \$220 million and \$334 million, respectively, which was substantially non-cash as American utilized the NOLs described above. For the three and six months ended June 30, 2018, this provision included an \$18 million special income tax charge related to an international income tax matter. Additionally, for the six months ended June 30, 2018, American's income tax provision included a \$30 million special income tax charge to establish a required valuation allowance related to American's estimated refund for AMT credits, which is now subject to a sequestration reduction rate of approximately 6.6%. Substantially all of American's income before income taxes is attributable to the United States. The 2017 Tax Act was enacted on December 22, 2017. The 2017 Tax Act is the most comprehensive tax change in more than 30 years. As of June 30, 2018, American has not completed its evaluation of the 2017 Tax Act; however, to the extent possible, American has made a reasonable estimate of its effects, including the impact of lower corporate income tax rates (21% vs. 35%) on its deferred tax assets and liabilities and the one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred.

The 2017 Tax Act is unclear in many respects and could be subject to potential amendments and technical corrections, as well as interpretations and implementation regulations by the Treasury and Internal Revenue Service. In addition, it is unclear how these U.S. federal income tax changes will affect state and local taxation, which often uses federal taxable income as a starting point for computing state and local tax liabilities. Accordingly, American has not yet been able to make a reasonable estimate of the impact of certain items and continues to account for those items based on the tax laws in effect prior to the 2017 Tax Act.

As further interpretations, clarifications and amendments to the 2017 Tax Act are made, American's future financial statements could be materially impacted.

6. Fair Value Measurements

Assets Measured at Fair Value on a Recurring Basis

American utilizes the market approach to measure fair value for its financial assets. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets. American's short-term investments classified as Level 2 primarily utilize broker quotes in a non-active market for valuation of these securities. No changes in valuation techniques or inputs occurred during the six months ended June 30, 2018.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES, INC.
(Unaudited)

Assets measured at fair value on a recurring basis are summarized below (in millions):

	Fair Value Measurements as of June 30, 2018			
	Total	Level 1	Level 2	Level 3
Short-term investments ^{(1) (2)} :				
Money market funds	\$17	\$17	\$—	\$ —
Corporate obligations	1,301	—	1,301	—
Bank notes/certificates of deposit/time deposits	2,802	—	2,802	—
Repurchase agreements	250	—	250	—
	4,370	17	4,353	—
Restricted cash and short-term investments ⁽¹⁾	183	42	141	—
Long-term investments ⁽³⁾	216	216	—	—
Total	\$4,769	\$275	\$4,494	\$ —

(1) Unrealized gains or losses on short-term investments are recorded in accumulated other comprehensive loss at each measurement date.

All short-term investments are classified as available-for-sale and stated at fair value. American's short-term investments mature in one year or less except for \$475 million of bank notes/certificates of deposit/time deposits and \$100 million of corporate obligations.

(3) Long-term investments primarily include American's investment in China Southern Airlines and are classified in other assets on its condensed consolidated balance sheets.

Fair Value of Debt

The fair value of American's long-term debt was estimated using quoted market prices or discounted cash flow analyses, based on American's current estimated incremental borrowing rates for similar types of borrowing arrangements. If American's long-term debt was measured at fair value, it would have been classified as Level 2 in the fair value hierarchy.

The carrying value and estimated fair value of American's long-term debt, including current maturities, were as follows (in millions):

	June 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current maturities	\$22,801	\$22,999	\$23,294	\$24,029

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES, INC.
(Unaudited)

7. Employee Benefit Plans

The following table provides the components of net periodic benefit cost (income) (in millions):

	Pension Benefits		Retiree Medical and Other Postretirement Benefits	
	2018	2017	2018	2017
Three Months Ended June 30,				
Service cost	\$1	\$—	\$ 1	\$ 1
Interest cost	168	180	9	10
Expected return on assets	(225)	(196)	(6)	(5)
Amortization of:				
Prior service cost (benefit)	7	7	(59)	(59)
Unrecognized net loss (gain)	36	36	(5)	(6)
Net periodic benefit cost (income)	\$(13)	\$27	\$ (60)	\$ (59)

	Pension Benefits		Retiree Medical and Other Postretirement Benefits	
	2018	2017	2018	2017
Six Months Ended June 30,				
Service cost	\$1	\$1	\$ 2	\$ 2
Interest cost	336	359	17	19
Expected return on assets	(450)	(393)	(11)	(10)
Amortization of:				
Prior service cost (benefit)	14	14	(119)	(119)
Unrecognized net loss (gain)	72	72	(10)	(11)
Net periodic benefit cost (income)	\$(27)	\$53	\$ (121)	\$ (119)

Effective November 1, 2012, substantially all of American's defined benefit pension plans were frozen.

The components of net periodic benefit income other than the service cost component are included in nonoperating other income, net in the condensed consolidated statements of operations.

During the first six months of 2018, American contributed \$311 million to its defined benefit pension plans, including supplemental contributions of \$272 million in addition to a \$39 million minimum required contribution.

8. Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss (AOCI) are as follows (in millions):

	Pension, Retiree Medical and Other Postretirement Benefits		Unrealized Loss on Investments	Income Tax Benefit (Provision) ⁽¹⁾	Total
Balance at December 31, 2017	\$ (4,508)	) \$ (1)	\$ (742)	)	\$(5,251)
Amounts reclassified from AOCI	(43)	) —	10	)	(2)(33)
Net current-period other comprehensive income (loss)	(43)	) —	10	)	(33)
Balance at June 30, 2018	\$ (4,551)	) \$ (1)	\$ (732)	)	\$(5,284)

(1) Relates principally to pension, retiree medical and other postretirement benefits obligations that will not be recognized in net income until the obligations are fully extinguished.

(2) Relates to pension, retiree medical and other postretirement benefits obligations and is recognized within the income tax provision on the condensed consolidated statement of operations.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES, INC.
(Unaudited)

Reclassifications out of AOCI are as follows (in millions):

AOCI Components	Amounts reclassified from AOCI				Affected line items on the condensed consolidated statements of operations
	Three Months Ended June 30, 2018		Six Months Ended June 30, 2017		
Amortization of pension, retiree medical and other postretirement benefits:					
Prior service benefit	\$ (40)	\$ (33)	\$ (80)	\$ (67)	Nonoperating other income (expense), net
Actuarial loss	23	18	47	38	Nonoperating other income (expense), net
Total reclassifications for the period, net of tax	\$ (17)	\$ (15)	\$ (33)	\$ (29)	

9. Regional Expenses

Expenses associated with American Eagle operations are classified as regional expenses on the condensed consolidated statements of operations. Regional expenses consist of the following (in millions):

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2017	
	2018	2017	2018	2017
Aircraft fuel and related taxes	\$465	\$329	\$863	\$648
Salaries, wages and benefits	87	86	169	161
Capacity purchases from third-party regional carriers	825	827	1,622	1,628
Maintenance, materials and repairs	3	2	5	3
Other rent and landing fees	147	150	288	296
Aircraft rent	7	7	14	14
Selling expenses	96	94	181	174
Depreciation and amortization	67	65	135	128
Special items, net	—	1	—	4
Other	87	68	188	143
Total regional expenses	\$1,784	\$1,629	\$3,465	\$3,199

10. Transactions with Related Parties

The following represents the net receivables (payables) to related parties (in millions):

	June 30, 2018	December 31, 2017
AAG ⁽¹⁾	\$12,529	\$10,968
AAG's wholly-owned subsidiaries ⁽²⁾	(2,126)	(2,146)
Total	\$10,403	\$8,822

The increase in American's net related party receivable from AAG is primarily due to American providing the cash ⁽¹⁾ funding for AAG's dividend and share repurchase programs as well as the repayment of AAG's 6.125% senior notes.

The net payable to AAG's wholly-owned subsidiaries consists primarily of amounts due under regional capacity ⁽²⁾ purchase agreements with AAG's wholly-owned regional airlines operating under the brand name of American Eagle.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES, INC.
(Unaudited)

11. Legal Proceedings

Chapter 11 Cases. On November 29, 2011, AMR, American, and certain of AMR's other direct and indirect domestic subsidiaries (the Debtors) filed voluntary petitions for relief under Chapter 11 of the United States 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 approving and confirming the Debtors' fourth amended joint plan of reorganization (as amended, the Plan). On the Effective Date, December 9, 2013, the Debtors consummated their reorganization pursuant to the Plan and completed the Merger.

Pursuant to rulings of the Bankruptcy Court, the Plan established the Disputed Claims Reserve to hold shares of AAG common stock reserved for issuance to disputed claimholders at the Effective Date that ultimately become holders of allowed claims. As of June 30, 2018, there were approximately 24.5 million shares of AAG common stock remaining in the Disputed Claims Reserve. As disputed claims are resolved, the claimants will receive distributions of shares from the Disputed Claims Reserve. However, American is not required to distribute additional shares above the limits contemplated by the Plan, even if the shares remaining for distribution are not sufficient to fully pay any additional allowed unsecured claims. To the extent that any of the reserved shares remain undistributed upon resolution of all remaining disputed claims, such shares will not be returned to American but rather will be distributed to former AMR stockholders.

There is also pending in the Bankruptcy Court an adversary proceeding relating to an action brought by American to seek a determination that certain non-pension, postemployment benefits are not vested benefits and thus may be modified or terminated without liability to American. As of June 30, 2018, American has determined not to pursue this claim and have a motion pending in the Bankruptcy Court to this effect.

DOJ Antitrust Civil Investigative Demand. In June 2015, American received a Civil Investigative Demand (CID) from the United States Department of Justice (DOJ) as part of an investigation into whether there have been illegal agreements or coordination of air passenger capacity. The CID seeks documents and other information from American, and other airlines have announced that they have received similar requests. American is cooperating fully with the DOJ investigation.

Private Party Antitrust Action. Subsequent to announcement of the delivery of CIDs by the DOJ, American, along with Delta Air Lines, Inc., Southwest Airlines Co., United Airlines, Inc. and, in the case of litigation filed in Canada, Air Canada, have been named as defendants in approximately 100 putative class action lawsuits alleging unlawful agreements with respect to air passenger capacity. The U.S. lawsuits have been consolidated in the Federal District Court for the District of Columbia. On June 15, 2018, American reached a preliminary settlement agreement with the plaintiffs in the amount of \$45 million that, once approved, will resolve all claims in the U.S. lawsuits. That settlement received preliminary approval from the Court on June 18, 2018. American expects the Court to issue final approval of the settlement later this year.

Private Party Antitrust Action Related to the Merger. On August 6, 2013, a lawsuit captioned Carolyn Fjord, et al., v. AMR Corporation, et al., was filed in the United States Bankruptcy Court for the Southern District of New York. The complaint named as defendants US Airways Group, US Airways, AMR and American, alleged that the effect of the Merger may be to create a monopoly in violation of Section 7 of the Clayton Antitrust Act, and sought injunctive relief and/or divestiture. On November 27, 2013, the Bankruptcy Court denied plaintiffs' motion to preliminarily enjoin the Merger. On March 26, 2018, the Court held a hearing on motions for summary judgment filed by defendants and plaintiffs. The Court has not yet issued an order. American believes this lawsuit is without merit and intends to vigorously defend against the allegations.

DOJ Investigation Related to the United States Postal Service. In April 2015, the DOJ informed American of an inquiry regarding American's 2009 and 2011 contracts with the United States Postal Service for the international transportation of mail by air. In October 2015, American received a CID from the DOJ seeking certain information relating to these contracts and the DOJ has also sought information concerning certain of the airlines that transport mail on a codeshare basis. The DOJ has indicated it is investigating potential violations of the False Claims Act or

other statutes. American is cooperating fully with the DOJ with regard to its investigation.

General. In addition to the specifically identified legal proceedings, American and its subsidiaries are also engaged in other legal proceedings from time to time. Legal proceedings can be complex and take many months, or even years, to reach resolution, with the final outcome depending on a number of variables, some of which are not within American's control. Therefore, although American will vigorously defend itself in each of the actions described above and such other legal proceedings, their ultimate resolution and potential financial and other impacts on American are uncertain but could be material. See Part II, Item 1A. Risk Factors – “We may be a party to litigation in the normal course of business or otherwise, which could affect our financial position and liquidity” for additional discussion.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES, INC.
(Unaudited)

12. Subsequent Event

Equipment Loans

In July 2018, American entered into agreements under which it borrowed \$312 million in connection with the financing of certain aircraft. Debt incurred under these agreements matures in 2023.

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

Part I, Item 2 of this report should be read in conjunction with Part II, Item 7 of AAG's and American's Annual Report on Form 10-K for the year ended December 31, 2017 (the 2017 Form 10-K). The information contained herein is not a comprehensive discussion and analysis of the financial condition and results of operations of AAG and American, but rather updates disclosures made in the 2017 Form 10-K.

Background

Together with our wholly-owned regional airline subsidiaries and third-party regional carriers operating as American Eagle, we operate an average of nearly 6,700 flights per day to nearly 350 destinations in more than 50 countries. We have hubs in Charlotte, Chicago, Dallas/Fort Worth, Los Angeles, Miami, New York, Philadelphia, Phoenix and Washington, D.C. In the second quarter of 2018, approximately 53 million passengers boarded our flights.

Financial Overview

The U.S. Airline Industry

While the second quarter of 2018 marked another profitable quarter for the U.S. airline industry, higher fuel costs significantly impacted industry results. The price of Brent crude oil per barrel, which jet fuel prices tend to follow, was on average approximately 50% higher in the second quarter of 2018 as compared to the 2017 period. The average daily spot price for Brent crude oil during the second quarter of 2018 was \$75 per barrel as compared to an average daily spot price of \$50 per barrel during the second quarter of 2017. On a daily basis, Brent crude oil prices fluctuated during the second quarter between a high of \$80 per barrel to a low of \$67 per barrel, and closed on June 30, 2018 at \$79 per barrel. Brent crude oil prices were higher in the 2018 period due principally to reductions of global inventories driven by strong demand and continued production restraint. With respect to revenue, the legacy U.S. airlines reported positive unit revenue growth. In international markets, particularly in the Atlantic market, unit revenue growth outpaced the growth of domestic markets.

See Part II, Item 1A. Risk Factors –“Downturns in economic conditions could adversely affect our business,” “Our business is very dependent on the price and availability of aircraft fuel. Continued periods of high volatility in fuel costs, increased fuel prices or significant disruptions in the supply of aircraft fuel could have a significant negative impact on our operating results and liquidity” and “Our business has been and will continue to be affected by many changing economic and other conditions beyond our control, including global events that affect travel behavior, and our results of operations could be volatile and fluctuate due to seasonality.”

AAG's Second Quarter 2018 Results

The selected financial data presented below is derived from AAG's unaudited condensed consolidated financial statements included in Part I, Item 1A of this report and should be read in conjunction with those financial statements and the related notes thereto.

	Three Months Ended June 30,		Increase (Decrease)	Percent Increase (Decrease)
	2018	2017		
	(In millions, except percentage changes)			
Passenger revenue	\$10,674	\$10,353	\$ 321	3.1
Cargo revenue	261	219	42	19.4
Other operating revenue	708	655	53	8.1
Total operating revenues	11,643	11,227	416	3.7
Mainline and regional aircraft fuel and related taxes	2,568	1,839	729	39.6
Salaries, wages and benefits	3,093	3,037	56	1.8
Total operating expenses	10,615	9,628	987	10.3
Operating income	1,028	1,599	(571)	(35.7)
Pre-tax income	769	1,389	(620)	(44.7)
Income tax provision	203	525	(322)	(61.4)
Net income	566	864	(298)	(34.5)
Pre-tax income	\$769	\$1,389	\$ (620)	(44.7)
Adjusted for: Total pre-tax net special items ⁽¹⁾	232	205	27	12.9
Pre-tax income excluding special items	\$1,001	\$1,594	\$ (593)	(37.2)

⁽¹⁾ See below "Reconciliation of GAAP to Non-GAAP Financial Measures" and Note 2 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A for details on the components of special items.

Pre-Tax Income and Net Income

Pre-tax income and net income were \$769 million and \$566 million in the second quarter of 2018, respectively. This compares to second quarter 2017 pre-tax income and net income of \$1.4 billion and \$864 million, respectively. Excluding the effects of pre-tax net special items, we recognized pre-tax income of \$1.0 billion in the second quarter of 2018 as compared to \$1.6 billion in the second quarter of 2017. The quarter-over-quarter declines in our pre-tax income on both a GAAP basis and excluding pre-tax net special items were principally driven by a 37.5% increase in the average price per gallon of fuel. This increase was offset in part by higher revenues.

Additionally, on June 14, 2018, PSA Airlines, Inc. one of our wholly-owned regional carriers, experienced a technology system issue that impacted its operations and resulted in the cancellation of approximately 3,000 flights over the week that followed. We estimate that this event negatively impacted our pre-tax income by approximately \$35 million.

Revenue

In the second quarter of 2018, we reported total operating revenues of \$11.6 billion, an increase of \$416 million, or 3.7%, as compared to the 2017 period. Passenger revenue was \$10.7 billion in the second quarter of 2018, an increase of \$321 million, or 3.1%, as compared to the 2017 period. The increase in passenger revenue in the second quarter of 2018 was due to a 2.0% increase in revenue passenger miles (RPMs) and a 1.0% increase in yields driven by continued strong demand. International yields increased 6.1%, led by improved yields in the Atlantic market, which more than offset a 0.9% decrease in domestic yields.

Additionally, cargo revenue increased \$42 million, or 19.4%, primarily due to increases in freight volume and domestic and international freight yields. Other revenue, driven by higher loyalty revenue, increased \$53 million, or 8.1%, as compared to the second quarter of 2017.

Our total revenue per available seat mile (TRASM) was 15.97 cents in the second quarter of 2018, a 2.1% increase as compared to 15.65 cents in the second quarter of 2017. This marks our seventh consecutive quarter of positive TRASM growth.

Fuel

Our mainline and regional fuel expense totaled \$2.6 billion in the second quarter of 2018, which was \$729 million, or 39.6%, higher as compared to the 2017 period. This increase was driven by a 37.5% increase in the average price per gallon of fuel to \$2.24 in the second quarter of 2018 from \$1.63 in the 2017 period.

As of June 30, 2018, we did not have any fuel hedging contracts outstanding to hedge our fuel consumption. As such, and assuming we do not enter into any future transactions to hedge our fuel consumption, we will continue to be fully exposed to fluctuations in fuel prices. Our current policy is not to enter into transactions to hedge our fuel consumption, although we review that policy from time to time based on market conditions and other factors.

Other Costs

We remain committed to actively managing our cost structure, which we believe is necessary in an industry whose economic prospects are heavily dependent upon two variables we cannot control: the health of the economy and the price of fuel.

Our 2018 second quarter total cost per available seat mile (CASM) was 14.56 cents, an increase of 8.5%, from 13.42 cents in 2017. The increase was primarily driven by an increase in fuel costs as described above.

Our 2018 second quarter CASM excluding special items and fuel was 10.83 cents, an increase of 2.4%, as compared to the 2017 period. The increase was primarily driven by higher depreciation due to the delivery of new aircraft as a result of our fleet renewal program and merger integration projects as well as higher other operating expenses associated with improving our product offerings, customer experience and operational reliability.

For a reconciliation of total CASM excluding special items and fuel, see below “Reconciliation of GAAP to Non-GAAP Financial Measures.”

Liquidity

As of June 30, 2018, we had approximately \$7.2 billion in total available liquidity, consisting of \$4.7 billion in unrestricted cash and short-term investments and \$2.5 billion in undrawn revolving credit facilities. We also had restricted cash and short-term investments of \$183 million.

During the second quarter of 2018, we completed the following financing transactions:

- Refinanced a \$1.8 billion term loan at a lower interest rate and extended the maturity date from 2020 to 2025

- Raised \$583 million in proceeds from aircraft debt financing, approximately \$440 million of which was used to repay existing indebtedness

- Raised \$229 million in proceeds from aircraft sale-leaseback transactions

See Note 6 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A for additional information on our debt obligations.

Additionally, we returned \$396 million to our stockholders, including quarterly dividend payments of \$46 million and the repurchase of \$350 million of common stock, or 8.2 million shares, during the second quarter of 2018. Since our capital return program commenced in mid-2014, we have returned \$12.3 billion to stockholders, including \$929 million in quarterly dividend payments and \$11.3 billion in share repurchases, or 278.9 million shares. In July 2018, we announced that our Board of Directors declared a \$0.10 per share dividend for stockholders of record as of August 7, 2018, and payable on August 21, 2018.

Reconciliation of GAAP to Non-GAAP Financial Measures

We sometimes use financial measures that are derived from the condensed consolidated financial statements but that are not presented in accordance with GAAP to understand and evaluate our current operating performance and to allow for period-to-period comparisons. We believe these non-GAAP financial measures may also provide useful information to investors and others. These non-GAAP measures may not be comparable to similarly titled non-GAAP measures of other companies, and should be considered in addition to and not as a substitute for or superior to, any measure of performance, cash flow or liquidity prepared in accordance with GAAP. We are providing a reconciliation of reported non-GAAP financial measures to their comparable financial measures on a GAAP basis.

The following table presents the reconciliation of pre-tax income (GAAP measure) to pre-tax income excluding special items (non-GAAP measure). Management uses this non-GAAP financial measure to evaluate our current operating performance and to allow for period-to-period comparisons. As special items may vary from period-to-period in nature and amount, the adjustment to exclude special items allows management an additional tool to better understand our core operating performance.

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
	(In millions)			
Reconciliation of Pre-Tax Income Excluding Special Items:				
Pre-tax income - GAAP	\$769	\$1,389	\$1,042	\$1,924
Pre-tax special items ⁽¹⁾ :				
Operating special items, net	152	203	347	324
Nonoperating special items, net	80	2	80	7
Total pre-tax special items, net	232	205	427	331
Pre-tax income excluding special items	\$1,001	\$1,594	\$1,469	\$2,255

Additionally, the table below presents the reconciliation of total operating costs (GAAP measure) to total operating costs excluding special items and fuel (non-GAAP measure). Management uses total operating costs excluding special items and fuel to evaluate our current operating performance and for period-to-period comparisons. The price of fuel, over which we have no control, impacts the comparability of period-to-period financial performance. The adjustment to exclude aircraft fuel and special items allows management an additional tool to better understand and analyze our non-fuel costs and core operating performance. Amounts may not recalculate due to rounding.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Reconciliation of Total Operating Costs per Available Seat Mile (CASM) Excluding Special Items and Fuel:				
(In millions)				
Total operating expenses - GAAP	\$10,615	\$9,628	\$20,585	\$18,711
Special items ⁽¹⁾ :				
Special items, net	(152)	(202)	(347)	(320)
Regional operating special items, net	—	(1)	—	(4)
Fuel:				
Aircraft fuel and related taxes - mainline	(2,103)	(1,510)	(3,866)	(2,912)
Aircraft fuel and related taxes - regional	(465)	(329)	(863)	(648)
Total operating expenses, excluding special items and fuel	\$7,895	\$7,586	\$15,509	\$14,827
(In millions)				
Total Available Seat Miles (ASM)	72,893	71,743	138,717	136,083
(In cents)				
Total operating CASM	14.56	13.42	14.84	13.75
Special items per ASM:				
Special items, net ⁽¹⁾	(0.21)	(0.28)	(0.25)	(0.24)
Fuel per ASM:				
Aircraft fuel and related taxes - mainline	(2.89)	(2.10)	(2.79)	(2.14)
Aircraft fuel and related taxes - regional	(0.64)	(0.46)	(0.62)	(0.48)
Total CASM, excluding special items and fuel	10.83	10.57	11.18	10.90

⁽¹⁾ See Note 2 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A for further information on special items.

AAG's Results of Operations

Operating Statistics

The table below sets forth selected operating data for the three and six months ended June 30, 2018 and 2017.

	Three Months				Six Months			
	Ended		Increase (Decrease)		Ended		Increase (Decrease)	
	June 30, 2018	2017			June 30, 2018	2017		
Revenue passenger miles (millions) ^(a)	60,779	59,564	2.0	%	113,725	110,548	2.9	%
Available seat miles (millions) ^(b)	72,893	71,743	1.6	%	138,717	136,083	1.9	%
Passenger load factor (percent) ^(c)	83.4	83.0	0.4	pts	82.0	81.2	0.8	pts
Yield (cents) ^(d)	17.56	17.38	1.0	%	17.72	17.50	1.2	%
Passenger revenue per available seat mile (cents) ^(e)	14.64	14.43	1.5	%	14.53	14.22	2.2	%
Total revenue per available seat mile (cents) ^(f)	15.97	15.65	2.1	%	15.89	15.47	2.8	%
Aircraft at end of period	1,559	1,583	(1.5)	)%	1,559	1,583	(1.5))%
Fuel consumption (gallons in millions)	1,147	1,129	1.6	%	2,177	2,143	1.6	%
Average aircraft fuel price including related taxes (dollars per gallon)	2.24	1.63	37.5	%	2.17	1.66	30.8	%
Full-time equivalent employees at end of period	131,600	128,300	2.6	%	131,600	128,300	2.6	%
Operating cost per available seat mile (cents) ^(g)	14.56	13.42	8.5	%	14.84	13.75	7.9	%

(a) Revenue passenger mile (RPM) – A basic measure of sales volume. One RPM represents one passenger flown one mile.

(b) Available seat mile (ASM) – A basic measure of production. One ASM represents one seat flown one mile.

(c) Passenger load factor – The percentage of available seats that are filled with revenue passengers.

(d) Yield – A measure of airline revenue derived by dividing passenger revenue by RPMs.

(e) Passenger revenue per available seat mile (PRASM) – Passenger revenue divided by ASMs.

(f) Total revenue per available seat mile (TRASM) – Total revenues divided by total ASMs.

(g) Operating cost per available seat mile (CASM) – Operating expenses divided by ASMs.

Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

Pre-tax income and net income were \$769 million and \$566 million in the second quarter of 2018, respectively. This compares to the second quarter 2017 pre-tax income and net income of \$1.4 billion and \$864 million, respectively.

Excluding the effects of pre-tax net special items, pre-tax income was \$1.0 billion and \$1.6 billion in the second quarters of 2018 and 2017, respectively.

The quarter-over-quarter declines in our pre-tax income on both a GAAP basis and excluding pre-tax net special items were principally driven by an increase in fuel costs, which was offset in part by higher revenues.

Operating Revenues

	Three Months Ended June 30, 2018		2017	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)				
Passenger	\$10,674	\$10,353	\$ 321		3.1
Cargo	261	219	42		19.4
Other	708	655	53		8.1
Total operating revenues	\$11,643	\$11,227	\$ 416		3.7

This table presents our passenger revenue and the quarter-over-quarter change in certain operating statistics:

Increase (Decrease)
vs. Three Months Ended June 30, 2017

Three Months Ended June 30, 2018 (In millions)	RPMs	ASMs	Load Factor	Passenger Yield	PRASM	
Passenger revenue \$ 10,674	2.0%	1.6%	0.4pts	1.0 %	1.5 %	

Passenger revenue increased \$321 million, or 3.1%, in the second quarter of 2018 from the 2017 period due to a 2.0% quarter-over-quarter increase in RPMs and a 1.0% increase in yields driven by continued strong demand. International yields increased 6.1%, led by improved yields in the Atlantic market, which more than offset a 0.9% decrease in domestic yields.

Cargo revenue increased \$42 million, or 19.4%, in the second quarter of 2018 from the 2017 period primarily driven by increases in freight volume and domestic and international freight yields.

Other revenue includes revenue associated with our loyalty program, airport clubs, advertising and vacation-related services. Other revenue increased \$53 million, or 8.1%, in the second quarter of 2018 from the 2017 period due to higher revenue associated with our loyalty program. For the three months ended June 30, 2018 and 2017, loyalty revenue included in other revenue was \$582 million and \$533 million, respectively.

Total operating revenues in the second quarter of 2018 increased \$416 million, or 3.7%, from the 2017 period driven principally by a 3.1% increase in passenger revenue as described above. Our TRASM was 15.97 cents in the second quarter of 2018, a 2.1% increase as compared to 15.65 cents in the 2017 period.

Operating Expenses

	Three Months		Increase (Decrease)	Percent Increase (Decrease)
	Ended June 30, 2018	2017		
(In millions, except percentage changes)				
Aircraft fuel and related taxes	\$2,103	\$1,510	\$ 593	39.3
Salaries, wages and benefits	3,093	3,037	56	1.8
Maintenance, materials and repairs	505	495	10	2.0
Other rent and landing fees	490	452	38	8.3
Aircraft rent	305	294	11	3.6
Selling expenses	385	376	9	2.6
Depreciation and amortization	463	418	45	10.9
Special items, net	152	202	(50)	(24.5)
Other	1,326	1,224	102	8.4
Regional expenses:				
Aircraft fuel and related taxes	465	329	136	41.1
Other	1,328	1,291	37	2.8
Total operating expenses	\$10,615	\$9,628	\$ 987	10.3

Total operating expenses increased \$987 million, or 10.3%, in the second quarter of 2018 from the 2017 period. The increase in operating expenses was principally driven by an increase in fuel costs. See detailed explanations below relating to changes in total CASM.

Total CASM

We sometimes use financial measures that are derived from the condensed consolidated financial statements but that are not presented in accordance with GAAP to understand and evaluate our current operating performance to allow for period-to-period comparisons. We believe these non-GAAP financial measures may also provide useful information to investors and others. These non-GAAP measures may not be comparable to similarly titled non-GAAP measures of other companies, and should be considered in addition to, and not as a substitute for or superior to, any measure of performance, cash flow or liquidity prepared in accordance with GAAP. We are providing a reconciliation of reported non-GAAP financial measures to their comparable financial measures on a GAAP basis.

The table below presents the reconciliation of total operating expenses (GAAP measure) to total operating costs excluding special items and fuel (non-GAAP measure). Management uses total operating costs excluding special items and fuel to evaluate our current operating performance and for period-to-period comparisons. The price of fuel, over which we have no control, impacts the comparability of period-to-period financial performance. The adjustment to exclude aircraft fuel and special items allows management an additional tool to better understand and analyze our non-fuel costs and core operating performance.

The major components of our total CASM and our total CASM excluding special items and fuel for the three months ended June 30, 2018 and 2017 are as follows (amounts may not recalculate due to rounding):

	Three Months Ended		Percent
	June 30,		Increase
	2018	2017	(Decrease)
	(In cents, except percentage changes)		
Total CASM:			
Aircraft fuel and related taxes	2.89	2.10	37.1
Salaries, wages and benefits	4.24	4.23	0.2
Maintenance, materials and repairs	0.69	0.69	0.4
Other rent and landing fees	0.67	0.63	6.6
Aircraft rent	0.42	0.41	2.0
Selling expenses	0.53	0.52	1.0
Depreciation and amortization	0.63	0.58	9.1
Special items, net	0.21	0.28	(25.7)
Other	1.82	1.71	6.7
Regional expenses:			
Aircraft fuel and related taxes	0.64	0.46	38.9
Other	1.82	1.80	1.2
Total CASM	14.56	13.42	8.5
Special items, net:			
Special items, net	(0.21)	(0.28)	(25.7)
Aircraft fuel and related taxes:			
Aircraft fuel and related taxes - mainline	(2.89)	(2.10)	37.1
Aircraft fuel and related taxes - regional	(0.64)	(0.46)	38.9
Total CASM, excluding special items and fuel	10.83	10.57	2.4

Significant changes in the components of total CASM are as follows:

Aircraft fuel and related taxes per ASM increased 37.1% primarily due to a 37.8% increase in the average price per gallon of fuel to \$2.23 in the second quarter of 2018 from \$1.62 in the 2017 period.

Other rent and landing fees per ASM increased 6.6% and was primarily driven by rate increases at certain hub airports in the second quarter of 2018 as compared to the 2017 period.

Depreciation and amortization per ASM increased 9.1% due in part to our fleet renewal program as subsequent to the second quarter of 2017 we took delivery of 18 newly owned mainline aircraft. Information technology and software development projects associated with our merger integration also contributed to the increase.

Other operating expenses per ASM increased 6.7% primarily due to expenses associated with improving our product offerings, customer experience and operational reliability.

Regional aircraft fuel and related taxes per ASM increased 38.9% primarily due to a 35.7% increase in the average price per gallon of fuel to \$2.29 in the second quarter of 2018 from \$1.69 in the 2017 period as well as a 4.0% increase in gallons of fuel consumed.

Operating Special Items, Net

	Three Months Ended June 30, 2018 2017 (In millions)	
Fleet restructuring expenses ⁽¹⁾	\$83	\$48
Merger integration expenses ⁽²⁾	60	68
Mark-to-market adjustments on bankruptcy obligations ⁽³⁾	(57)	38
Intangible asset impairment ⁽⁴⁾	26	—
Litigation settlement	5	—
Labor contract expenses	—	45
Other operating charges, net	35	3
Total mainline operating special items, net	152	202
Regional operating special items, net	—	1
Total operating special items, net	\$152	\$203

(1) Fleet restructuring expenses principally included the acceleration of depreciation and impairments for aircraft and related equipment grounded or expected to be grounded earlier than planned.

(2) Merger integration expenses included costs associated with our remaining integration projects, principally our flight attendant, human resources, payroll and technical operations integrations.

(3) Bankruptcy obligations will ultimately be settled in shares of our common stock. Accordingly, fluctuations in our stock price result in mark-to-market adjustments to these obligations.

(4) Intangible asset impairment includes a non-cash charge to write-off our Brazil route authority as a result of ratification of the U.S.-Brazil open skies agreement.

Nonoperating Results

	Three Months Ended June 30, 2018 2017		Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Interest income	\$30	\$24	\$ 6	29.3
Interest expense, net	(266)	(263)	(3)	1.0
Other income (expense), net	(23)	29	(52)	nm ⁽¹⁾
Total nonoperating expense, net	\$(259)	\$(210)	\$ (49)	23.1

(1) Not meaningful.

In the 2018 period, other nonoperating expense, net principally included a \$66 million net special charge for mark-to-market unrealized losses primarily on our equity investment in China Southern Airlines Company Limited (China Southern Airlines), \$29 million of net foreign currency losses, principally associated with losses from Latin American currencies, and \$14 million of net special charges associated with debt refinancings and extinguishments. These charges were offset in part by \$75 million of non-service related pension and other postretirement benefit plan income.

In the 2017 period, other nonoperating income, net principally included \$33 million of non-service related pension and other postretirement benefit plan income, offset in part by \$7 million of net foreign currency losses.

Income Taxes

In the second quarter of 2018, we recorded an income tax provision of \$203 million, which was substantially non-cash due to utilization of our net operating losses (NOLs). This provision included an \$18 million special income tax charge related to an international income tax matter. Substantially all of our income before income taxes is attributable to the United States. At December 31, 2017, we had approximately \$10.0 billion of federal NOLs and \$3.4 billion of state NOLs, substantially all of which are expected to be available in 2018 to reduce federal and state taxable income. See Note 7 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A for additional information on income taxes.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Pre-tax income and net income were \$1.0 billion and \$753 million in the first six months of 2018, respectively. This compares to the first six months of 2017 pre-tax income and net income of \$1.9 billion and \$1.2 billion, respectively. Excluding the effects of pre-tax net special items, pre-tax income was \$1.5 billion and \$2.3 billion in the first six months of 2018 and 2017, respectively.

The period-over-period declines in our pre-tax income on both a GAAP basis and excluding pre-tax net special items were principally driven by an increase in fuel costs and higher wage rates, which were offset in part by higher revenues.

Operating Revenues

	Six Months Ended June 30,		Increase (Decrease)	Percent Increase (Decrease)
	2018	2017		
	(In millions, except percentage changes)			
Passenger	\$20,154	\$19,350	\$ 804	4.2
Cargo	488	410	78	19.1
Other	1,402	1,287	115	9.0
Total operating revenues	\$22,044	\$21,047	\$ 997	4.7

This table presents our passenger revenue and the period-over-period change in certain operating statistics:

Increase (Decrease)
vs. Six Months Ended June 30, 2017

Six Months Ended June 30, 2018 (In millions)	RPMs	ASMs	Load Factor	Passenger Yield	PRASM	
Passenger revenue	\$ 20,154	2.9%	1.9%	0.8pts	1.2%	2.2 %

Passenger revenue increased \$804 million, or 4.2%, in the first six months of 2018 from the 2017 period primarily driven by a 2.9% period-over-period increase in RPMs and 1.2% increase in yields driven by continued strong demand. International yields increased 6.4%, led by improved yields in the Atlantic market, which more than offset a 0.5% decrease in domestic yields.

Cargo revenue increased \$78 million, or 19.1%, in the first six months of 2018 from the 2017 period primarily driven by increases in freight volume and domestic and international freight yields.

Other revenue includes revenue associated with our loyalty program, airport clubs, advertising and vacation-related services. Other revenue increased \$115 million, or 9.0%, in the first six months of 2018 from the 2017 period due to higher revenue associated with our loyalty program. In the first six months of 2018 and 2017, loyalty revenue included in other revenue was \$1.2 billion and \$1.0 billion, respectively.

Total operating revenues in the first six months of 2018 increased \$997 million, or 4.7%, from the 2017 period driven principally by a 4.2% increase in passenger revenue as described above. Our TRASM was 15.89 cents in the first six months of 2018, a 2.8% increase as compared to 15.47 cents in the 2017 period.

Operating Expenses

	Six Months		Increase (Decrease)	Percent Increase (Decrease)
	Ended June 30, 2018	2017		
(In millions, except percentage changes)				
Aircraft fuel and related taxes	\$3,866	\$2,912	\$ 954	32.8
Salaries, wages and benefits	6,111	5,898	213	3.6
Maintenance, materials and repairs	973	987	(14)	(1.4)
Other rent and landing fees	952	892	60	6.6
Aircraft rent	609	589	20	3.4
Selling expenses	742	694	48	6.9
Depreciation and amortization	908	822	86	10.5
Special items, net	347	320	27	8.5
Other	2,587	2,403	184	7.6
Regional expenses:				
Aircraft fuel and related taxes	863	648	215	33.2
Other	2,627	2,546	81	3.2
Total operating expenses	\$20,585	\$18,711	\$ 1,874	10.0

Total operating expenses increased \$1.9 billion, or 10.0%, in the first six months of 2018 from the 2017 period. The increase in operating expenses was primarily driven by an increase in fuel costs and higher wage rates. See detailed explanations below relating to changes in total CASM.

Total CASM

We sometimes use financial measures that are derived from the condensed consolidated financial statements but that are not presented in accordance with GAAP to understand and evaluate our current operating performance to allow for period-to-period comparisons. We believe these non-GAAP financial measures may also provide useful information to investors and others. These non-GAAP measures may not be comparable to similarly titled non-GAAP measures of other companies, and should be considered in addition to and not as a substitute for or superior to, any measure of performance, cash flow or liquidity prepared in accordance with GAAP. We are providing a reconciliation of reported non-GAAP financial measures to their comparable financial measures on a GAAP basis.

The table below presents the reconciliation of total operating expenses (GAAP measure) to total operating costs excluding special items and fuel (non-GAAP measure). Management uses total operating costs excluding special items and fuel to evaluate our current operating performance and for period-to-period comparisons. The price of fuel, over which we have no control, impacts the comparability of period-to-period financial performance. The adjustment to exclude aircraft fuel and special items allows management an additional tool to better understand and analyze our non-fuel costs and core operating performance.

The major components of our total CASM and our total CASM excluding special items and fuel for the six months ended June 30, 2018 and 2017 are as follows (amounts may not recalculate due to rounding):

	Six Months Ended		Percent Increase (Decrease)
	June 30, 2018	2017	
(In cents, except percentage changes)			
Total CASM:			
Aircraft fuel and related taxes	2.79	2.14	30.3
Salaries, wages and benefits	4.41	4.33	1.6
Maintenance, materials and repairs	0.70	0.73	(3.3)
Other rent and landing fees	0.69	0.66	4.6
Aircraft rent	0.44	0.43	1.5
Selling expenses	0.53	0.51	4.9
Depreciation and amortization	0.65	0.60	8.4
Special items, net	0.25	0.24	6.5
Other	1.86	1.77	5.6
Regional expenses:			
Aircraft fuel and related taxes	0.62	0.48	30.7
Other	1.89	1.87	1.2
Total CASM	14.84	13.75	7.9
Special items, net:			
Special items, net	(0.25)	(0.24)	6.5
Aircraft fuel and related taxes:			
Aircraft fuel and related taxes - mainline	(2.79)	(2.14)	30.3
Aircraft fuel and related taxes - regional	(0.62)	(0.48)	30.7
Total CASM, excluding special items and fuel	11.18	10.90	2.6

Significant changes in the components of total CASM are as follows:

Aircraft fuel and related taxes per ASM increased 30.3% primarily due to a 31.1% increase in the average price per gallon of fuel to \$2.16 in the first six months of 2018 from \$1.65 in the 2017 period.

Salaries, wages and benefits per ASM increased 1.6% primarily due to mid-contract pay rate increases for pilots and flight attendants effective in the second quarter of 2017.

Depreciation and amortization per ASM increased 8.4% due in part to our fleet renewal program as subsequent to the second quarter of 2017 we took delivery of 18 newly owned mainline aircraft. Information technology and software development projects associated with our merger integration also contributed to the increase.

Other operating expenses per ASM increased 5.6% primarily due to expenses associated with improving our product offerings, customer experience and operational reliability.

Regional aircraft fuel and related taxes per ASM increased 30.7% primarily due to a 29.4% increase in the average price per gallon of fuel to \$2.22 in the first six months of 2018 from \$1.72 in the 2017 period.

Operating Special Items, Net

	Six Months Ended June 30,	
	2018	2017
	(In millions)	
Fleet restructuring expenses ⁽¹⁾	\$166	\$111
Merger integration expenses ⁽²⁾	120	130
Mark-to-market adjustments on bankruptcy obligations ⁽³⁾	(56)	20
Intangible asset impairment ⁽⁴⁾	26	—
Litigation settlement	45	—
Labor contract expenses	13	45
Other operating charges, net	33	14
Total mainline operating special items, net	347	320
Regional operating special items, net	—	4
Total operating special items, net	\$347	\$324

- (1) Fleet restructuring expenses principally included the acceleration of depreciation and impairments for aircraft and related equipment grounded or expected to be grounded earlier than planned.
- (2) Merger integration expenses included costs associated with our remaining integration projects, principally our flight attendant, human resources, payroll and technical operations integrations.
- (3) Bankruptcy obligations will ultimately be settled in shares of our common stock. Accordingly, fluctuations in our stock price result in mark-to-market adjustments to these obligations.
- (4) Intangible asset impairment includes a non-cash charge to write-off our Brazil route authority as a result of ratification of the U.S.-Brazil open skies agreement.

Nonoperating Results

	Six Months Ended		Increase (Decrease)	Percent Increase (Decrease)
	June 30, 2018	June 30, 2017		
	(In millions, except percentage changes)			
Interest income	\$55	\$45	\$ 10	22.7
Interest expense, net	(530)	(520)	(10)	2.0
Other income, net	58	63	(5)	(7.6)
Total nonoperating expense, net	\$(417)	\$(412)	\$ (5)	1.2

In the 2018 period, other nonoperating income, net principally included \$151 million of non-service related pension and other postretirement benefit plan income. This income was offset in part by a \$66 million net special charge for mark-to-market unrealized losses primarily on our equity investment in China Southern Airlines, \$23 million of net foreign currency losses, principally associated with losses from Latin American currencies, and \$14 million of net special charges associated with debt refinancings and extinguishments.

In the 2017 period, other nonoperating income, net principally included \$68 million of non-service related pension and other postretirement benefit plan income, offset in part by \$4 million of net foreign currency losses.

Income Taxes

In the first six months of 2018, we recorded an income tax provision of \$289 million, which was substantially non-cash due to utilization of our NOLs. This provision included a \$22 million special income tax charge to establish a required valuation allowance related to our estimated refund for Alternative Minimum Tax (AMT) credits and an \$18 million special income tax charge related to an international income tax matter. Substantially all of our income before income taxes is attributable to the United States.

See Note 7 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A for additional information on income taxes.

American's Results of Operations

Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

American realized pre-tax income of \$839 million and net income of \$619 million in the second quarter of 2018. This compares to the second quarter 2017 pre-tax income of \$1.4 billion and net income of \$888 million.

The quarter-over-quarter declines in American's pre-tax income were principally driven by an increase in fuel costs, which was offset in part by higher revenues.

Operating Revenues

	Three Months Ended		Increase (Decrease)	Percent Increase (Decrease)
	June 30, 2018	June 30, 2017		
	(In millions, except percentage changes)			
Passenger	\$10,674	\$10,353	\$ 321	3.1
Cargo	261	219	42	19.4
Other	705	652	53	8.1
Total operating revenues	\$11,640	\$11,224	\$ 416	3.7

Passenger revenue increased \$321 million, or 3.1%, in the second quarter of 2018 from the 2017 period due to a quarter-over-quarter increase in RPMs and yields driven by continued strong demand. International yields increased, led by improved yields in the Atlantic market, which more than offset the decrease in domestic yields.

Cargo revenue increased \$42 million, or 19.4%, in the second quarter of 2018 from the 2017 period primarily driven by increases in freight volume and domestic and international freight yields.

Other revenue includes revenue associated with American's loyalty program, airport clubs, advertising and vacation-related services. Other revenue increased \$53 million, or 8.1%, in the second quarter of 2018 from the 2017 period due to higher revenue associated with American's loyalty program. For the three months ended June 30, 2018 and 2017, loyalty revenue included in other revenue was \$582 million and \$533 million, respectively.

Total operating revenues in the second quarter of 2018 increased \$416 million, or 3.7%, from the 2017 period driven principally by a 3.1% increase in passenger revenue as described above.

Operating Expenses

	Three Months		Increase (Decrease)	Percent Increase (Decrease)
	Ended June 30, 2018	2017		
(In millions, except percentage changes)				
Aircraft fuel and related taxes	\$2,103	\$1,510	\$ 593	39.3
Salaries, wages and benefits	3,090	3,034	56	1.9
Maintenance, materials and repairs	505	495	10	2.0
Other rent and landing fees	490	452	38	8.3
Aircraft rent	305	294	11	3.6
Selling expenses	385	376	9	2.6
Depreciation and amortization	463	418	45	10.9
Special items, net	152	202	(50)	(24.5)
Other	1,326	1,223	103	8.4
Regional expenses:				
Aircraft fuel and related taxes	465	329	136	41.1
Other	1,319	1,300	19	1.5
Total operating expenses	\$10,603	\$9,633	\$ 970	10.1

Total operating expenses increased \$970 million, or 10.1%, in the second quarter of 2018 from the 2017 period. The increase in operating expenses was principally driven by an increase in fuel costs.

Significant changes in the components of American's total operating expenses are as follows:

- Aircraft fuel and related taxes increased 39.3% primarily due to a 37.8% increase in the average price per gallon of fuel to \$2.23 in the second quarter of 2018 from \$1.62 in the 2017 period.

- Other rent and landing fees increased 8.3% and was primarily driven by rate increases at certain hub airports in the second quarter of 2018 as compared to the 2017 period.

- Depreciation and amortization increased 10.9% due in part to American's fleet renewal program as subsequent to the second quarter of 2017 American took delivery of 18 newly owned mainline aircraft. Information technology and software development projects associated with American's merger integration also contributed to the increase.

- Other operating expenses increased 8.4% primarily due to expenses associated with improving American's product offerings, customer experience and operational reliability.

- Regional aircraft fuel and related taxes increased 41.1% primarily due to a 35.7% increase in the average price per gallon of fuel to \$2.29 in the second quarter of 2018 from \$1.69 in the 2017 period as well as a 4.0% increase in gallons of fuel consumed.

Operating Special Items, Net

	Three Months Ended June 30, 2018 2017 (In millions)	
Fleet restructuring expenses ⁽¹⁾	\$83	\$48
Merger integration expenses ⁽²⁾	60	68
Mark-to-market adjustments on bankruptcy obligations ⁽³⁾	(57)	38
Intangible asset impairment ⁽⁴⁾	26	—
Litigation settlement	5	—
Labor contract expenses	—	45
Other operating charges, net	35	3
Total mainline operating special items, net	152	202
Regional operating special items, net	—	1
Total operating special items, net	\$152	\$203

(1) Fleet restructuring expenses principally included the acceleration of depreciation and impairments for aircraft and related equipment grounded or expected to be grounded earlier than planned.

(2) Merger integration expenses included costs associated with American's remaining integration projects, principally its flight attendant, human resources, payroll and technical operations integrations.

(3) Bankruptcy obligations will ultimately be settled in shares of AAG common stock. Accordingly, fluctuations in AAG's stock price result in mark-to-market adjustments to these obligations.

(4) Intangible asset impairment includes a non-cash charge to write-off American's Brazil route authority as a result of ratification of the U.S.-Brazil open skies agreement.

Nonoperating Results

	Three Months Ended June 30, 2018 2017		Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Interest income	\$82	\$53	\$ 29	54.0
Interest expense, net	(257)	(246)	(11)	4.0
Other income (expense), net	(23)	29	(52)	nm ⁽¹⁾
Total nonoperating expense, net	\$(198)	\$(164)	\$ (34)	20.8

(1) Not meaningful.

Interest income increased \$29 million due to higher interest-bearing related party receivables from American's parent company, AAG.

In the 2018 period, other nonoperating expense, net principally included a \$66 million net special charge for mark-to-market unrealized losses primarily on American's equity investment in China Southern Airlines, \$29 million of net foreign currency losses, principally associated with losses from Latin American currencies, and \$14 million of net special charges associated with debt refinancings and extinguishments. These charges were offset in part by \$75 million of non-service related pension and other postretirement benefit plan income.

In the 2017 period, other nonoperating income, net principally included \$34 million of non-service related pension and other postretirement benefit plan income, offset in part by \$7 million of net foreign currency losses.

Income Taxes

American is part of the AAG consolidated income tax return.

In the second quarter of 2018, American recorded an income tax provision of \$220 million, which was substantially non-cash due to utilization of its NOLs. This provision included an \$18 million special income tax charge related to an international income tax matter. Substantially all of American's income before income taxes is attributable to the United States. At December 31, 2017, American had approximately \$10.6 billion of federal NOLs and \$3.2 billion of state NOLs, substantially all of which are expected to be available in 2018 to reduce federal and state taxable income. See Note 5 to American's Condensed Consolidated Financial Statements in Part I, Item 1B for additional information on income taxes.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

American realized pre-tax income of \$1.2 billion and net income of \$855 million in the first six months of 2018. This compares to the first six months of 2017 pre-tax income of \$2.0 billion and net income of \$1.3 billion.

The period-over-period declines in American's pre-tax income were principally driven by an increase in fuel costs and higher wage rates, which were offset in part by higher revenues.

Operating Revenues

	Six Months Ended June 30,		Increase (Decrease)	Percent Increase (Decrease)
	2018	2017		
	(In millions, except percentage changes)			
Passenger	\$20,154	\$19,350	\$ 804	4.2
Cargo	488	410	78	19.1
Other	1,396	1,280	116	9.1
Total operating revenues	\$22,038	\$21,040	\$ 998	4.7

Passenger revenue increased \$804 million, or 4.2%, in the first six months of 2018 from the 2017 period primarily driven by a period-over-period increase in RPMs and yields driven by continued strong demand. International yields increased, led by improved yields in the Atlantic market, which more than offset the decrease in domestic yields.

Cargo revenue increased \$78 million, or 19.1%, in the first six months of 2018 from the 2017 period primarily driven by increases in freight volume and domestic and international freight yields.

Other revenue includes revenue associated with American's loyalty program, airport clubs, advertising and vacation-related services. Other revenue increased \$116 million, or 9.1%, in the first six months of 2018 from the 2017 period due to higher revenue associated with American's loyalty program. In the first six months of 2018 and 2017, loyalty revenue included in other revenue was \$1.2 billion and \$1.0 billion, respectively.

Total operating revenues in the first six months of 2018 increased \$998 million, or 4.7%, from the 2017 period driven principally by a 4.2% increase in passenger revenue as described above.

Operating Expenses

	Six Months		Increase (Decrease)	Percent Increase (Decrease)
	Ended June 30, 2018	2017		
	(In millions, except percentage changes)			
Aircraft fuel and related taxes	\$3,866	\$2,912	\$ 954	32.8
Salaries, wages and benefits	6,104	5,891	213	3.6
Maintenance, materials and repairs	973	987	(14)	(1.4)
Other rent and landing fees	952	892	60	6.6
Aircraft rent	609	589	20	3.4
Selling expenses	742	694	48	6.9
Depreciation and amortization	908	822	86	10.5
Special items, net	347	320	27	8.5
Other	2,587	2,404	183	7.6
Regional expenses:				
Aircraft fuel and related taxes	863	648	215	33.2
Other	2,602	2,551	51	2.0
Total operating expenses	\$20,553	\$18,710	\$ 1,843	9.9

Total operating expenses increased \$1.8 billion, or 9.9%, in the first six months of 2018 from the 2017 period. The increase in operating expenses was primarily driven by an increase in fuel costs and higher wage rates.

Significant changes in the components of American's total operating expenses are as follows:

- Aircraft fuel and related taxes increased 32.8% primarily due to a 31.1% increase in the average price per gallon of fuel to \$2.16 in the first six months of 2018 from \$1.65 in the 2017 period.

- Salaries, wages and benefits increased 3.6% primarily due to mid-contract pay rate increases for pilots and flight attendants effective in the second quarter of 2017.

- Depreciation and amortization increased 10.5% due in part to American's fleet renewal program as subsequent to the second quarter of 2017 American took delivery of 18 newly owned mainline aircraft. Information technology and software development projects associated with American's merger integration also contributed to the increase.

- Other operating expenses increased 7.6% primarily due to expenses associated with improving American's product offerings, customer experience and operational reliability.

- Regional aircraft fuel and related taxes increased 33.2% primarily due to a 29.4% increase in the average price per gallon of fuel to \$2.22 in the first six months of 2018 from \$1.72 in the 2017 period.

Operating Special Items, Net

	Six Months Ended June 30,	
	2018	2017
	(In millions)	
Fleet restructuring expenses ⁽¹⁾	\$166	\$111
Merger integration expenses ⁽²⁾	120	130
Mark-to-market adjustments on bankruptcy obligations ⁽³⁾	(56)	20
Intangible asset impairment ⁽⁴⁾	26	—
Litigation settlement	45	—
Labor contract expenses	13	45
Other operating charges, net	33	14
Total mainline operating special items, net	347	320
Regional operating special items, net	—	4
Total operating special items, net	\$347	\$324

(1) Fleet restructuring expenses principally included the acceleration of depreciation and impairments for aircraft and related equipment grounded or expected to be grounded earlier than planned.

(2) Merger integration expenses included costs associated with American's remaining integration projects, principally its flight attendant, human resources, payroll and technical operations integrations.

(3) Bankruptcy obligations will ultimately be settled in shares of AAG common stock. Accordingly, fluctuations in AAG's stock price result in mark-to-market adjustments to these obligations.

(4) Intangible asset impairment includes a non-cash charge to write-off American's Brazil route authority as a result of ratification of the U.S.-Brazil open skies agreement.

Nonoperating Results

	Six Months Ended June 30,		Increase (Decrease)	Percent Increase (Decrease)
	2018	2017		
	(In millions, except percentage changes)			
Interest income	\$155	\$102	\$ 53	52.1
Interest expense, net	(510)	(488)	(22)	4.5
Other income, net	59	63	(4)	(7.1)
Total nonoperating expense, net	\$(296)	\$(323)	\$ 27	(8.2)

Interest income increased \$53 million due to higher interest-bearing related party receivables from American's parent company, AAG.

In the 2018 period, other nonoperating income, net principally included \$151 million of non-service related pension and other postretirement benefit plan income. This income was offset in part by a \$66 million net special charge for mark-to-market unrealized losses primarily on American's equity investment in China Southern Airlines, \$23 million of net foreign currency losses, principally associated with losses from Latin American currencies, and \$14 million of net special charges associated with debt refinancings and extinguishments.

In the 2017 period, other nonoperating income, net principally included \$68 million of non-service related pension and other postretirement benefit plan income, offset in part by \$4 million of net foreign currency losses.

Income Taxes

American is part of the AAG consolidated income tax return.

In the first six months of 2018, American recorded an income tax provision of \$334 million, which was substantially non-cash due to utilization of its NOLs. This provision included a \$30 million special income tax charge to establish a required valuation allowance related to American's estimated refund for AMT credits and an \$18 million special income tax charge related to an international income tax matter. Substantially all of American's income before income taxes is attributable to the United States.

See Note 5 to American's Condensed Consolidated Financial Statements in Part I, Item 1B for additional information on income taxes.

Liquidity and Capital Resources

Liquidity

As of June 30, 2018, AAG had approximately \$7.2 billion in total available liquidity and \$183 million in restricted cash and short-term investments. Additional detail of our available liquidity is provided in the table below (in millions):

	AAG		American	
	June	December	June	December
	30,	31, 2017	30,	31, 2017
	2018		2018	
Cash	\$293	\$ 295	\$282	\$ 287
Short-term investments	4,381	4,771	4,370	4,768
Undrawn revolving credit facilities	2,500	2,500	2,500	2,500
Total available liquidity	\$7,174	\$ 7,566	\$7,152	\$ 7,555

Share Repurchase Programs

In April 2018, we announced that our Board of Directors authorized a new \$2.0 billion share repurchase program that expires on December 31, 2020. Since July 2014, our Board of Directors has approved seven share repurchase programs aggregating \$13.0 billion of authority. As of June 30, 2018, there was \$1.7 billion remaining authority to repurchase shares under our new \$2.0 billion share repurchase program. Share repurchases under our repurchase programs may be made through a variety of methods, which may include open market purchases, privately negotiated transactions, block trades or accelerated share repurchase transactions. Any such repurchases will be made from time to time subject to market and economic conditions, applicable legal requirements and other relevant factors. We are not obligated to repurchase any specific number of shares and our repurchase of common stock may be limited, suspended or discontinued at any time at our discretion.

During the three months ended June 30, 2018, we repurchased 8.2 million shares of AAG common stock for \$350 million at a weighted average cost per share of \$42.81. During the six months ended June 30, 2018, we repurchased 16.6 million shares of AAG common stock for \$800 million at a weighted average cost per share of \$48.15. Since the inception of our share repurchase programs in July 2014, we have repurchased 278.9 million shares of AAG common stock for \$11.3 billion at a weighted average cost per share of \$40.69.

Cash Dividends

Our Board of Directors declared a cash dividend of \$0.10 per share for stockholders of record as of May 8, 2018 and paid on May 22, 2018, totaling \$46 million. For the first six months of 2018, we paid total quarterly cash dividends of \$94 million.

In July 2018, we announced that our Board of Directors declared a \$0.10 per share dividend for stockholders of record as of August 7, 2018, and payable on August 21, 2018.

Any future dividends that may be declared and paid from time to time will be subject to market and economic conditions, applicable legal requirements and other relevant factors. We are not obligated to continue a dividend for any fixed period, and the payment of dividends may be suspended at any time at our discretion.

Collateral-Related Covenants

Certain of our debt financing agreements contain loan to value ratio covenants and require us to appraise the related collateral annually. Pursuant to such agreements, if the loan to value ratio exceeds a specified threshold, we are required, as applicable, to pledge additional qualifying collateral (which in some cases may include cash collateral), or pay down such financing, in whole or in part. As of June 30, 2018, we were in compliance with the collateral coverage tests for the 2013 Credit Facilities, the 2014 Credit Facilities, the April 2016 Credit Facilities and the December 2016 Credit Facilities as of the most recent measurement dates.

Credit Ratings

The following table details AAG and American's credit ratings as of June 30, 2018:

	Current Rating
S&P Local Issuer Credit Rating	BB-
Fitch Issuer Default Credit Rating	BB-
Moody's Corporate Family Rating ⁽¹⁾	Ba3

⁽¹⁾ This rating is for AAG only. The credit agency does not rate this category for American.

A decrease in our credit ratings could cause our borrowing costs to increase, which would increase our interest expense and could affect our net income, and our credit ratings could adversely affect our ability to obtain additional financing. If our financial performance or industry conditions worsen, we may face future downgrades, which could negatively impact our borrowing costs and the prices of our equity or debt securities. In addition, any downgrade of our credit ratings may indicate a decline in our business and in our ability to satisfy our obligations under our indebtedness.

Sources and Uses of Cash

AAG

Operating Activities

Our net cash provided by operating activities was \$2.9 billion and \$3.9 billion for the first six months of 2018 and 2017, respectively, a period-over-period decrease of \$1.0 billion. This decrease in operating cash flows from the 2017 to the 2018 period was primarily due to lower profitability in the first six months of 2018 driven by an increase in fuel costs and higher wage rates due to mid-contract pay rate increases for pilots and flight attendants effective in the second quarter of 2017, which were offset in part by higher revenues.

Investing Activities

Our net cash used in investing activities was \$1.0 billion and \$3.3 billion for the first six months of 2018 and 2017, respectively.

Our principal investing activities in the 2018 period included expenditures of \$1.7 billion for property and equipment, including seven Boeing 737-8 MAX aircraft and two Boeing 787 Family aircraft. These cash outflows were offset in part by \$395 million in net sales of short-term investments and \$258 million of proceeds primarily from aircraft sale-leaseback transactions.

Our principal investing activities in the 2017 period included expenditures of \$3.2 billion for property and equipment, including 15 Airbus A321 aircraft, 10 Boeing 737-800 aircraft, nine Embraer 175 aircraft, and eight Boeing 787 Family aircraft. We also had \$456 million in net purchases of short-term investments. These cash outflows were offset in part by \$313 million of proceeds primarily from aircraft sale-leaseback transactions.

Financing Activities

Our net cash used in financing activities was \$1.9 billion and \$621 million for the first six months of 2018 and 2017, respectively.

Our principal financing activities in the 2018 period included \$1.9 billion in debt repayments, consisting of \$1.4 billion in scheduled debt repayments, including the repayment of our \$500 million 6.125% senior notes, and the prepayment of \$454 million of secured loans. We also had \$837 million in share repurchases and \$94 million in dividend payments. These cash outflows were offset in part by net proceeds of \$892 million from the issuance of debt, primarily including the issuance of equipment notes related to EETCs.

Our principal financing activities in the 2017 period included \$1.1 billion in scheduled debt repayments, \$1.0 billion in share repurchases and \$102 million in dividend payments. These cash outflows were offset in part by net proceeds of \$1.6 billion from the issuance of debt, primarily the issuance of \$1.1 billion of EETCs and \$533 million borrowed in connection with the financing of certain aircraft.

American

Operating Activities

American's net cash provided by operating activities was \$1.4 billion and \$2.8 billion for the first six months of 2018 and 2017, respectively, a period-over-period decrease of \$1.4 billion. This decrease in operating cash flows from the 2017 to the 2018 period was primarily due to lower profitability in the first six months of 2018 driven by an increase in fuel costs and higher wage rates due to mid-contract pay rate increases for pilots and flight attendants effective in the second quarter of 2017, which were offset in part by higher revenues.

Investing Activities

American's net cash used in investing activities was \$1.0 billion and \$3.2 billion for the first six months of 2018 and 2017, respectively.

American's principal investing activities in the 2018 period included expenditures of \$1.7 billion for property and equipment, including seven Boeing 737-8 MAX aircraft and two Boeing 787 Family aircraft. These cash outflows were offset in part by \$403 million in net sales of short-term investments and \$255 million of proceeds primarily from aircraft sale-leaseback transactions.

American's principal investing activities in the 2017 period included expenditures of \$3.2 billion for property and equipment, including 15 Airbus A321 aircraft, 10 Boeing 737-800 aircraft, nine Embraer 175 aircraft, and eight Boeing 787 Family aircraft. American also had \$456 million in net purchases of short-term investments. These cash outflows were offset in part by \$312 million of proceeds primarily from aircraft sale-leaseback transactions.

Financing Activities

American's net cash used in financing activities was \$509 million for the first six months of 2018, and American's net cash provided by financing activities was \$494 million for the first six months of 2017.

American's principal financing activities in the 2018 period included \$1.4 billion in debt repayments, consisting of \$929 million in scheduled debt repayments and the prepayment of \$454 million of secured loans. These cash outflows were offset in part by net proceeds of \$892 million from the issuance of debt, primarily including the issuance of equipment notes related to EETCs.

American's principal financing activities in the 2017 period included \$1.1 billion in scheduled debt repayments. These cash outflows were offset by net proceeds of \$1.6 billion from the issuance of debt, primarily including the issuance of \$1.1 billion of EETCs and \$533 million borrowed in connection with the financing of certain aircraft.

Commitments

Significant Indebtedness

As of June 30, 2018, AAG and American had \$24.3 billion and \$23.0 billion, respectively, including current maturities of \$2.2 billion, in long-term debt and capital leases. During the six months ended June 30, 2018, there have been no material changes in our significant indebtedness as discussed in our 2017 Form 10-K, except as discussed in Note 6 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A and Note 4 to American's Condensed Consolidated Financial Statements in Part I, Item 1B.

Aircraft and Engine Purchase Commitments

As of June 30, 2018, we had definitive purchase agreements with Airbus, Boeing, Embraer and Bombardier for the acquisition of the following mainline and regional aircraft:

	Remainder of 2018	2019	2020	2021	2022	2023 and Thereafter	Total
Airbus ⁽¹⁾							
A320neo Family	—	17	15	18	20	30	100
Boeing ⁽²⁾							
737 MAX Family	9	20	10	10	—	40	89
787 Family	4	2	12	10	—	25	53
Embraer ⁽³⁾							
E175	5	20	—	—	—	—	25
Bombardier ⁽³⁾							
CRJ900	—	14	1	—	—	—	15
Total	18	73	38	38	20	95	282

In April 2018, American and Airbus agreed to terminate the parties' A350 XWB purchase agreement and cancel the parties' obligations thereunder. American was scheduled to acquire 22 Airbus A350 aircraft with deliveries commencing in 2020 and continuing through 2024. The table above reflects the termination of this agreement. In addition, the termination of this agreement is reflected below in the Contractual Obligations table.

In July 2018, American and Airbus entered into an agreement to defer the delivery of 22 Airbus A321neo aircraft currently scheduled for delivery in 2019, 2020 and 2021. These aircraft are now scheduled to be delivered in 2024. The table above reflects this revised delivery schedule. In addition, the future payments in the Contractual Obligations table below reflect these transactions.

In April 2018, American agreed with Boeing to acquire an additional 47 Boeing 787 aircraft, consisting of 22 787-8 aircraft and 25 787-9 aircraft with deliveries scheduled to commence in 2020 and continue through 2026. Additionally, American agreed with Boeing to defer the delivery of 40 737 MAX aircraft currently scheduled for delivery in 2020, 2021 and 2022. These aircraft are now scheduled to be delivered in 2025 and 2026. The table above reflects the additional 47 Boeing 787 aircraft deliveries as well as the revised delivery schedule for the 40 737 MAX aircraft. In addition, the future payments in the Contractual Obligations table below reflect these transactions.

These aircraft may be operated by wholly-owned regional subsidiaries which would operate the aircraft under capacity purchase arrangements. In May 2018, American agreed to purchase 15 additional E175 regional aircraft from Embraer S.A. and 15 additional CRJ900 aircraft from Bombardier Inc. scheduled for delivery in 2019 and 2020. Additionally, American obtained options to purchase an additional 15 E175 aircraft and 15 CRJ900 aircraft from Embraer S.A. and Bombardier Inc., respectively.

We also have agreements for 41 spare engines to be delivered in 2018 and beyond.

As of June 30, 2018, we had financing commitments for all of the aircraft currently on order and scheduled to be delivered through December 2018. We do not have financing commitments for the following aircraft currently on order and scheduled to be delivered through the end of 2019: 17 Airbus A320neo Family aircraft, 20 Boeing 737 MAX Family aircraft, 15 Embraer E175 aircraft, 14 Bombardier CRJ-900 aircraft and two Boeing 787 Family aircraft. In addition, with the exception of the 47 recently ordered 787 Family aircraft, we do not have financing commitments in place for the remaining aircraft currently on order and scheduled to be delivered in 2020 and beyond. See Part II, Item 1A. Risk Factors – “We will need to obtain sufficient financing or other capital to operate successfully” for additional discussion.

Off-Balance Sheet Arrangements

An off-balance sheet arrangement is any transaction, agreement or other contractual arrangement involving an unconsolidated entity under which a company has (1) made guarantees, (2) a retained or a contingent interest in transferred assets, (3) an obligation under derivative instruments classified as equity or (4) any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to us, or that engages in leasing, hedging or research and development arrangements with us.

There have been no material changes in our off-balance sheet arrangements as discussed in our 2017 Form 10-K.

Contractual Obligations

The following table provides details of our future cash contractual obligations as of June 30, 2018 (in millions):

	Payments Due by Period						Total
	Remainder of 2018	2019	2020	2021	2022	2023 and Thereafter	
American							
Debt and capital lease obligations ^{(a) (c)}	\$ 1,040	\$ 2,113	\$ 1,755	\$ 2,938	\$ 1,365	\$ 13,819	\$ 23,030
Interest obligations ^{(b) (c)}	491	932	859	763	654	1,696	5,395
Aircraft and engine purchase commitments ^(d)	996	2,891	1,228	967	1,363	7,489	14,934
Operating lease commitments ^(e)	1,194	2,180	1,993	1,673	1,500	6,127	14,667
Regional capacity purchase agreements ^(f)	725	1,377	1,172	979	801	2,003	7,057
Minimum pension obligations ^(g)	153	890	484	495	581	1,476	4,079
Retiree medical and other postretirement benefits	48	92	80	75	70	314	679
Other purchase obligations ^(h)	1,046	2,046	1,149	1,120	55	12	5,428
Total American Contractual Obligations	\$5,693	\$12,521	\$8,720	\$9,010	\$6,389	\$ 32,936	\$75,269
AAG and Other AAG Subsidiaries							
Debt and capital lease obligations ^(a)	\$—	\$ 750	\$ 505	\$ 2	\$ 2	\$ 20	\$ 1,279
Interest obligations ^(b)	32	67	14	2	2	6	123
Minimum pension obligations ^(g)	3	7	3	3	4	19	39
Operating lease commitments	9	8	9	6	5	14	51
Total AAG Contractual Obligations	\$5,737	\$13,353	\$9,251	\$9,023	\$6,402	\$ 32,995	\$76,761

Amounts represent contractual amounts due. Excludes \$229 million and \$233 million of unamortized debt discount, premium and issuance costs as of June 30, 2018 for American and AAG, respectively. For additional information, see Note 6 and Note 4 to AAG's and American's Condensed Consolidated Financial Statements in Part I, Items 1A and 1B.

^(b) For variable-rate debt, future interest obligations are estimated using the current forward rates at June 30, 2018.

^(c) Includes \$11.9 billion of future principal payments and \$2.6 billion of future interest payments, as of June 30, 2018, related to EETC debt financings of certain aircraft.

- See Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – “Liquidity and Capital Resources” for additional information about these obligations. Boeing has committed to provide sale-leaseback financing (in the form of operating leases) for the 22 787-8 aircraft to be delivered in 2020 and 2021. This financing is reflected in the operating lease commitments line above.
- (d) Includes \$401 million of future minimum lease payments related to EETC leveraged lease financings of certain aircraft as of June 30, 2018.
 - (e) Represents minimum payments under capacity purchase agreements with third-party regional carriers. These commitments are estimates of costs based on assumed minimum levels of flying under the capacity purchase agreements and our actual payments could differ materially.
 - (f) Includes minimum pension contributions based on actuarially determined estimates and is based on estimated payments through 2027. The total expected pension contribution of \$156 million for the remainder of 2018 assumes a supplemental contribution of \$153 million in addition to the \$3 million minimum required contribution.
 - (g) Includes purchase commitments for jet fuel, facility construction projects and information technology support.

Capital Raising Activity and Other Possible Actions

In light of our significant financial commitments related to, among other things, new aircraft, the servicing and amortization of existing debt and equipment leasing arrangements, and future pension funding obligations, we and our subsidiaries will regularly consider, and enter into negotiations related to, capital raising activity, which may include the entry into leasing transactions and future issuances of secured or unsecured debt obligations or additional equity securities in public or private offerings or otherwise. The cash available from operations and these sources, however, may not be sufficient to cover cash contractual obligations because economic factors may reduce the amount of cash generated by operations or increase costs. For instance, an economic downturn or general global instability caused by military actions, terrorism, disease outbreaks or natural disasters could reduce the demand for air travel, which would reduce the amount of cash generated by operations. An increase in costs, either due to an increase in borrowing costs caused by a reduction in credit ratings or a general increase in interest rates, or due to an increase in the cost of fuel, maintenance, or aircraft, aircraft engines or parts, could decrease the amount of cash available to cover cash contractual obligations. Moreover, certain of our financing arrangements contain significant minimum cash balance requirements. As a result, we cannot use all of our available cash to fund operations, capital expenditures and cash obligations without violating these requirements.

In the past, we have from time to time refinanced, redeemed or repurchased our debt and taken other steps to reduce or otherwise manage the aggregate amount and cost of our debt or lease obligations or otherwise improve our balance sheet. Going forward, depending on market conditions, our cash position and other considerations, we may continue to take such actions.

Our Board of Directors has from time to time authorized programs to repurchase shares of our common stock, one of which is currently in effect and may authorize additional share repurchase programs in the future.

Critical Accounting Policies and Estimates

In the second quarter of 2018, there were no changes to our critical accounting policies and estimates from those disclosed in the Consolidated Financial Statements and accompanying notes contained in our 2017 Form 10-K, except as discussed below relating to the New Revenue Standard.

Effective January 1, 2018, we adopted the New Revenue Standard using the full retrospective method, which resulted in the recast of the prior reporting periods. See Recent Accounting Pronouncements below for effects of adoption on our condensed consolidated statement of operations for the three and six months ended June 30, 2017 and on our consolidated balance sheet as of December 31, 2017. Under the New Revenue Standard, revenue is recognized upon transfer of control of promised products or services to our customers in an amount that reflects the consideration we expect to receive in exchange for those products or services.

Passenger Revenue

We recognize all revenues generated from transportation on American and our regional flights operated under the brand name American Eagle, including associated baggage fees, ticketing change fees and other inflight services, as passenger revenue when transportation is provided. Ticket and other related sales for transportation that has not yet been provided are initially deferred and recorded as air traffic liability on the condensed consolidated balance sheets. The air traffic liability principally represents tickets sold for future travel dates and estimated future refunds and exchanges of tickets sold for past travel dates.

The majority of tickets sold are nonrefundable. A small percentage of tickets, some of which are partially used tickets, expire unused. Due to complex pricing structures, refund and exchange policies, and interline agreements with other airlines, certain amounts are recognized in passenger revenue using estimates regarding both the timing of the revenue recognition and the amount of revenue to be recognized. These estimates are generally based on the analysis of our historical data. We have consistently applied this accounting method to estimate revenue from forfeited tickets at the date of travel. Estimated future refunds and exchanges included in the air traffic liability are routinely evaluated based on subsequent activity to validate the accuracy of our estimates. Any adjustments resulting from periodic evaluations of the estimated air traffic liability are included in passenger revenue during the period in which the evaluations are completed.

Various taxes and fees assessed on the sale of tickets to end customers are collected by us as an agent and remitted to taxing authorities. These taxes and fees have been presented on a net basis in the accompanying condensed consolidated statements of operations and recorded as a liability until remitted to the appropriate taxing authority.

Loyalty Revenue

We currently operate the loyalty program, AAdvantage. This program awards mileage credits to passengers who fly on American, any oneworld airline or other partner airlines, or by using the services of other program participants, such as the Citi and Barclays US co-branded cards, hotels and car rental companies. Mileage credits can be redeemed for travel on American and other participating partner airlines as well as other non-air travel awards such as hotels and rental cars. For mileage credits earned by AAdvantage loyalty program members, we apply the deferred revenue method in accordance with the New Revenue Standard.

Mileage credits earned through travel

For mileage credits earned through travel, we apply a relative selling price approach whereby the total amount collected from each passenger ticket sale is allocated between the air transportation and the mileage credits earned. The portion of each passenger ticket sale attributable to mileage credits earned is initially deferred and then recognized in passenger revenue when mileage credits are redeemed and transportation is provided. The estimated selling price of mileage credits is determined using an equivalent ticket value approach which uses historical data, including award redemption patterns by geographic region and class of service as well as similar fares as those used to settle award redemptions. The estimated selling price of miles is adjusted for an estimate of miles that will not be redeemed based on historical redemption patterns. For the year ended December 31, 2017, a hypothetical 10% increase in the estimated selling price of miles would have decreased revenues by approximately \$100 million as a result of additional amounts being deferred from passenger ticket sales.

Mileage credits sold to co-branded cards and other partners

We sell mileage credits to participating airline partners and non-airline business partners including our co-branded card partners, under contracts with terms extending generally for one to nine years. Sales of mileage credits to non-airline business partners are comprised of two components, transportation and marketing. We allocate the consideration received from the sale of mileage credits based on the relative selling price of each product or service delivered.

Our most significant partner agreements are our co-branded card program agreements with Citi and Barclays US that we entered into in 2016. We identified the following revenue elements in these co-branded card agreements: the transportation component; and the use of intellectual property including the American brand and access to loyalty program member lists, which is the predominant element in the agreements, as well as advertising (collectively, the marketing component). Accordingly, we recognize the marketing component in other revenue in the period of the mileage sale following the sales-based royalty method.

The transportation component represents the estimated selling price of future travel awards and is determined using the same equivalent ticket value approach described above. The portion of each mileage credit sold attributable to transportation is initially deferred and then recognized in passenger revenue when mileage credits are redeemed and transportation is provided.

For the portion of our outstanding mileage credits that we estimate will not be redeemed, we recognize the associated value proportionally as the remaining mileage credits are redeemed. Our estimates are based on analysis of historical redemption patterns. For the year ended December 31, 2017, a hypothetical 10% increase in our estimate of miles not expected to be redeemed would have increased revenues by approximately \$100 million.

Cargo Revenue

Cargo revenue is recognized when we provide the transportation.

Other Revenue

Other revenue includes revenue associated with our loyalty program, which is comprised principally of the marketing component of mileage sales to co-branded card and other partners and other marketing related payments. The accounting and recognition for the loyalty program marketing services are discussed above in Loyalty Revenue. The remaining amounts included within other revenue relate to airport clubs, advertising and vacation-related services.

Recent Accounting Pronouncements

Standards Effective for 2018 Reporting Periods

Effective January 1, 2018, we adopted the accounting pronouncements described below.

ASU 2014-09: Revenue from Contracts with Customers (Topic 606) (the New Revenue Standard)

The New Revenue Standard applies to all companies that enter into contracts with customers to transfer goods or services. We adopted the New Revenue Standard using the full retrospective method, which resulted in the recast of prior reporting periods.

The adoption of the New Revenue Standard impacted our accounting for outstanding mileage credits earned through travel by AAdvantage loyalty program members. There was no change in accounting for sales of mileage credits to co-branded card or other partners. Prior to the adoption of the New Revenue Standard, we used the incremental cost method to account for the portion of our loyalty program liability related to mileage credits earned through travel, which were valued based on the estimated incremental cost of carrying one additional passenger. The New Revenue Standard required us to change our policy to the deferred revenue method and apply a relative selling price approach whereby a portion of each passenger ticket sale attributable to mileage credits earned is deferred and recognized in passenger revenue upon future mileage redemption. The value of the earned mileage credits is materially greater under the deferred revenue method than the value attributed to these mileage credits under the incremental cost method.

The New Revenue Standard also required certain reclassifications, principally the reclassification of certain ancillary revenues previously classified and reported as other revenue to passenger revenue and as applicable to cargo revenue. Additionally, the New Revenue Standard required a gross presentation on the face of our condensed consolidated statement of operations for certain revenues and expenses that had previously been presented on a net basis.

See recast condensed consolidated statement of operations data for the three and six months ended June 30, 2017 and recast consolidated balance sheet data as of December 31, 2017 presented below for the effects of adoption.

ASU 2017-07: Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (the New Retirement Standard)

The New Retirement Standard required all components of our net periodic benefit cost (income), with the exception of service cost, previously reported within operating expenses as salaries, wages and benefits, to be reclassified and reported within nonoperating income (expense). The New Retirement Standard was applied retrospectively, which resulted in the recast of each prior reporting period presented. The adoption of the New Retirement Standard had no impact on pre-tax income or net income reported.

See recast condensed consolidated statement of operations data for the three and six months ended June 30, 2017 presented below for the effects of adoption.

Impacts to Prior Period Results

The effects of adoption of the New Revenue Standard and New Retirement Standard to our condensed consolidated statement of operations for the three and six months ended June 30, 2017 were as follows (in millions, except per share amounts):

Three Months Ended June 30, 2017	As Reported	New Revenue Standard		New Retirement Standard		As Recast
		Deferred Revenue Method	Reclassifications	Reclassifications		
Operating revenues:						
Passenger	\$ 9,582	\$ 98	\$ 673	\$	—	\$ 10,353
Cargo	196	—	23	—	—	219
Other	1,327	—	(672)	—	—	655
Total operating revenues	11,105	98	24	—	—	11,227
Total operating expenses	9,570	—	24	34	—	9,628
Operating income	1,535	98	—	(34)	)	1,599
Total nonoperating expense, net	(244)	)	—	34	—	(210)
Income before income taxes	1,291	98	—	—	—	1,389
Income tax provision	488	37	—	—	—	525
Net income	\$ 803	\$ 61	\$ —	\$	—	\$ 864
Diluted earnings per common share	\$ 1.63					\$ 1.75
Six Months Ended June 30, 2017						
Six Months Ended June 30, 2017	As Reported	New Revenue Standard		New Retirement Standard		As Recast
		Deferred Revenue Method	Reclassifications	Reclassifications		
Operating revenues:						
Passenger	\$ 17,737	\$ 268	\$ 1,345	\$	—	\$ 19,350
Cargo	368	—	42	—	—	410
Other	2,624	—	(1,337)	—	—	1,287
Total operating revenues	20,729	268	50	—	—	21,047
Total operating expenses	18,593	—	50	68	—	18,711
Operating income	2,136	268	—	(68)	)	2,336
Total nonoperating expense, net	(480)	)	—	68	—	(412)
Income before income taxes	1,656	268	—	—	—	1,924
Income tax provision	619	101	—	—	—	720
Net income	\$ 1,037	\$ 167	\$ —	\$	—	\$ 1,204
Diluted earnings per common share	\$ 2.07					\$ 2.41

The effects of adoption of the New Revenue Standard to our December 31, 2017 consolidated balance sheet are as follows (in millions):

	As Reported	New Revenue Standard	As Recast
Deferred tax asset	\$ 427	\$ 1,389	\$ 1,816
Air traffic liability	3,978	64	4,042
Current loyalty program liability	2,791	330	3,121
Noncurrent loyalty program liability	—	5,701	5,701
Total stockholders' equity (deficit)	3,926	(4,706)	(780)

See Note 1 to AAG's Condensed Consolidated Financial Statements in Part 1, Item 1A and Note 1 to American's Condensed Consolidated Financial Statements in Part 1, Item 1B for further information on recent accounting pronouncements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

AAG and American's Market Risk Sensitive Instruments and Positions

Our primary market risk exposures include the price of aircraft fuel, foreign currency exchange rates and interest rate risk. Our exposure to these market risks has not changed materially from our exposure discussed in our 2017 Form 10-K except as updated below.

Aircraft Fuel

As of June 30, 2018, we did not have any fuel hedging contracts outstanding to hedge our fuel consumption. As such, and assuming we do not enter into any future transactions to hedge our fuel consumption, we will continue to be fully exposed to fluctuations in fuel prices. Our current policy is not to enter into transactions to hedge our fuel consumption, although we review that policy from time to time based on market conditions and other factors. Based on our 2018 forecasted fuel consumption, we estimate that a one cent per gallon increase in aviation fuel price would increase our 2018 annual fuel expense by \$45 million.

Foreign Currency

We are exposed to the effect of foreign exchange rate fluctuations on the U.S. dollar value of foreign currency-denominated operating revenues and expenses. Our largest exposure comes from the British pound, Euro, Canadian dollar and various Latin American currencies, primarily the Brazilian real. We do not currently have a foreign currency hedge program.

Generally, fluctuations in foreign currencies, including devaluations, cannot be predicted by us and can significantly affect the value of our assets located outside the United States. These conditions, as well as any further delays, devaluations or imposition of more stringent repatriation restrictions, may materially adversely affect our business, results of operations and financial condition. See Part II, Item 1A. Risk Factors – “We operate a global business with international operations that are subject to economic and political instability and have been, and in the future may continue to be, adversely affected by numerous events, circumstances or government actions beyond our control” for additional discussion of this and other currency risks.

Interest

Our earnings and cash flow are affected by changes in interest rates due to the impact those changes have on our interest expense from variable rate debt instruments and our interest income from short-term, interest bearing investments. If annual interest rates increase 100 basis points, based on our June 30, 2018 variable-rate debt and short term investments balances, annual interest expense on variable rate debt would increase by approximately \$91 million and annual interest income on short-term investments would increase by approximately \$47 million.

ITEM 4. CONTROLS AND PROCEDURES

Management's Evaluation of Disclosure Controls and Procedures

The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act). This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC. An evaluation of the effectiveness of AAG's and American's disclosure controls and procedures as of June 30, 2018 was performed under the supervision and with the participation of AAG's and American's management, including AAG's and American's Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Based on that evaluation, AAG's and American's management, including AAG's and American's CEO and CFO, concluded that AAG's and American's disclosure controls and procedures were effective as of June 30, 2018.

Changes in Internal Control over Financial Reporting

On December 9, 2013, AAG acquired US Airways Group and its subsidiaries. We are still in the process of integrating certain processes, technology and operations for the post-Merger combined company, and we will continue to evaluate the impact of any related changes to our internal control over financial reporting. In connection with the adoption of the New Revenue Standard on January 1, 2018, we materially modified certain processes related to our loyalty program. The operating effectiveness of these changes will be evaluated as part of our annual assessment of internal control over financial reporting. For the quarter ended June 30, 2018, there have been no changes in AAG's or American's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, AAG's and American's internal control over financial reporting.

Limitation on the Effectiveness of Controls

We believe that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, and the CEO and CFO of AAG and American believe that our disclosure controls and procedures were effective at the "reasonable assurance" level as of June 30, 2018.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Chapter 11 Cases. On November 29, 2011, AMR, American, and certain of AMR's other direct and indirect domestic subsidiaries (the Debtors) filed voluntary petitions for relief under Chapter 11 of the United States 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 approving and confirming the Debtors' fourth amended joint plan of reorganization (as amended, the Plan). On the Effective Date, December 9, 2013, the Debtors consummated their reorganization pursuant to the Plan and completed the Merger.

Pursuant to rulings of the Bankruptcy Court, the Plan established the Disputed Claims Reserve to hold shares of AAG common stock reserved for issuance to disputed claimholders at the Effective Date that ultimately become holders of allowed claims. As of June 30, 2018, there were approximately 24.5 million shares of AAG common stock remaining in the Disputed Claims Reserve. As disputed claims are resolved, the claimants will receive distributions of shares from the Disputed Claims Reserve. However, we are not required to distribute additional shares above the limits contemplated by the Plan, even if the shares remaining for distribution are not sufficient to fully pay any additional allowed unsecured claims. To the extent that any of the reserved shares remain undistributed upon resolution of all remaining disputed claims, such shares will not be returned to us but rather will be distributed to former AMR stockholders.

There is also pending in the Bankruptcy Court an adversary proceeding relating to an action brought by American to seek a determination that certain non-pension, postemployment benefits are not vested benefits and thus may be modified or terminated without liability to American. As of June 30, 2018, we have determined not to pursue this claim and have a motion pending in the Bankruptcy Court to this effect.

DOJ Antitrust Civil Investigative Demand. In June 2015, we received a Civil Investigative Demand (CID) from the United States Department of Justice (DOJ) as part of an investigation into whether there have been illegal agreements or coordination of air passenger capacity. The CID seeks documents and other information from us, and other airlines have announced that they have received similar requests. We are cooperating fully with the DOJ investigation.

Private Party Antitrust Action. Subsequent to announcement of the delivery of CIDs by the DOJ, we, along with Delta Air Lines, Inc., Southwest Airlines Co., United Airlines, Inc. and, in the case of litigation filed in Canada, Air Canada, have been named as defendants in approximately 100 putative class action lawsuits alleging unlawful agreements with respect to air passenger capacity. The U.S. lawsuits have been consolidated in the Federal District Court for the District of Columbia. On June 15, 2018, we reached a preliminary settlement agreement with the plaintiffs in the amount of \$45 million that, once approved, will resolve all claims in the U.S. lawsuits. That settlement received preliminary approval from the Court on June 18, 2018. We expect the Court to issue final approval of the settlement later this year.

Private Party Antitrust Action Related to the Merger. On August 6, 2013, a lawsuit captioned Carolyn Fjord, et al., v. AMR Corporation, et al., was filed in the United States Bankruptcy Court for the Southern District of New York. The complaint named as defendants US Airways Group, US Airways, AMR and American, alleged that the effect of the Merger may be to create a monopoly in violation of Section 7 of the Clayton Antitrust Act, and sought injunctive relief and/or divestiture. On November 27, 2013, the Bankruptcy Court denied plaintiffs' motion to preliminarily enjoin the Merger. On March 26, 2018, the Court held a hearing on motions for summary judgment filed by defendants and plaintiffs. The Court has not yet issued an order. We believe this lawsuit is without merit and intend to vigorously defend against the allegations.

DOJ Investigation Related to the United States Postal Service. In April 2015, the DOJ informed us of an inquiry regarding American's 2009 and 2011 contracts with the United States Postal Service for the international transportation of mail by air. In October 2015, we received a CID from the DOJ seeking certain information relating to these contracts and the DOJ has also sought information concerning certain of the airlines that transport mail on a codeshare basis. The DOJ has indicated it is investigating potential violations of the False Claims Act or other statutes. We are cooperating fully with the DOJ with regard to its investigation.

General. In addition to the specifically identified legal proceedings, we and our subsidiaries are also engaged in other legal proceedings from time to time. Legal proceedings can be complex and take many months, or even years, to reach

resolution, with the final outcome depending on a number of variables, some of which are not within our control. Therefore, although we will vigorously defend ourselves in each of the actions described above and such other legal proceedings, their ultimate resolution and potential financial and other impacts on us are uncertain but could be material. See Part II, Item 1A. Risk Factors – “We may be a party to litigation in the normal course of business or otherwise, which could affect our financial position and liquidity” for additional discussion.

ITEM 1A. RISK FACTORS

Below are certain risk factors that may affect our business, results of operations and financial condition, or the trading price of our common stock or other securities. We caution the reader that these risk factors may not be exhaustive. We operate in a continually changing business environment, and new risks and uncertainties emerge from time to time. Management cannot predict such new risks and uncertainties, nor can it assess the extent to which any of the risk factors below or any such new risks and uncertainties, or any combination thereof, may impact our business.

Downturns in economic conditions could adversely affect our business.

Due to the discretionary nature of business and leisure travel spending and the highly competitive nature of the airline industry, our revenues are heavily influenced by the condition of the U.S. economy and economies in other regions of the world. Unfavorable conditions in these broader economies have resulted, and may result in the future, in decreased passenger demand for air travel, changes in booking practices and related reactions by our competitors, all of which in turn have had, and may have in the future, a strong negative effect on our business. See also “The airline industry is intensely competitive and dynamic” below.

Our business is very dependent on the price and availability of aircraft fuel. Continued periods of high volatility in fuel costs, increased fuel prices or significant disruptions in the supply of aircraft fuel could have a significant negative impact on our operating results and liquidity.

Our operating results are materially impacted by changes in the availability, price volatility and cost of aircraft fuel, which represents one of the largest single cost items in our business. Jet fuel market prices have fluctuated substantially over the past several years and prices continue to be highly volatile.

Because of the amount of fuel needed to operate our business, even a relatively small increase or decrease in the price of fuel can have a material effect on our operating results and liquidity. Due to the competitive nature of the airline industry and unpredictability of the market for air travel, we can offer no assurance that we may be able to increase our fares, impose fuel surcharges or otherwise increase revenues or decrease other operating costs sufficiently to offset fuel price increases. Similarly, we cannot predict actions that may be taken by our competitors in response to changes in fuel prices.

Although we are currently able to obtain adequate supplies of aircraft fuel, we cannot predict the future availability, price volatility or cost of aircraft fuel. Natural disasters (including hurricanes or similar events in the U.S. Southeast and on the Gulf Coast where a significant portion of domestic refining capacity is located), political disruptions or wars involving oil-producing countries, changes in fuel-related governmental policy, the strength of the U.S. dollar against foreign currencies, changes in access to petroleum product pipelines and terminals, speculation in the energy futures markets, changes in aircraft fuel production capacity, environmental concerns and other unpredictable events may result in fuel supply shortages, distribution challenges, additional fuel price volatility and cost increases in the future. Any of these factors or events could cause a disruption in oil production, refinery operations or pipeline capacity and possibly result in significant increases in the price of aircraft fuel and diminished availability of aircraft fuel supply.

Our aviation fuel purchase contracts generally do not provide meaningful price protection against increases in fuel costs. Our current policy is not to enter into transactions to hedge our fuel consumption, although we review this policy from time to time based on market conditions and other factors. Accordingly, as of June 30, 2018, we did not have any fuel hedging contracts outstanding. As such, and assuming we do not enter into any future transactions to hedge our fuel consumption, we will continue to be fully exposed to fluctuations in fuel prices. See also the discussion in Part I, Item 3. Quantitative and Qualitative Disclosures About Market Risk – “Aircraft Fuel.”

The airline industry is intensely competitive and dynamic.

Our competitors include other major domestic airlines and foreign, regional and new entrant airlines, as well as joint ventures formed by some of these airlines, many of which have more financial or other resources and/or lower cost structures than ours, as well as other forms of transportation, including rail and private automobiles. In many of our markets we compete with at least one low-cost air carrier. Our revenues are sensitive to the actions of other carriers in many areas including pricing, scheduling, capacity, amenities, loyalty benefits and promotions, which can have a substantial adverse impact not only on our revenues, but on overall industry revenues. These factors may become even more significant in periods when the industry experiences large losses, as airlines under financial stress, or in

bankruptcy, may institute pricing structures intended to achieve near-term survival rather than long-term viability.

74

Low-cost carriers, including so-called ultra-low-cost carriers, have a profound impact on industry revenues. Using the advantage of low unit costs, these carriers offer lower fares in order to shift demand from larger, more established airlines, and represent significant competitors, particularly for customers who fly infrequently and are price sensitive and tend not to be loyal to any one particular carrier. While historically these carriers have provided competition in domestic markets, we have recently experienced new competition from low-cost carriers on international routes. A number of these low-cost carriers have announced growth strategies including commitments to acquire significant numbers of new aircraft for delivery in the next few years. These low-cost carriers are attempting to continue to increase their market share through growth and, potentially, consolidation, and could continue to have an impact on our revenues and overall performance. In addition, we and several other large network carriers have announced “basic economy” fares designed to compete against low-cost carriers and we cannot predict whether these initiatives will be successful or the competitive reaction of the low-cost carriers. Additionally, competition is also increasing from low cost airlines executing international long-haul expansion strategies, including, for example, Icelandair, Norwegian Air Shuttle and Wow Air. The actions of the low-cost carriers, including those described above, could have a material adverse effect on our operations and financial performance.

Our presence in international markets, such as Asia, is not as extensive as that of some of our competitors. In providing international air transportation, we compete to provide scheduled passenger and cargo service between the U.S. and various overseas locations with U.S. airlines, foreign investor-owned airlines and foreign state-owned or state-affiliated airlines. Competition is increasing from foreign state-owned and state-affiliated airlines in the Gulf region, including Emirates, Etihad Airways and Qatar Airways. These carriers have large numbers of international widebody aircraft in service and on order and are increasing service to the U.S. from locations both in and outside the Middle East. We believe these carriers benefit from significant government subsidies, which has allowed them to grow quickly, reinvest in their product and expand their global presence. Our international service exposes us to foreign economies and the potential for reduced demand, such as we have recently experienced in Venezuela, when any foreign country we serve suffers adverse local economic conditions. In addition, open skies agreements with an increasing number of countries around the world provide international airlines with open access to U.S. markets. See also “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.”

Certain airline alliances, joint ventures and joint businesses have been, or may in the future be, granted immunity from antitrust 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. Our ability to attract and retain customers is dependent upon, among other things, our ability to offer our customers convenient access to desired markets. Our business could be adversely affected if we are unable to maintain or obtain alliance and marketing relationships with other air carriers in desired markets.

We have established antitrust-immunized joint business agreements (JBAs) with British Airways, Iberia and Finnair, and separately with Japan Airlines. In October 2017, American and its transatlantic partners executed an amended and restated JBA which, among other things, extends the term of the agreement. Also, we had previously signed a revised JBA with Qantas Airways and applied for antitrust immunity with the U.S. Department of Transportation (DOT) for the revised relationship, but we withdrew that application in November 2016 after it was tentatively denied by the DOT. In February 2018, we filed a new application for antitrust immunity with the DOT, which, if granted, would allow us to further expand our relationship with Qantas Airways. In addition, we have signed JBAs with certain air carriers of the LATAM Airlines Group and have applied for antitrust immunity in the relevant jurisdictions affected by such agreements, which applications have been approved in some jurisdictions, but are still pending in other jurisdictions, including the United States and Chile. The foregoing arrangements are important aspects of our international network and we are dependent on the performance of the other airlines party to those agreements. No assurances can be given as to any benefits that we may derive from such arrangements or any other arrangements that may ultimately be implemented.

Additional mergers and other forms of industry consolidation, including antitrust immunity grants, may take place and may not involve us as a participant. Depending on which carriers combine and which assets, if any, are sold or otherwise transferred to other carriers in connection with any such combinations, our competitive position relative to the post-combination carriers or other carriers that acquire such assets could be harmed. In addition, as carriers combine through traditional mergers or antitrust immunity grants, their route networks will grow, and that growth will result in greater overlap with our network, which in turn could result in lower overall market share and revenues for us. Such consolidation is not limited to the U.S., but could include further consolidation among international carriers in Europe and elsewhere.

75

Additionally, our AAdvantage loyalty program, which is an important element of our sales and marketing programs, faces significant and increasing competition from the loyalty programs offered by other travel companies, as well as from similar loyalty benefits offered by banks and other financial services companies. Competition among loyalty programs is intense regarding the rewards, fees, required usage, and other terms and conditions of these programs. These competitive factors affect our ability to attract and retain customers, increase usage of our loyalty program and maximize the revenue generated by our loyalty program.

Evolving data security and privacy requirements could increase our costs, and any significant data security incident could disrupt our operations, harm our reputation, expose us to legal risks and otherwise materially adversely affect our business, results of operations and financial condition.

Our business requires the secure processing and storage of sensitive information relating to our customers, employees, business partners and others. However, like any global enterprise operating in today's digital business environment, we are subject to threats to the security of our networks and data, including threats potentially involving criminal hackers, hacktivists, state-sponsored actors, corporate espionage, employee malfeasance, and human or technological error. These threats continue to increase as the frequency, intensity and sophistication of attempted attacks and intrusions increase around the world. We have been the target of cybersecurity attacks in the past and expect that we will continue to be in the future.

Furthermore, in response to these threats there has been heightened legislative and regulatory focus on data privacy and security in the U.S., the European Union (EU) and elsewhere, particularly with respect to critical infrastructure providers, including those in the transportation sector. As a result, we must comply with a growing and fast-evolving set of legal requirements in this area, including substantive cybersecurity standards as well as requirements for notifying regulators and affected individuals in the event of a data security incident. This regulatory environment is increasingly challenging and may present material obligations and risks to our business, including significantly expanded compliance burdens, costs and enforcement risks. For example, in May 2018, the EU's new General Data Protection Regulation, commonly referred to as GDPR, came into effect, which imposes a host of new data privacy and security requirements, imposing significant costs on us and carrying substantial penalties for non-compliance. In addition, many of our commercial partners, including credit card companies, have imposed data security standards that we must meet. In particular, we are required by the Payment Card Industry Security Standards Council, founded by the credit card companies, to comply with their highest level of data security standards. While we continue our efforts to meet these standards, new and revised standards may be imposed that may be difficult for us to meet and could increase our costs.

A significant cybersecurity incident could result in a range of potentially material negative consequences for us, including unauthorized access to, disclosure, modification, misuse, loss or destruction of company systems or data; theft of sensitive, regulated or confidential data, such as personal identifying information or our intellectual property; the loss of functionality of critical systems through ransomware, denial of service or other attacks; and business delays, service or system disruptions, damage to equipment and injury to persons or property. The costs and operational consequences of responding to and remediating an incident may be substantial. Further, we could be exposed to litigation, regulatory enforcement or other legal action as a result of an incident, carrying the potential for damages, fines, sanctions or other penalties, as well injunctive relief requiring costly compliance measures. A cybersecurity incident could also impact our brand, harm our reputation and adversely impact our relationship with our customers, employees and stockholders. Failure to appropriately address these issues could also give rise to potentially material legal risks and liabilities.

Our high level of debt and other obligations may limit our ability to fund general corporate requirements and obtain additional financing, may limit our flexibility in responding to competitive developments and cause our business to be vulnerable to adverse economic and industry conditions.

We have significant amounts of indebtedness and other obligations, including pension obligations, obligations to make future payments on flight equipment and property leases, and substantial non-cancelable obligations under aircraft and related spare engine purchase agreements. Moreover, currently a substantial portion of our assets are pledged to secure our indebtedness. Our substantial indebtedness and other obligations could have important consequences. For example, they:

may make it more difficult for us to satisfy our obligations under our indebtedness;
may limit our ability to obtain additional funding for working capital, capital expenditures, acquisitions, investments,
integration costs, and general corporate purposes, and adversely affect the terms on which such funding can be
obtained;

76

- 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, industry conditions and catastrophic external events, particularly relative to competitors with lower relative levels of financial leverage;
- contain covenants requiring us to maintain an aggregate of at least \$2.0 billion of unrestricted cash and cash equivalents and amounts available to be drawn under revolving credit facilities;
- contain restrictive covenants that could:
 - limit our ability to merge, consolidate, sell assets, incur additional indebtedness, issue preferred stock, make investments and pay dividends;
 - significantly constrain our ability to respond, or respond quickly, to unexpected disruptions in our own operations, the U.S. or global economies, or the businesses in which we operate, or to take advantage of opportunities that would improve our business, operations, or competitive position versus other airlines;
 - limit our ability to withstand competitive pressures and reduce our flexibility in responding to changing business and economic conditions; and
- result in an event of default under our indebtedness.

Further, a substantial portion of our long-term indebtedness bears interest at fluctuating interest rates, primarily based on the London interbank offered rate for deposits of U.S. dollars (LIBOR). LIBOR tends to fluctuate based on general interest rates, rates set by the Federal Reserve and other central banks, the supply of and demand for credit in the London interbank market and general economic conditions. We have not hedged our interest rate exposure with respect to our floating rate debt. Accordingly, our interest expense for any particular period will fluctuate based on LIBOR and other variable interest rates. On July 27, 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, is considering replacing U.S. dollar LIBOR with a newly created index, calculated based on repurchase agreements backed by treasury securities. It is not possible to predict the effect of these changes, other reforms or the establishment of alternative reference rates in the United Kingdom, the United States or elsewhere. To the extent these interest rates increase, our interest expense will increase, in which event we may have difficulties making interest payments and funding our other fixed costs, and our available cash flow for general corporate requirements may be adversely affected. See also the discussion of interest rate risk in Part I, Item 3. Quantitative and Qualitative Disclosures About Market Risk –“Interest.”

These obligations also impact our ability to obtain additional financing, if needed, and our flexibility in the conduct of our business, and could materially adversely affect our liquidity, results of operations and financial condition. We will need to obtain sufficient financing or other capital to operate successfully.

Our business plan contemplates continued significant investments related to modernizing our fleet, improving the experience of our customers and updating our facilities. Significant capital resources will be required to execute this plan. We estimate that, based on our commitments as of June 30, 2018, our planned aggregate expenditures for aircraft purchase commitments and certain engines on a consolidated basis for calendar years 2018-2022 would be approximately \$8.4 billion. Accordingly, we will need substantial financing or other capital resources to finance such aircraft and engines. If we are unable to arrange financing for such aircraft at customary advance rates and on terms and conditions acceptable to us, we may need to use cash from operations or cash on hand to purchase such aircraft or may seek to negotiate deferrals for such aircraft with the aircraft manufacturers. Depending on numerous factors, many of which are out of our control, such as the state of the domestic and global economies, the capital and credit markets' view of our prospects and the airline industry in general, and the general availability of debt and equity capital at the time we seek capital, the financing or other capital resources that we will need may not be available to us, or may be available only on onerous terms and conditions. There can be no assurance that we will be successful in obtaining financing or other needed sources of capital to operate successfully. An inability to obtain necessary financing on acceptable terms would have a material adverse impact on our business, results of operations and financial condition.

We have significant pension and other postretirement benefit funding obligations, which may adversely affect our liquidity, results of operations and financial condition.

Our pension funding obligations are significant. The amount of these obligations will depend on the performance of investments held in trust by the pension plans, interest rates for determining liabilities and actuarial experience. The minimum funding obligation applicable to our pension plans was subject to favorable temporary funding rules that expired at the end of 2017. Our minimum pension funding obligations are likely to increase materially beginning in 2019, when we will be required to make cash contributions corresponding to determinations made regarding the 2018 fiscal year. In addition, we may have significant obligations for other postretirement benefits, retiree medical and other postretirement benefits.

If our financial condition worsens, provisions in our credit card processing and other commercial agreements may adversely affect our liquidity.

We have agreements with companies that process customer credit card transactions for the sale of air travel and other services. These agreements allow these processing companies, under certain conditions (including, with respect to certain agreements, the failure of American to maintain certain levels of liquidity), to hold an amount of our cash (a holdback) equal to some or all of the advance ticket sales that have been processed by that credit card processor, but for which we have not yet provided the air transportation. We are not currently required to maintain any holdbacks pursuant to these requirements. These holdback requirements can be modified at the discretion of the credit card processing companies upon the occurrence of specific events, including material adverse changes in our financial condition. An increase in the current holdbacks, up to and including 100% of relevant advanced ticket sales, could materially reduce our liquidity. Likewise, other of our commercial agreements contain provisions that allow other entities to impose less-favorable terms, including the acceleration of amounts due, in the event of material adverse changes in our financial condition.

Union disputes, employee strikes and other labor-related disruptions may adversely affect our operations.

Relations between air carriers and labor unions in the U.S. are governed by the Railway Labor Act (RLA). Under the RLA, collective bargaining agreements (CBAs) generally contain “amendable dates” rather than expiration dates, and the RLA requires that a carrier maintain the existing terms and conditions of employment following the amendable date through a multi-stage and usually lengthy series of bargaining processes overseen by the National Mediation Board (NMB). For the dates that the CBAs with our major work groups become amendable under the RLA, see Part I, Item 1. Business – “Employees and Labor Relations” in our 2017 Form 10-K.

In the case of a CBA that is amendable under the RLA, if no agreement is reached during direct negotiations between the parties, either party may request that the NMB appoint a federal mediator. The RLA prescribes no timetable for the direct negotiation and mediation processes, and it is not unusual for those processes to last for many months or even several years. If no agreement is reached in mediation, the NMB in its discretion may declare that an impasse exists and proffer binding arbitration to the parties. Either party may decline to submit to arbitration, and if arbitration is rejected by either party, a 30-day “cooling off” period commences. During or after that period, 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 30-day “cooling off” period. At the end of a “cooling off” period, unless an agreement is reached or action is taken by Congress, the labor organization may exercise “self-help,” such as a strike, which could materially adversely affect our business, results of operations and financial condition.

None of the unions representing our employees presently may lawfully engage in concerted refusals to work, such as strikes, slow-downs, sick-outs or other similar activity, against us. Nonetheless, there is a risk that disgruntled employees, either with or without union involvement, could engage in one or more concerted refusals to work that could individually or collectively harm the operation of our airline and impair our financial performance. See also Part I, Item 1. Business – “Employees and Labor Relations” in our 2017 Form 10-K.

The inability to maintain labor costs at competitive levels would harm our financial performance.

Currently, we believe our labor costs are competitive relative to the other large network carriers. However, we cannot provide assurance that labor costs going forward will remain competitive because we are in negotiations for some new agreements now and other agreements may become amendable, competitors may significantly reduce their labor costs or we may agree to higher-cost provisions unilaterally or in connection with our current or future labor negotiations, such as the employee profit sharing program we instituted effective January 1, 2016, the mid-contract adjustment we provided to our flight attendants and pilots in 2017 and the \$1,000 per employee one-time bonus we announced on January 2, 2018. As of December 31, 2017, approximately 85% of our employees were represented for collective bargaining purposes by labor unions. Some of our unions have brought and may continue to bring grievances to binding arbitration, including those related to wages. Unions may also bring court actions and may seek to compel us to engage in bargaining processes where we believe we have no such obligation. If successful, there is a risk these judicial or arbitral avenues could create material additional costs that we did not anticipate.

Interruptions or disruptions in service at one of our key facilities could have a material adverse impact on our operations.

We operate principally through hubs in Charlotte, Chicago, Dallas/Fort Worth, Los Angeles, Miami, New York, Philadelphia, Phoenix and Washington, D.C. Substantially all of our flights either originate in or fly into one of these locations. A significant interruption or disruption in service at one of our hubs or other airports where we have a significant presence, such as London Heathrow, resulting from air traffic control (ATC) delays, weather conditions, natural disasters, growth constraints, relations with third-party service providers (such as electric utility or telecommunications providers), failure of computer systems, disruptions at airport facilities or other key facilities used by us to manage our operations, labor relations, power supplies, fuel supplies, terrorist activities, or otherwise could result in the cancellation or delay of a significant portion of our flights and, as a result, could have a severe impact on our business, results of operations and financial condition. We have minimal control over the operation, quality or maintenance of these services or whether vendors will improve or continue to provide services that are essential to our business.

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.

In order to operate our existing and proposed flight schedule and, where desirable, add service along new or existing routes, we must be able to maintain and/or obtain adequate gates, check-in counters, operations areas, operations control facilities and administrative support space. As airports around the world become more congested, we are not always able to ensure that our plans for new service can be implemented in a commercially viable manner, given operating constraints at airports throughout our network, including due to inadequate facilities at desirable airports. Further, our operating costs at airports at which we operate, including our hubs, may increase significantly because of capital improvements at such airports that we may be required to fund, directly or indirectly. Additionally, there is presently a significant amount of capital spending underway at major airports in the United States that we serve, and that spending is expected to result in increased costs to airlines and the traveling public that use those facilities as the airports seek to recover these investments through increased rental, landing and other facility costs. In some circumstances, such costs could be imposed by the relevant airport authority without our approval.

In addition, operations at three major domestic airports, certain smaller domestic airports and many foreign airports served by us are regulated by governmental entities through the use of slots or similar regulatory mechanisms that 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 and may have other operational restrictions as well. In the U.S., the DOT and the Federal Aviation Administration (FAA) currently regulate the allocation of slots or slot exemptions at Ronald Reagan Washington National Airport (DCA) and two New York City airports: John F. Kennedy International Airport (JFK) and La Guardia Airport (LGA). In addition to slot restrictions, operations at LGA and DCA are also limited based on the stage length of the flight. Our operations at these airports generally require the allocation of slots or similar regulatory authority. Similarly, our operations at international airports in Beijing, Frankfurt, London Heathrow (LHR), Paris, Tokyo and other airports outside the U.S. are regulated by local slot authorities pursuant to the International Airline Trade Association (IATA) Worldwide Scheduling Guidelines and/or applicable local law. Termination of slot controls at some or all of the foregoing airports could affect our operational performance and competitive position. 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. However, there is no assurance that we will be able to obtain sufficient slots or analogous authorizations in the future or as to the cost of acquiring such rights because, among other reasons, such allocations are often sought after by other airlines and are subject to changes in governmental policies. We cannot provide any assurance that regulatory changes regarding the allocation of slots or similar regulatory authority will not have a material adverse impact on our operations.

Our ability to provide service can also be impaired at airports, such as Chicago O'Hare International Airport (ORD) and Los Angeles International Airport, where the airport gate and other facilities are inadequate to accommodate all of the service that we would like to provide, or airports such as Dallas Love Field Airport where we have no access to gates at all.

Any limitation on our ability to acquire or maintain adequate gates, ticketing facilities, operations areas, operations control facilities, slots (where applicable), or office space could have a material adverse effect on our business, results of operations and financial condition.

If we encounter problems with any of our third-party regional operators or third-party service providers, our operations could be adversely affected by a resulting decline in revenue or negative public perception about our services.

A significant portion of our regional operations are conducted by third-party operators on our behalf, primarily under capacity purchase agreements. Due to our reliance on third parties to provide these essential services, we are subject to the risk of disruptions to their operations, which may result from many of the same risk factors disclosed in this report, such as the impact of adverse economic conditions, the inability of third parties to hire or retain necessary personnel, including in particular pilots, and other risk factors, such as an out-of-court or bankruptcy restructuring of any of our regional operators. Many of these third-party regional operators provide significant regional capacity that we would be unable to replace in a short period of time should that operator fail to perform its obligations to us. Volatility in fuel prices, disruptions to capital markets and adverse economic conditions in general have subjected certain of these third-party regional operators to significant financial pressures, which have in the past and may in the future lead to bankruptcies among these operators. We may also experience disruption to our regional operations if we terminate the capacity purchase agreement with one or more of our current operators and transition the services to another provider. Any significant disruption to our regional operations would have a material adverse effect on our business, results of operations and financial condition.

In addition, our reliance upon others to provide essential services on behalf of our operations may result in our relative inability to control the efficiency and timeliness of contract services. We have entered into agreements with contractors to provide various facilities and services required for our operations, including distribution and sale of airline seat inventory, provision of information technology and services, regional operations, aircraft maintenance, ground services and facilities, reservations and baggage handling. Similar agreements may be entered into in any new markets we decide to serve. These agreements are generally subject to termination after notice by the third-party service provider. We are also at risk should one of these service providers cease operations, and there is no guarantee

that we could replace these providers on a timely basis with comparably priced providers, or at all. Any material problems with the efficiency and timeliness of contract services, resulting from financial hardships or otherwise, could have a material adverse effect on our business, results of operations and financial condition.

80

The commercial relationships that we have with airlines, including any related equity investment, may not produce the returns or results we expect.

An important part of our strategy to expand our network has been to expand our commercial relationships with other airlines, such as global alliance, joint business and code share relationships, and, in one recent instance, make a significant equity investment in another airline in connection with initiating such a commercial relationship. We may explore similar non-controlling investments in, and joint ventures and strategic alliances with, other carriers as part of our global business strategy. We face competition in forming these commercial relationships since there are a limited number of potential arrangements and other airlines are looking to enter into similar relationships. Any such existing or future investment could involve significant challenges and risks, including that we may not realize a satisfactory return on our investment or that they may not generate the expected revenue synergies. These events could have a material adverse effect on our business, results of operations and financial condition.

We rely on third-party distribution channels and must manage effectively the costs, rights and functionality of these channels.

We rely on third-party distribution channels, including those provided by or through global distribution systems (GDSs) (e.g., Amadeus, Sabre and Travelport), conventional travel agents and online travel agents (OTAs) (e.g., Expedia, including its booking sites Orbitz and Travelocity, and The Priceline Group), to distribute a significant portion of our airline tickets, and we expect in the future to continue to rely on these channels and hope to expand their ability to distribute and collect revenues for ancillary products (e.g., fees for selective seating). These distribution channels are more expensive and at present have less functionality in respect of ancillary product offerings than those we operate ourselves, such as our website at www.aa.com. Certain of these distribution channels also effectively restrict the manner in which we distribute our products generally. To remain competitive, we will need to manage successfully our distribution costs and rights, increase our distribution flexibility and improve the functionality of our distribution channels, while maintaining an industry-competitive cost structure. These imperatives may affect our relationships with GDSs and OTAs, including as consolidation of OTAs continues or is proposed to continue. Further, as distribution technology changes we will need to continue to update our technology either by acquiring new technology from third parties, building the functionality ourselves, or a combination, which in any event will likely entail significant technological and commercial risk and involve potentially material investments. Any inability to manage our third-party distribution costs, rights and functionality at a competitive level or any material diminishment or disruption in the distribution of our tickets could have a material adverse effect on our business, results of operations and financial condition.

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.

Airlines are subject to extensive domestic and international regulatory requirements. In the last several years, Congress has passed laws, and the DOT, the FAA, the Transportation Security Administration (TSA) and the Department of Homeland Security have issued a number of directives and other regulations, that affect the airline industry. These requirements impose substantial costs on us and restrict the ways we may conduct our business. For example, the FAA from time to time issues directives and other regulations relating to the maintenance and operation of aircraft that require significant expenditures or operational restrictions. These requirements can be issued with little or no notice, or can otherwise impact our ability to efficiently or fully utilize our aircraft. The FAA also exercises comprehensive regulatory authority over nearly all technical aspects of our operations. Our failure to comply with such requirements has in the past and may in the future result in fines and other enforcement actions by the FAA or other regulators. In the future, any new regulatory requirements, particularly requirements that limit our ability to operate or price our products, could have a material adverse effect on us and the industry.

The DOT consumer rules that took effect in 2010 require procedures for customer handling during long onboard delays, further regulate airline interactions with passengers through the ticketing process, at the airport, and onboard the aircraft, and require disclosures concerning airline fares and ancillary fees such as baggage fees. Other DOT rules apply to post-ticket purchase price increases and an expansion of tarmac delay regulations to international airlines. Further, Congress has proposed the FAIR Fees Act, which would direct the DOT to prescribe regulations prohibiting

an air carrier from imposing change or cancellation fees that are unreasonable or disproportional to the costs incurred by the carrier, as well as establish standards for assessing whether all other fees are reasonable and proportional to the costs incurred by the air carrier.

81

The Aviation and Transportation Security Act mandates the federalization of certain airport security procedures and imposes additional security requirements on airports and airlines, most of which are funded by a per-ticket tax on passengers and a tax on airlines. Present and potential future security requirements can have the effect of imposing costs and inconvenience on travelers, potentially reducing the demand for air travel.

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

- changes in law that affect the services that can be offered by airlines in particular markets and at particular airports, or the types of fees that can be charged to passengers;
- the granting and timing of certain governmental approvals (including antitrust or foreign government approvals) needed for codesharing alliances, joint businesses 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 new passenger security standards or regulations that impact customer service standards;
- restrictions on airport operations, such as restrictions on the use of slots at airports or the auction or reallocation of slot rights currently held by us; and
- the adoption of more restrictive locally-imposed noise restrictions.

Each additional regulation or other form of regulatory oversight increases costs and adds greater complexity to airline operations and, in some cases, may reduce the demand for air travel. There can be no assurance that our compliance with new rules, anticipated rules or other forms of regulatory oversight will not have a material adverse effect on us. Any significant reduction in air traffic capacity at and in the airspace serving key airports in the U.S. or overseas could have a material adverse effect on our business, results of operations and financial condition. In addition, the United States National Airspace System (the ATC system) is not successfully modernizing to meet the growing demand for U.S. air travel. Air traffic controllers rely on outdated procedures and technologies that routinely compel airlines to fly inefficient routes or take significant delays on the ground. The ATC system's inability to manage existing travel demand has led government agencies to implement short-term capacity constraints during peak travel periods or adverse weather conditions in certain markets, resulting in delays and disruptions of air traffic. The outdated technologies also cause the ATC to be less resilient in the event of a failure. For example, an automation failure and an evacuation, in 2015 and 2017, respectively, at the Washington Air Route Control Center resulted in cancellations and delays of hundreds of flights traversing the greater Washington, D.C. airspace.

In the early 2000s, the FAA embarked on a path to modernize the national airspace system, including migration from the current radar-based ATC system to a GPS-based system. This ATC modernization, generally referred to as "NextGen," has been plagued by delays and cost overruns, and it remains uncertain when the full array of benefits expected from ATC modernization will be available to the public and the airlines. Failure to update the ATC system in a timely manner and the substantial funding requirements that may be imposed on airlines of a modernized ATC system may have a material adverse effect on our business. We support legislative efforts that would establish a nimble not-for-profit entity better suited to manage the long-term investments in technology and provide a governance structure needed to successfully implement NextGen and improve the operation of the ATC system.

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 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 subject to periodic renegotiation. We currently operate a number of international routes under government arrangements that limit the number of airlines permitted to operate on the route, the capacity of the airlines providing services on the route, or the number of airlines allowed access to particular airports. If an open skies policy were to be adopted for any of these routes, such an event could have a material adverse impact on us and could result in the impairment of material amounts of our related tangible and intangible assets. In addition, competition from revenue-sharing joint ventures, JBAs, and other alliance arrangements by and among other airlines could impair the value of our business and assets on the open skies routes. For example, the open skies air services agreement between the U.S. and the EU, which took effect in March 2008, provides airlines from the U.S. and EU member states open access to each other's markets, with freedom of pricing and unlimited rights to fly from the U.S. to any airport in the EU, including LHR. As a result of the agreement, we face increased competition in these markets, including LHR. The pending withdrawal of the United Kingdom from the EU, commonly referred to as Brexit, will mandate further modification in the current regulatory regime. Among other things, Brexit will likely require a transition arrangement or new air services agreement involving the U.S. and United Kingdom, and the United Kingdom and EU, to permit our current air services (including those involving our joint business and code share partners) to continue as we currently conduct them. More generally, 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. The U.S. government has negotiated "open skies" agreements with many countries, which allow unrestricted route authority access between the U.S. and the foreign markets. While the U.S. has worked to increase the number of countries with which open skies agreements are in effect, a number of markets important to us, including China, do not have open skies agreements.

The airline industry is heavily taxed.

The airline industry is subject to extensive government fees and taxation that negatively impact our revenue and profitability. The U.S. airline industry is one of the most heavily taxed of all industries. These fees and taxes have grown significantly in the past decade for domestic flights, and various U.S. fees and taxes also are assessed on international flights. For example, as permitted by federal legislation, most major U.S. airports impose a passenger facility charge per passenger on us. In addition, the governments of foreign countries in which we operate impose on U.S. airlines, including us, various fees and taxes, and these assessments have been increasing in number and amount in recent years. Moreover, we are obligated to collect a federal excise tax, commonly referred to as the "ticket tax," on domestic and international air transportation. We collect the excise tax, along with certain other U.S. and foreign taxes and user fees on air transportation (such as passenger security fees), and pass along the collected amounts to the appropriate governmental agencies. Although these taxes and fees are not operating expenses, they represent an additional cost to our customers. There are continuing efforts in Congress and in other countries to raise different portions of the various taxes, fees, and charges imposed on airlines and their passengers, and we may not be able to recover all of these charges from our customers. Increases in such taxes, fees and charges could negatively impact our business, results of operations and financial condition.

Under DOT regulations, all governmental taxes and fees must be included in the prices we quote or advertise to our customers. Due to the competitive revenue environment, many increases in these fees and taxes have been absorbed by the airline industry rather than being passed on to the customer. Further increases in fees and taxes may reduce demand for air travel, and thus our revenues.

Recent U.S. tax legislation may adversely affect our financial condition, results of operations and cash flows. Recently enacted U.S. tax legislation has significantly changed the U.S. federal income taxation of U.S. corporations, including by reducing the U.S. corporate income tax rate, limiting interest deductions, permitting immediate expensing of certain capital expenditures, adopting elements of a territorial tax system, revising the rules governing NOLs and the rules governing foreign tax credits and introducing new anti-base erosion provisions. Many of these changes are effective immediately, without any transition periods or grandfathering for existing transactions. The legislation is unclear in many respects and could be subject to potential amendments and technical corrections, as well as interpretations and implementation regulations by the Treasury and Internal Revenue Service, any of which could materially affect the impacts of the legislation. In addition, it is unclear how these U.S. federal income tax changes will affect state and local taxation, which often uses federal taxable income as a starting point for computing state and local tax liabilities. While some of the changes made by the tax legislation may adversely affect us in one or more reporting periods and prospectively, other changes may be beneficial on a going forward basis. We continue to work with our tax advisors to determine the full impact of this legislation on us.

See Note 7 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A and Note 5 to American's Condensed Consolidated Financial Statements in Part I, Item 1B for additional information on income taxes.

Changes to our business model that are designed to increase revenues may not be successful and may cause operational difficulties or decreased demand.

We have recently instituted, and intend to institute in the future, changes to our business model to increase revenues and offset costs. These measures include premium economy service, basic economy service and other low-cost fares, enhancements to our AAdvantage loyalty program, charging separately for services that had previously been included within the price of a ticket and increasing other pre-existing fees. We may introduce additional initiatives in the future; however, as time goes on, we expect that it will be more difficult to identify and implement additional initiatives. We cannot assure you that these measures or any future initiatives will be successful in increasing our revenues.

Additionally, the implementation of these initiatives may create logistical challenges that could harm the operational performance of our airline. Also, any new and increased fees might reduce the demand for air travel on our airline or across the industry in general, particularly if weakened economic conditions make our customers more sensitive to increased travel costs or provide a significant competitive advantage to other carriers that determine not to institute similar charges.

The loss of key personnel upon whom we depend to operate our business or the inability to attract additional qualified personnel could adversely affect our business.

We believe that our future success will depend in large part on our ability to retain or attract highly qualified management, technical and other personnel. We may not be successful in retaining key personnel or in attracting other highly qualified personnel. Any inability to retain or attract significant numbers of qualified management and other personnel would have a material adverse effect on our business, results of operations and financial condition.

We may be adversely affected by conflicts overseas or terrorist attacks; the travel industry continues to face ongoing security concerns.

Acts of terrorism or fear of such attacks, including elevated national threat warnings, wars or other military conflicts, may depress air travel, particularly on international routes, and cause declines in revenues and increases in costs. The attacks of September 11, 2001 and continuing terrorist threats, attacks and attempted attacks materially impacted and continue to impact air travel. Increased security procedures introduced at airports since the attacks of September 11, 2001 and any other such measures that may be introduced in the future generate higher operating costs for airlines. The Aviation and Transportation Security Act mandated improved flight deck security, deployment of federal air marshals on board flights, improved airport perimeter access security, airline crew security training, enhanced security screening of passengers, baggage, cargo, mail, employees and vendors, enhanced training and qualifications of security screening personnel, additional provision of passenger data to the U.S. Customs and Border Protection Agency and enhanced background checks. A concurrent increase in airport security charges and procedures, such as restrictions on carry-on baggage, has also had and may continue to have a disproportionate impact on short-haul travel, which constitutes a significant portion of our flying and revenue. Implementation of and compliance with increasingly-complex security and customs requirements will continue to result in increased costs for us and our passengers, and have caused and likely will continue to cause periodic service disruptions and delays. We have at times found it necessary or desirable to make significant expenditures to comply with security-related requirements while seeking to reduce their impact on our customers, such as expenditures for automated security screening lines at airports. As a result of competitive pressure, and the need to improve security screening throughput to support the pace of our operations, it is unlikely that we will be able to capture all security-related costs through increased fares. In addition, we cannot forecast what new security requirements may be imposed in the future, or their impact on our business.

We operate a global business with international operations that are subject to economic and political instability and have been, and in the future may continue to be, adversely affected by numerous events, circumstances or government actions beyond our control.

We operate a global business with significant operations outside of the U.S. Our current international activities and prospects have been and in the future could be adversely affected by reversals or delays in the opening of foreign markets, increased competition in international markets, the performance of our alliance, joint business and codeshare partners in a given market, exchange controls or other restrictions on repatriation of funds, currency and political risks (including changes in exchange rates and currency devaluations), environmental regulation, increases in taxes and fees and changes in international government regulation of our operations, including the inability to obtain or retain needed route authorities and/or slots. In particular, fluctuations in foreign currencies, including devaluations, exchange controls and other restrictions on the repatriation of funds, have significantly affected and may continue to significantly affect our operating performance, liquidity and the value of any cash held outside the U.S. in local currency.

Generally, fluctuations in foreign currencies, including devaluations, cannot be predicted by us and can significantly affect the value of our assets located outside the United States. These conditions, as well as any further delays, devaluations or imposition of more stringent repatriation restrictions, may materially adversely affect our business, results of operations and financial condition.

The United Kingdom held a referendum in June 2016 regarding its membership in the EU in which a majority of the United Kingdom electorate voted in favor of the British government taking the necessary action for the United Kingdom to leave the EU, commonly referred to as Brexit. In March 2017, the United Kingdom served notice of its decision to withdraw from the EU, formally initiating the withdrawal process. Serving this notice began the two-year period for the United Kingdom to negotiate the terms for its withdrawal from the EU. At this time, it is not certain what steps may be taken to facilitate the United Kingdom's exit from the EU. The implications of the United Kingdom withdrawing from the EU are similarly unclear at present because it is unclear what relationship the United Kingdom will have with the EU after withdrawal. We face risks associated with the uncertainty following the referendum and the consequences that may flow from the decision to exit the EU, notably given the extent of our passenger and cargo traffic and that of our joint business partners that flows through LHR in the United Kingdom. Among other things, Brexit will likely require a transition arrangement or new air services agreement involving the U.S. and United Kingdom, and the United Kingdom and EU, to permit our current air services (including those involving our joint business and code share partners) to continue as we currently conduct them. Moreover, the exit of the United Kingdom from the EU could adversely affect European or worldwide economic or market conditions and could contribute to further instability in global financial markets. In addition, the exit of the United Kingdom from the EU has created uncertainty as to the future trade relationship between the EU and the United Kingdom, including as to air traffic services. The exit of the United Kingdom could also lead to legal and regulatory uncertainty and potentially divergent treaties, laws and regulations as the United Kingdom determines which EU treaties, laws and regulations to replace or replicate, including those governing aviation, labor, environmental, data protection/privacy, competition and other matters applicable to the provision of air transportation services by us or our alliance, joint business or codeshare partners. The impact on our business of any treaties, laws and regulations that replace the existing EU counterparts cannot be predicted. Any of these effects, and others we cannot anticipate, could materially adversely affect our business, results of operations and financial condition.

We are subject to many forms of environmental and noise regulation and may incur substantial costs as a result. We are subject to increasingly stringent federal, state, local and foreign laws, regulations and ordinances relating to the protection of the environment and noise reduction, including those relating to emissions to the air, discharges to surface and subsurface waters, safe drinking water, and the management of hazardous substances, oils and waste materials. Compliance with environmental laws and regulations can require significant expenditures, and violations can lead to significant fines and penalties.

We are also subject to other environmental laws and regulations, including those that require us to investigate and remediate soil or groundwater to meet certain remediation standards. Under federal law, generators of waste materials, and current and former owners or operators of facilities, can be subject to liability for investigation and remediation costs at locations that have been identified as requiring response actions. Liability under these laws may be strict, joint and several, meaning that we could be liable for the costs of cleaning up environmental contamination regardless of fault or the amount of waste directly attributable to us. We have liability for investigation and remediation costs at various sites, although such costs currently are not expected to have a material adverse effect on our business.

We have various leases and agreements with respect to real property, tanks and pipelines with airports and other operators. Under these leases and agreements, we have agreed to indemnify the lessor or operator against environmental liabilities associated with the real property or operations described under the agreement, in some cases even if we are not the party responsible for the initial event that caused the environmental damage. We also participate in leases with other airlines in fuel consortiums and fuel committees at airports, where such indemnities are generally joint and several among the participating airlines.

Governmental authorities in several U.S. and foreign cities are also considering, or have already implemented, aircraft noise reduction programs, including the imposition of nighttime curfews and limitations on daytime take offs and landings. We have been able to accommodate local noise restrictions imposed to date, but our operations could be adversely affected if locally-imposed regulations become more restrictive or widespread.

We are subject to risks associated with climate change, including increased regulation to reduce emissions of greenhouse gases.

There is increasing global regulatory focus on climate change and greenhouse gas (GHG) emissions. Efforts by the EU in 2009 to regulate flights arriving from or departing for airports outside of the EU have been postponed as members of the International Civil Aviation Organization (ICAO) are negotiating a global agreement on GHG emissions from the aviation sector. On October 6, 2016, the ICAO passed a resolution adopting the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), which is a global, market-based emissions offset program to encourage carbon-neutral growth beyond 2020. The CORSIA was supported by the board of Airlines for America (the principal U.S. airline trade association) and IATA (the principal international airline trade association), and by American and many other U.S. and foreign airlines. The CORSIA will increase operating costs for American and most other airlines, including other U.S. airlines that operate internationally, but the implementation of a global program, as compared to regional emission reduction schemes, should ensure that these costs will be more evenly applied to American and its competitors since there will be a common global regulatory regime. The CORSIA is expected to be implemented in phases, with phase I beginning in 2021. Certain details still need to be developed and the impact of the CORSIA cannot be fully predicted. While we do not anticipate any significant emissions allowance expenditures in 2018, compliance with the CORSIA or similar emissions-related requirements could significantly increase our operating costs after 2020. The potential impact of the CORSIA or other emissions-related requirements on our costs will ultimately depend on a number of factors, including baseline emissions, the price of emission allowances or offsets that American would need to acquire, the GHG efficiency of the American fleet, and the number of future American flights subject to such emissions-related requirements. These costs have not been completely defined and could fluctuate.

In addition, in December 2015, at the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change, over 190 countries, including the United States, reached an agreement (the Paris Agreement) to reduce GHG emissions. While the United States has since announced that it will withdraw from the Paris Agreement and there is no express reference to aviation in that agreement, to the extent countries implement that Agreement or impose other climate change regulations, either with respect to the aviation industry or with respect to related industries such as the aviation fuel industry, it could have an adverse direct or indirect effect on our business.

In 2018 or potentially 2019, the Environmental Protection Agency (EPA) is expected to finalize a rule implementing aircraft engine GHG emission standards developed initially through ICAO. It is anticipated that the EPA rule will closely align with recent ICAO carbon dioxide emission standards. The new standards, which were supported by the airline industry and manufacturers, would apply to new type aircraft certified beginning in 2020, and would be phased in for newly manufactured existing aircraft type designs starting in 2023.

In addition, several states have adopted or are considering initiatives to regulate emissions of GHGs, primarily through the planned development of GHG emissions inventories, regional GHG cap and trade programs or low carbon fuels programs. Depending on the scope of such regulation, certain of our facilities and operations, or the operations of our suppliers, may be subject to additional operating and other permit requirements, likely resulting in increased operating costs.

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. However, such climate change-related regulatory activity in the future may adversely affect our business and financial results by requiring us to reduce our emissions, purchase allowances or otherwise pay for our emissions. Such activity may also impact us indirectly by increasing our operating costs, including fuel costs. We face challenges in integrating our computer, communications and other technology systems.

Among the principal risks of integrating our businesses and operations are the risks relating to integrating various computer, communications and other technology systems that are necessary to operate US Airways and American as a single integrated business and to achieve cost synergies by eliminating redundancies. While we have to date successfully integrated several of our systems, including our customer reservations system and our pilot and fleet scheduling system, we still have to complete several additional important system integration projects. The integration of these systems in a number of prior airline mergers has taken longer, been more disruptive and cost more than

originally forecast. The implementation process to integrate these various systems will involve a number of risks that could adversely impact our business, results of operations and financial condition. New systems will replace multiple legacy systems and the related implementation will be a complex and time-consuming project involving substantial expenditures for implementation consultants, system hardware, software and implementation activities, as well as the transformation of business and financial processes.

87

We cannot assure you that our security measures, change control procedures or disaster recovery plans will be adequate to prevent disruptions or delays in connection with systems integration or replacement. Disruptions in or changes to these systems could result in a disruption to our business and the loss of important data. Any of the foregoing could result in a material adverse effect on our business, results of operations and financial condition. We rely heavily on technology and automated systems to operate our business, and any failure of these technologies or systems could harm our business, results of operations and financial condition.

We are highly dependent on existing and emerging technology and automated systems to operate our business. These technologies and systems include our computerized airline reservation system, flight operations systems, financial planning, management and accounting systems, telecommunications systems, website, maintenance systems and check-in kiosks. In order for our operations to work efficiently, our website and reservation system must be able to accommodate a high volume of traffic, maintain secure information and deliver flight information, as well as issue electronic tickets and process critical financial information in a timely manner. Substantially all of our tickets are issued to passengers as electronic tickets. We depend on our reservation system, which is hosted and maintained under a long-term contract by a third-party service provider, to be able to issue, track and accept these electronic tickets. If our technologies or automated systems are not functioning or if our third-party service providers were to fail to adequately provide technical support, system maintenance or timely software upgrades for any one of our key existing systems, we could experience service disruptions or delays, which could harm our business and result in the loss of important data, increase our expenses and decrease our revenues. In the event that one or more of our primary technology or systems vendors goes into bankruptcy, ceases operations or fails to perform as promised, replacement services may not be readily available on a timely basis, at competitive rates or at all, and any transition time to a new system may be significant.

Our technologies and automated systems cannot be completely protected against events that are beyond our control, including natural disasters, power failures, terrorist attacks, cyber-attacks, data theft, equipment and software failures, computer viruses or telecommunications failures. Substantial or sustained system failures could cause service delays or failures and result in our customers purchasing tickets from other airlines. We cannot assure you that our security measures, change control procedures or disaster recovery plans are adequate to prevent disruptions or delays. Disruption in or changes to these technologies or systems could result in a disruption to our business and the loss of important data. Any of the foregoing could result in a material adverse effect on our business, results of operations and financial condition.

We are at risk of losses and adverse publicity stemming from any public incident involving our company, our people or our brand, including any accident or other public incident involving our personnel or aircraft, or the personnel or aircraft of our regional, codeshare or joint business operators.

In a modern world where news can be captured and travel rapidly, we are at risk of adverse publicity stemming from any public incident involving our company, our people or our brand. Such an incident could involve the alleged behavior of any of our more than 100,000 employees. Further, if our personnel or one of our aircraft, or personnel of, or an aircraft that is operated under our brand by, one of our regional operators or an airline with which we have a marketing alliance, joint business or codeshare relationship, were to be involved in a public incident, accident or catastrophe, we could be exposed to significant reputational harm and potential legal liability. The insurance we carry may be inapplicable or inadequate to cover any such incident, accident or catastrophe. In the event that our insurance is inapplicable or not adequate, we may be forced to bear substantial losses from an incident or accident. In addition, any such incident, accident or catastrophe involving our personnel or one of our aircraft (or personnel and aircraft of our regional operators and our codeshare partners) could create an adverse public perception, which could harm our reputation, result in air travelers being reluctant to fly on our aircraft or those of our regional operators or codeshare partners, and adversely impact our business, results of operations and financial condition.

Delays in scheduled aircraft deliveries or other loss of anticipated fleet capacity, and failure of new aircraft to perform as expected, may adversely impact our business, results of operations and financial condition.

The success of our business depends on, among other things, effectively managing the number and types of aircraft we operate. If for any reason we are unable to accept or secure deliveries of new aircraft on contractually scheduled delivery dates, this could have a negative impact on our business, results of operations and financial condition. Our failure to integrate newly purchased aircraft into our fleet as planned might require us to seek extensions of the terms for some leased aircraft or otherwise delay the exit of certain aircraft from our fleet. Such unanticipated extensions or delays may require us to operate existing aircraft beyond the point at which it is economically optimal to retire them, resulting in increased maintenance costs. If new aircraft orders are not filled on a timely basis, we could face higher operating costs than planned. In addition, if the aircraft we receive do not meet expected performance or quality standards, including with respect to fuel efficiency and reliability, our business, results of operations and financial condition could be adversely impacted.

We depend on a limited number of suppliers for aircraft, aircraft engines and parts.

We depend on a limited number of suppliers for aircraft, aircraft engines and many aircraft and engine parts. These suppliers continue to consolidate as evidenced by the pending United Technologies acquisition of Rockwell Collins, the recently completed transaction involving Airbus and Bombardier and the recently announced transaction involving Boeing and Embraer. Due to the limited number of these suppliers, we are vulnerable to any problems associated with the performance of their obligation to supply key aircraft, parts and engines, including design defects, mechanical problems, contractual performance by suppliers, or adverse perception by the public that would result in customer avoidance or in actions by the FAA resulting in an inability to operate our aircraft.

Our business has been and will continue to be affected by many changing economic and other conditions beyond our control, including global events that affect travel behavior, and our results of operations could be volatile and fluctuate due to seasonality.

Our business, results of operations and financial condition have been and will continue to be 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, higher interest rates, wars, terrorist attacks and political instability;
- changes in consumer preferences, perceptions, spending patterns and demographic trends;
- changes in the competitive environment due to industry consolidation, changes in airline alliance affiliations, and other factors;
- actual or potential disruptions to the ATC systems;
- increases in costs of safety, security, and environmental measures;
- outbreaks of diseases that affect travel behavior; and
- weather and natural disasters.

In particular, an outbreak of a contagious disease such as the Ebola virus, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, H1N1 influenza virus, avian flu, Zika virus or any other similar illness, if it were to become associated with air travel or persist for an extended period, could materially affect the airline industry and us by reducing revenues and adversely impacting our operations and passengers' travel behavior. As a result of these or other conditions beyond our control, our results of operations could be volatile and subject to rapid and unexpected change. In addition, due to generally weaker demand for air travel during the winter, our revenues in the first and fourth quarters of the year could be weaker than revenues in the second and third quarters of the year.

A higher than normal number of pilot retirements, more stringent duty time regulations, increased flight hour requirements for commercial airline pilots, reductions in the number of military pilots entering the commercial workforce and other factors have caused a shortage of pilots that could materially adversely affect our business. We currently have a higher than normal number of pilots eligible for retirement. Large numbers of pilots in the industry are approaching the FAA's mandatory retirement age of 65. Further, in July 2013, the FAA issued regulations that increased the flight hours required for pilots working for airlines certificated under Part 121 of the Federal Aviation Regulations. In addition, on January 4, 2014, more stringent pilot flight and duty time requirements under Part 117 of the Federal Aviation Regulations took effect. These and other factors, including reductions in the number of military pilots being trained by the U.S. armed forces and available as commercial pilots upon their retirement from military service, have contributed to a shortage of qualified, entry-level pilots and increased compensation costs, particularly for our regional subsidiaries and our other regional partners who are being required by market conditions to pay significantly increased wages and large signing bonuses to their pilots in an attempt to achieve desired staffing levels. The foregoing factors have also led to increased competition from large, mainline carriers attempting to meet their hiring needs. We believe that this industry-wide pilot shortage is becoming an increasing problem for airlines in the United States. Our regional partners have recently been unable to hire adequate numbers of pilots to meet their needs, resulting in a reduction in the number of flights offered, disruptions, increased costs of operations, financial difficulties and other adverse effects, and these circumstances may become more severe in the future and thereby cause a material adverse effect on our business.

Increases in insurance costs or reductions in insurance coverage may adversely impact our operations and financial results.

The terrorist attacks of September 11, 2001 led to a significant increase in insurance premiums and a decrease in the insurance coverage available to commercial air carriers. Accordingly, our insurance costs increased significantly, and our ability to continue to obtain insurance even at current prices remains uncertain. If we are unable to maintain adequate insurance coverage, our business could be materially and adversely affected. Additionally, severe disruptions in the domestic and global financial markets could adversely impact the claims paying ability of some insurers. Future downgrades in the ratings of enough insurers could adversely impact both the availability of appropriate insurance coverage and its cost. Because of competitive pressures in our industry, our ability to pass along additional insurance costs to passengers is limited. As a result, further increases in insurance costs or reductions in available insurance coverage could have an adverse impact on our financial results.

We may be a party to litigation in the normal course of business or otherwise, which could affect our financial position and liquidity.

From time to time, we are a party to or otherwise involved in legal proceedings, claims and government inspections or investigations and other legal matters, both inside and outside the United States, arising in the ordinary course of our business or otherwise. We are currently involved in various legal proceedings and claims that have not yet been fully resolved, and additional claims may arise in the future. Legal proceedings can be complex and take many months, or even years, to reach resolution, with the final outcome depending on a number of variables, some of which are not within our control. Litigation is subject to significant uncertainty and may be expensive, time-consuming, and disruptive to our operations. Although we will vigorously defend ourselves in such legal proceedings, their ultimate resolution and potential financial and other impacts on us are uncertain. For these and other reasons, we may choose to settle legal proceedings and claims, regardless of their actual merit. If a legal proceeding is resolved against us, it could result in significant compensatory damages, and in certain circumstances punitive or trebled damages, disgorgement of revenue or profits, remedial corporate measures or injunctive relief imposed on us. If our existing insurance does not cover the amount or types of damages awarded, or if other resolution or actions taken as a result of the legal proceeding were to restrain our ability to operate or market our services, our consolidated financial position, results of operations or cash flows could be materially adversely affected. In addition, legal proceedings, and any adverse resolution thereof, can result in adverse publicity and damage to our reputation, which could adversely impact our business. Additional information regarding certain legal matters in which we are involved can be found in Part II, Item 1. Legal Proceedings.

Our ability to utilize our NOL Carryforwards may be limited.

Under the Internal Revenue Code of 1986, as amended (the Code), a corporation is generally allowed a deduction for NOLs carried over from prior taxable years (NOL Carryforwards). As of December 31, 2017, we had available NOL Carryforwards of approximately \$10.0 billion for regular federal income tax purposes that will expire, if unused, beginning in 2022, and approximately \$3.4 billion for state income tax purposes that will expire, if unused, between 2018 and 2037. Our NOL Carryforwards are subject to adjustment on audit by the Internal Revenue Service and the respective state taxing authorities.

A corporation's ability to deduct its federal NOL Carryforwards and to utilize certain other available tax attributes can be substantially constrained under the general annual limitation rules of Section 382 of the Code (Section 382) if it undergoes an "ownership change" as defined in Section 382 (generally where cumulative stock ownership changes among material stockholders exceed 50 percent during a rolling three-year period). We experienced an ownership change in connection with our emergence from the Chapter 11 Cases and US Airways Group experienced an ownership change in connection with the Merger. The general limitation rules for a debtor in a bankruptcy case are liberalized where the ownership change occurs upon emergence from bankruptcy. We elected to be covered by certain special rules for federal income tax purposes that permitted approximately \$9.0 billion (with \$8.4 billion of unlimited NOL still remaining at December 31, 2017) of our federal NOL Carryforwards to be utilized without regard to the annual limitation generally imposed by Section 382. If the special rules are determined not to apply, our ability to utilize such federal NOL Carryforwards may be subject to limitation. Substantially all of our remaining federal NOL Carryforwards (attributable to US Airways Group and its subsidiaries) are subject to limitation under Section 382 as a result of the Merger; however, our ability to utilize such NOL Carryforwards is not anticipated to be effectively constrained as a result of such limitation. Similar limitations may apply for state income tax purposes.

Notwithstanding the foregoing, an ownership change subsequent to our emergence from the Chapter 11 Cases may severely limit or effectively eliminate our ability to utilize our NOL Carryforwards and other tax attributes. To reduce the risk of a potential adverse effect on our ability to utilize our NOL Carryforwards, our Restated Certificate of Incorporation (Certificate of Incorporation) contains transfer restrictions applicable to certain substantial stockholders. These restrictions may adversely affect the ability of certain holders of AAG common stock to dispose of or acquire shares of AAG common stock. Although the purpose of these transfer restrictions is to prevent an ownership change from occurring, no assurance can be given that an ownership change will not occur even with these restrictions in place.

Our ability to use our NOL Carryforwards also will depend on the amount of taxable income generated in future periods. The NOL Carryforwards may expire before we can generate sufficient taxable income to use them. We have a significant amount of goodwill, which is assessed for impairment at least annually. In addition, we may never realize the full value of our intangible assets or long-lived assets, causing us to record material impairment charges.

Goodwill and indefinite-lived intangible assets are not amortized, but are assessed for impairment at least annually, or more frequently if conditions indicate that an impairment may have occurred. In accordance with applicable accounting standards, we first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test. In addition, we are required to assess certain of our other long-lived assets for impairment if conditions indicate that an impairment may have occurred.

Future impairment of goodwill or other long-lived assets could be recorded in results of operations as a result of changes in assumptions, estimates, or circumstances, some of which are beyond our control. There can be no assurance that a material impairment charge of goodwill or tangible or intangible assets will be avoided. The value of our aircraft could be impacted in future periods by changes in supply and demand for these aircraft. Such changes in supply and demand for certain aircraft types could result from grounding of aircraft by us or other airlines. An impairment charge could have a material adverse effect on our business, results of operations and financial condition. The price of AAG common stock has recently been and may in the future be volatile.

The market price of AAG common stock may fluctuate substantially due to a variety of factors, many of which are beyond our control, including:

- AAG's operating and financial results failing to meet the expectations of securities analysts or investors;
- changes in financial estimates or recommendations by securities analysts;
- material announcements by us or our competitors;
- movements in fuel prices;
- expectations regarding our capital deployment program, including any existing or potential future share repurchase programs and any future dividend payments that may be declared by our Board of Directors, or any determination to cease repurchasing stock or paying dividends;
- new regulatory pronouncements and changes in regulatory guidelines;

- general and industry-specific economic conditions;
- changes in our key personnel;
- distributions of shares of AAG common stock pursuant to the Plan, including distributions from the disputed claims reserve established under the plan of reorganization upon the resolution of the underlying claims;
- public sales of a substantial number of shares of AAG common stock or issuances of AAG common stock upon the exercise or conversion of convertible securities, options, warrants, restricted stock unit awards, stock appreciation rights, or similar rights;
- increases or decreases in reported holdings by insiders or other significant stockholders;
- fluctuations in trading volume; and
- changes in market values of airline companies as well as general market conditions.

We cannot guarantee that we will continue to repurchase our common stock or pay dividends on our common stock or that our capital deployment program will enhance long-term stockholder value. Our capital deployment program could increase the volatility of the price of our common stock and diminish our cash reserves.

Since July 2014, as part of our capital deployment program, our Board of Directors has approved seven share repurchase programs aggregating \$13.0 billion of authority. As of June 30, 2018, there was \$1.7 billion remaining authority to repurchase shares under our share repurchase programs. Share repurchases under our repurchase programs may be made through a variety of methods, which may include open market purchases, privately negotiated transactions, block trades or accelerated share repurchase transactions. These share repurchase programs do not obligate us to acquire any specific number of shares or to repurchase any specific number of shares for any fixed period, and may be suspended at any time at our discretion. The timing and amount of repurchases, if any, will be subject to market and economic conditions, applicable legal requirements and other relevant factors. Our repurchase of common stock may be limited, suspended or discontinued at any time without prior notice.

Although our Board of Directors commenced declaring quarterly cash dividends in July 2014 as part of our capital deployment program, any future dividends that may be declared and paid from time to time will be subject to market and economic conditions, applicable legal requirements and other relevant factors. We are not obligated to continue a dividend for any fixed period, and the payment of dividends may be suspended at any time at our discretion. We will continue to retain future earnings to develop our business, as opportunities arise, and evaluate on a quarterly basis the amount and timing of future dividends based on our operating results, financial condition, capital requirements and general business conditions. The amount and timing of any future dividends may vary, and the payment of any dividend does not assure that we will be able to pay dividends in the future.

In addition, any future repurchases of AAG common stock or dividends, or any determination to cease repurchasing stock or paying dividends, could affect our stock price and increase its volatility. The existence of a share repurchase program and any future dividends could cause our stock price to be higher than it would otherwise be and could potentially reduce the market liquidity for our stock. Additionally, any future repurchases of common stock or dividends will diminish our cash reserves, which may impact our ability to finance future growth and to pursue possible future strategic opportunities and acquisitions. Further, our repurchase of common stock may fluctuate such that our cash flow may be insufficient to fully cover our share repurchases. Although our share repurchase programs are intended to enhance long-term stockholder value, there is no assurance that it will do so because the market price of our common stock may decline below the levels at which we repurchased shares of stock and short-term stock price fluctuations could reduce the program's effectiveness.

Certain provisions of AAG's Certificate of Incorporation and Bylaws make it difficult for stockholders to change the composition of our Board of Directors and may discourage takeover attempts that some of our stockholders might consider beneficial.

Certain provisions of our Certificate of Incorporation and Second Amended and Restated Bylaws (Bylaws) may have the effect of delaying or preventing changes in control if our Board of Directors determines that such changes in control are not in our best interest and the best interest of our stockholders. These provisions include, among other things, the following:

- advance notice procedures for stockholder proposals to be considered at stockholders' meetings;
- the ability of our Board of Directors to fill vacancies on the board;

a prohibition against stockholders taking action by written consent; holders are restricted from calling a special meeting unless they hold at least 20% of our outstanding shares and follow the procedures provided for in the amended Bylaws; a requirement that holders of at least 80% of the voting power of the shares entitled to vote in the election of directors approve any amendment of our Bylaws submitted to stockholders for approval; and super-majority voting requirements to modify or amend specified provisions of our Certificate of Incorporation. These provisions are not intended to prevent a takeover, but are intended to protect and maximize the value of the interests of our stockholders. While these provisions have the effect of encouraging persons seeking to acquire control of our company to negotiate with our Board of Directors, they could enable our Board of Directors to prevent a transaction that some, or a majority, of our stockholders might believe to be in their best interest and, in that case, may prevent or discourage attempts to remove and replace incumbent directors. In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, which prohibits business combinations with interested stockholders. Interested stockholders do not include stockholders whose acquisition of our securities is approved by the Board of Directors prior to the investment under Section 203. AAG's Certificate of Incorporation and Bylaws include provisions that limit voting and acquisition and disposition of our equity interests.

Our Certificate of Incorporation and Bylaws include certain provisions that limit voting and ownership and disposition of our equity interests. These restrictions may adversely affect the ability of certain holders of AAG common stock and our other equity interests to vote such interests and adversely affect the ability of persons to acquire shares of AAG common stock and our other equity interests.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table displays information with respect to our purchases of shares of AAG common stock during the three months ended June 30, 2018.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plan or program	Maximum dollar value of shares that may be purchased under the plan or program (in millions)
April 2018	637,201	\$43.15	637,201	\$1,973
May 2018	7,537,806	\$42.79	7,537,806	\$1,650
June 2018	—	—	—	\$1,650

ITEM 6. EXHIBITS

Exhibits required to be filed by Item 601 of Regulation S-K: Where the amount of securities authorized to be issued under any of our long-term debt agreements does not exceed 10 percent of our assets, pursuant to paragraph (b)(4) of Item 601 of Regulation S-K, in lieu of filing such as an exhibit, we hereby agree to furnish to the Commission upon request a copy of any agreement with respect to such long-term debt.

Exhibit Number	Description
3.1	<u>Restated Certificate of Incorporation of American Airlines Group Inc., including the Certificate of Designations, Powers, Preferences and Rights of the American Airlines Group Inc. Series A Convertible Preferred Stock attached as Annex I thereto (incorporated by reference to Exhibit 3.1 to AAG's Current Report on Form 8-K filed on December 9, 2013 (Commission File No. 1-8400)).</u>
3.2	<u>Certificate of Amendment of Restated Certificate of Incorporation of American Airlines Group Inc. (incorporated by reference to Exhibit 3.1 to American Airlines Group Inc.'s Current Report on Form 8-K filed on June 13, 2018 (Commission File No. 1-8400)).</u>
3.3	<u>Third Amended and Restated Bylaws of American Airlines Group Inc. (incorporated by reference to Exhibit 3.2 to American Airlines Group Inc.'s Current Report on Form 8-K filed on June 13, 2018 (Commission File No. 1-8400)).</u>

- 4.1 Trust Supplement No. 2012-2C(R), dated as of May 15, 2018, between American Airlines, Inc. and Wilmington Trust Company, as Trustee, to the Pass Through Trust Agreement, dated as of September 16, 2014 (incorporated by reference to Exhibit 4.2 to American Airlines, Inc.'s Current Report on Form 8-K filed on May 16, 2018 (Commission File No. 1-2691)).
- 4.2 Form of Amendment No. 2 to Intercreditor Agreement (2012-2C(R)) among Wilmington Trust Company, not in its individual capacity but solely as Trustee of the American Airlines, Inc. Pass Through Trust 2012-2C(R), American Airlines, Inc. and Wilmington Trust Company, not in its individual capacity but solely as Subordination Agent and Trustee (incorporated by reference to Exhibit C to Exhibit 4.6 to American Airlines, Inc.'s Current Report on Form 8-K filed on May 16, 2018 (Commission File No. 1-2691)).
- 4.3 Deposit Agreement (Class C(R)), dated as of May 15, 2018, between Wilmington Trust, National Association, as Escrow Agent, and Natixis S.A., acting through its New York Branch, as Depository (incorporated by reference to Exhibit 4.4 to American Airlines, Inc.'s Current Report on Form 8-K filed on May 16, 2018 (Commission File No. 1-2691)).
- 4.4 Escrow and Paying Agent Agreement (Class C(R)), dated as of May 15, 2018, among Wilmington Trust, National Association, as Escrow Agent, Deutsche Bank Securities Inc., as Underwriter, Wilmington Trust Company, not in its individual capacity, but solely as Pass Through Trustee for and on behalf of American Airlines, Inc. Pass Through Trust 2012-2C(R), and Wilmington Trust Company, as Paying Agent (incorporated by reference to Exhibit 4.5 to American Airlines, Inc.'s Current Report on Form 8-K filed on May 16, 2018 (Commission File No. 1-2691)).
- 4.5 Note Purchase Agreement, dated as of May 15, 2018, among American Airlines, Inc., Wilmington Trust Company, not in its individual capacity, but solely as Pass Through Trustee under the Class C(R) Pass Through Trust Agreement, as Subordination Agent and as Indenture Trustee, Wilmington Trust, National Association, as Escrow Agent, and Wilmington Trust Company, as Paying Agent (incorporated by reference to Exhibit 4.6 to American Airlines, Inc.'s Current Report on Form 8-K filed on May 16, 2018 (Commission File No. 1-2691)).
- 4.6 Form of Amendment to Participation Agreement (Amendment to Participation Agreement among American Airlines, Inc., Wilmington Trust Company, not in its individual capacity, but solely as Subordination Agent and as Indenture Trustee, and Wilmington Trust Company, not in its individual capacity, but solely as Pass Through Trustee under each of the Pass Through Trust Agreements) (incorporated by reference to Exhibit A to Exhibit 4.6 to American Airlines, Inc.'s Current Report on Form 8-K filed on May 16, 2018 (Commission File No. 1-2691)).
- 4.7 Form of Amendment to Trust Indenture and Security Agreement (Amendment to Trust Indenture and Security Agreement between American Airlines, Inc., Wilmington Trust Company, not in its individual capacity, but solely as Indenture Trustee, and Wilmington Trust, National Association, as Securities Intermediary) (incorporated by reference to Exhibit B to Exhibit 4.6 to American Airlines, Inc.'s Current Report on Form 8-K filed on May 16, 2018 (Commission File No. 1-2691)).
- 4.8 Form of Pass Through Trust Certificate, Series 2012-2C(R) (incorporated by reference to Exhibit A to Exhibit 4.2 to American Airlines, Inc.'s Current Report on Form 8-K filed on May 16, 2018 (Commission File No. 1-2691)).
- 10.1 Supplemental Agreement No. 11, dated as of April 6, 2018, to Purchase Agreement No. 3219 dated as of October 15, 2008, by and between American Airlines, Inc. and The Boeing Company. *
- 10.2 Supplemental Agreement No. 9, dated as of April 6, 2018, to Purchase Agreement No. 03735 dated as of February 1, 2013, by and between American Airlines, Inc. and The Boeing Company. *
- 10.3 Fourth Amendment to Amended and Restated Credit and Guaranty Agreement, dated as of May 15, 2018, amending the Amended and Restated Credit and Guaranty Agreement, dated as of May 21, 2015, among American Airlines, Inc., American Airlines Group Inc., the lenders from time to time party thereto, Deutsche Bank AG New York Branch, as administrative agent, and Barclays Bank PLC, as designated replacement term lender.
- 12.1 Computation of ratio of earnings to fixed charges of American Airlines Group Inc. for the six months ended June 30, 2018.

- 12.2 Computation of ratio of earnings to fixed charges of American Airlines, Inc. for the six months ended June 30, 2018.
- 31.1 Certification of AAG Chief Executive Officer pursuant to Rule 13a-14(a).
- 31.2 Certification of AAG Chief Financial Officer pursuant to Rule 13a-14(a).
- 31.3 Certification of American Chief Executive Officer pursuant to Rule 13a-14(a).
- 31.4 Certification of American Chief Financial Officer pursuant to Rule 13a-14(a).
- 32.1 AAG Certification pursuant to Rule 13a-14(b) and section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code).
- 32.2 American Certification pursuant to Rule 13a-14(b) and section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code).
- 101.1 Interactive data files pursuant to Rule 405 of Regulation S-T.

* Confidential treatment has been requested with respect to certain portions of this agreement.

95

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

American Airlines Group Inc.

Date: July 26, 2018 By: /s/ Derek J. Kerr

Derek J. Kerr

Executive Vice President and Chief Financial Officer

(Duly Authorized Officer and Principal Financial Officer)

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

American Airlines, Inc.

Date: July 26, 2018 By: /s/ Derek J. Kerr

Derek J. Kerr

Executive Vice President and Chief Financial Officer

(Duly Authorized Officer and Principal Financial Officer)