

American Airlines Group Inc.
Form 10-Q
October 25, 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 September 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 October 19, 2018, there were 460,581,463 shares of American Airlines Group Inc. common stock outstanding.

As of October 19, 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 September 30, 2018
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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.

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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		Nine Months	
	Ended September		Ended September	
	30,	30,	30,	30,
	2018	2017	2018	2017
Operating revenues:				
Passenger	\$10,561	\$10,096	\$30,714	\$29,447
Cargo	260	223	748	633
Other	738	646	2,141	1,931
Total operating revenues	11,559	10,965	33,603	32,011
Operating expenses:				
Aircraft fuel and related taxes	2,234	1,570	6,100	4,481
Salaries, wages and benefits	3,129	3,030	9,240	8,928
Regional expenses	1,833	1,654	5,323	4,848
Maintenance, materials and repairs	526	487	1,499	1,474
Other rent and landing fees	497	471	1,448	1,363
Aircraft rent	312	304	921	892
Selling expenses	395	400	1,136	1,094
Depreciation and amortization	473	433	1,382	1,255
Special items, net	215	112	563	432
Other	1,296	1,248	3,883	3,652
Total operating expenses	10,910	9,709	31,495	28,419
Operating income	649	1,256	2,108	3,592
Nonoperating income (expense):				
Interest income	29	25	84	70
Interest expense, net	(265)	(266)	(795)	(787)
Other income, net	43	48	101	112
Total nonoperating expense, net	(193)	(193)	(610)	(605)
Income before income taxes	456	1,063	1,498	2,987
Income tax provision	115	402	404	1,122
Net income	\$341	\$661	\$1,094	\$1,865
Earnings per common share:				
Basic	\$0.74	\$1.36	\$2.35	\$3.78
Diluted	\$0.74	\$1.36	\$2.34	\$3.76
Weighted average shares outstanding (in thousands):				
Basic	460,526	484,772	465,452	493,164
Diluted	461,507	486,625	466,908	495,796
Cash dividends declared per common share	\$0.10	\$0.10	\$0.30	\$0.30

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$341	\$661	\$1,094	\$1,865
Other comprehensive loss, net of tax:				
Pension, retiree medical and other postretirement benefits	(17)	(15)	(49)	(44)
Total comprehensive income	\$324	\$646	\$1,045	\$1,821

See accompanying notes to condensed consolidated financial statements.

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

	September 30, 2018	December 31, 2017
	(Unaudited)	
ASSETS		
Current assets		
Cash	\$303	\$ 295
Short-term investments	4,552	4,771
Restricted cash and short-term investments	154	318
Accounts receivable, net	2,170	1,752
Aircraft fuel, spare parts and supplies, net	1,576	1,359
Prepaid expenses and other	743	651
Total current assets	9,498	9,146
Operating property and equipment		
Flight equipment	40,983	40,318
Ground property and equipment	9,187	8,267
Equipment purchase deposits	1,330	1,217
Total property and equipment, at cost	51,500	49,802
Less accumulated depreciation and amortization	(17,277)	(15,646)
Total property and equipment, net	34,223	34,156
Other assets		
Goodwill	4,091	4,091
Intangibles, net of accumulated amortization of \$653 and \$622, respectively	2,147	2,203
Deferred tax asset	1,293	1,816
Other assets	1,383	1,373
Total other assets	8,914	9,483
Total assets	\$52,635	\$ 52,785
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Current maturities of long-term debt and capital leases	\$2,493	\$ 2,554
Accounts payable	1,886	1,688
Accrued salaries and wages	1,386	1,672
Air traffic liability	5,040	4,042
Loyalty program liability	3,242	3,121
Other accrued liabilities	2,301	2,281
Total current liabilities	16,348	15,358
Noncurrent liabilities		
Long-term debt and capital leases, net of current maturities	22,274	22,511
Pension and postretirement benefits	6,898	7,497
Loyalty program liability	5,317	5,701
Other liabilities	2,366	2,498
Total noncurrent liabilities	36,855	38,207
Commitments and contingencies		
Stockholders' equity (deficit)		
Common stock, \$0.01 par value; 1,750,000,000 shares authorized, 460,559,470 shares issued and outstanding at September 30, 2018; 475,507,887 shares issued and outstanding at	5	5

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December 31, 2017

Additional paid-in capital	4,946	5,714
Accumulated other comprehensive loss	(5,203)	(5,154)
Accumulated deficit	(316)	(1,345)
Total stockholders' deficit	(568)	(780)
Total liabilities and stockholders' equity (deficit)	\$52,635	\$ 52,785

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2018	2017
Net cash provided by operating activities	\$ 2,804	\$ 4,307
Cash flows from investing activities:		
Capital expenditures and aircraft purchase deposits	(2,736)	(4,563)
Proceeds from sale of property and equipment and sale-leaseback transactions	860	831
Purchases of short-term investments	(2,590)	(4,093)
Sales of short-term investments	2,816	4,714
Decrease in restricted short-term investments	72	235
Purchase of equity investment	—	(203)
Other investing activities	(5)	—
Net cash used in investing activities	(1,583)	(3,079)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	2,149	2,160
Payments on long-term debt and capital leases	(2,442)	(1,813)
Deferred financing costs	(48)	(66)
Treasury stock repurchases	(837)	(1,372)
Dividend payments	(140)	(150)
Other financing activities	13	21
Net cash used in financing activities	(1,305)	(1,220)
	(84)	8

Net increase (decrease)
in cash and restricted
cash

Cash and restricted cash at beginning of period	398		436
Cash and restricted cash at end of period (a)	\$ 314		\$ 444

Supplemental
information:

Interest paid, net	801		778
Income taxes paid	16		15

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

Cash		\$303	\$340
Restricted cash included in restricted cash and short-term investments	11		104
Total cash and restricted cash		\$314	\$444

See accompanying notes to condensed consolidated financial statements.

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 nine months ended September 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 nine months ended September 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 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 nine months ended September 30, 2018 and 2017, \$11 million and \$104 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 nine months ended September 30, 2017 were as follows (in millions, except per share amounts):

Three Months Ended September 30, 2017	As Reported	New Revenue Standard			New Retirement Standard		As Recast
		Deferred Revenue Method	Accrual Revenue Reclassifications	Gross Versus Net Presentation	Reclassifications		
Operating revenues:							
Passenger	\$ 9,377	\$ 59	\$ 651	\$ 9	\$ —		\$ 10,096
Cargo	200	—	10	13	—		223
Other	1,301	—	(661)	6	—		646
Total operating revenues	10,878	59	—	28	—		10,965
Total operating expenses	9,646	—	—	28	35		9,709
Operating income	1,232	59	—	—	(35)	)	1,256
Total nonoperating expense, net	(228)	)	—	—	35		(193)
Income before income taxes	1,004	59	—	—	—		1,063
Income tax provision	380	22	—	—	—		402
Net income	\$ 624	\$ 37	\$ —	\$ —	\$ —	\$ —	\$ 661

Diluted earnings per common share \$ 1.28

\$1.36

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

(Unaudited)

Nine Months Ended September 30, 2017	As Reported	New Revenue Standard			New Retirement Standard	
		Deferred Revenue Method	Auxiliary Revenue Reclassifications	Gross Versus Net Presentation	Reclassifications	As Recast
Operating revenues:						
Passenger	\$27,114	\$328	\$ 1,976	\$ 29	\$ —	\$29,447
Cargo	568	—	31	34	—	633
Other	3,924	—	(2,007)	) 14	—	1,931
Total operating revenues	31,606	328	—	77	—	32,011
Total operating expenses	28,238	—	—	77	104	28,419
Operating income	3,368	328	—	—	(104)	3,592
Total nonoperating expense, net	(709)	—	—	—	104	(605)
Income before income taxes	2,659	328	—	—	—	2,987
Income tax provision	998	124	—	—	—	1,122
Net income	\$1,661	\$204	\$ —	\$ —	\$ —	\$1,865
Diluted earnings per common share	\$3.35					\$3.76

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. In July 2018, the FASB issued ASU 2018-11, "Leases (Topic 842) - Targeted Improvements," which provides entities an optional transition method to apply the New Lease Standard prospectively at the date of adoption instead of recasting prior reporting periods. If this optional transition method is elected, an entity would recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

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 of the New Lease Standard. 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.

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

(Unaudited)

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.

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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Fleet restructuring expenses ⁽¹⁾	\$109	\$62	\$275	\$174
Merger integration expenses ⁽²⁾	68	62	188	192
Severance expenses ⁽³⁾	20	—	20	—
Mark-to-market adjustments on bankruptcy obligations, net ⁽⁴⁾	17	(12)	(39)	7
Litigation settlement	—	—	45	—
Intangible asset impairment ⁽⁵⁾	—	—	26	—
Labor contract expenses	—	—	13	45
Other operating charges, net	1	—	35	14
Mainline operating special items, net	215	112	563	432
Regional operating special items, net	2	(5)	1	(1)
Mark-to-market adjustments on equity investments, net ⁽⁶⁾	15	—	82	—
Debt refinancing and extinguishment charges	—	3	13	12
Nonoperating special items, net	15	3	95	12
Income tax special items, net ⁽⁷⁾	—	—	40	—

(1) Fleet restructuring expenses principally included accelerated depreciation and remaining lease payments for aircraft and related equipment grounded or expected to be grounded earlier than planned.

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

- (3) Severance expenses primarily included costs associated with reductions in headcount of management and support staff team members.
- (4) 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.
- (5) 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.

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

(Unaudited)

Mark-to-market adjustments on equity investments relate to net unrealized losses resulting from the change in
(6) market value primarily associated with our equity investments in China Southern Airlines and Mesa Air Group, Inc.

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

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		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Basic EPS:				
Net income	\$341	\$ 661	\$1,094	\$1,865
Weighted average common shares outstanding (in thousands)	460,520	484,772	465,452	493,164
Basic EPS	\$0.74	\$ 1.36	\$2.35	\$ 3.78
Diluted EPS:				
Net income for purposes of computing diluted EPS	\$341	\$ 661	\$1,094	\$1,865
Share computation for diluted EPS (in thousands):				
Basic weighted average common shares outstanding	460,520	484,772	465,452	493,164
Dilutive effect of stock awards	981	1,853	1,456	2,632
Diluted weighted average common shares outstanding	461,501	486,625	466,908	495,796
Diluted EPS	\$0.74	\$ 1.36	\$2.34	\$ 3.76

Restricted stock unit awards excluded from the calculation of diluted EPS because inclusion would be antidilutive (in thousands)

	1,694	66	1,128	432
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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 September 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 nine months ended September 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 August 7, 2018 and paid on August 21, 2018, totaling \$46 million. For the first nine months of 2018, we paid total quarterly cash dividends of \$140 million.

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

(Unaudited)

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 nine months ended September 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.

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

	Three Months		Nine Months	
	Ended September		Ended September	
	30,	30,	30,	30,
	2018	2017	2018	2017
Passenger revenue:				
Passenger travel	\$9,790	\$9,400	\$28,278	\$27,179
Loyalty revenue - travel ⁽¹⁾	771	696	2,436	2,268
Total passenger revenue	10,561	10,096	30,714	29,447
Cargo	260	223	748	633
Other:				
Loyalty revenue - marketing services	613	527	1,765	1,574
Other revenue	125	119	376	357
Total other revenue	738	646	2,141	1,931
Total operating revenues	\$11,559	\$10,965	\$33,603	\$32,011

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		Nine Months	
	Ended September		Ended September	
	30,	30,	30,	30,
	2018	2017	2018	2017
Domestic	\$7,424	\$7,162	\$22,071	\$21,522
Latin America	1,210	1,183	3,939	3,622
Atlantic	1,504	1,363	3,471	3,170
Pacific	423	388	1,233	1,133
Total passenger revenue	\$10,561	\$10,096	\$30,714	\$29,447

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.

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

(Unaudited)

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.

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. Consideration received from the sale of mileage credits is variable and payment terms typically are within 30 days subsequent to the month of mileage sale. Sales of mileage credits to non-airline business partners are comprised of two components, transportation and marketing. We allocate the consideration received from these sales 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.

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

(Unaudited)

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 nine months ended September 30, 2018, loyalty revenue included in other revenue was \$613 million and \$1.8 billion, respectively. For the three and nine months ended September 30, 2017, loyalty revenue included in other revenue was \$527 million and \$1.6 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.

(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.

	September 30, 2018	December 31, 2017
	(In millions)	
Loyalty program liability	\$8,559	\$ 8,822
Air traffic liability	5,040	4,042
Total	\$13,599	\$ 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	2,302
Recognition of revenue ⁽¹⁾	(2,565)
Balance at September 30, 2018 ⁽²⁾	\$8,559

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 September 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 nine months ended September 30, 2018, \$3.1 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.

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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):

	September 30, 2018	December 31, 2017
Secured		
2013 Credit Facilities, variable interest rate of 3.98%, installments through 2025	\$ 1,825	\$ 1,825
2014 Credit Facilities, variable interest rate of 4.13%, installments through 2021	1,228	728
April 2016 Credit Facilities, variable interest rate of 4.24%, installments through 2023	980	990
December 2016 Credit Facilities, variable interest rate of 4.16%, 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	11,884	11,881
Equipment loans and other notes payable, fixed and variable interest rates ranging from 2.18% to 8.48%, averaging 4.00%, maturing from 2018 to 2029	5,078	5,259
Special facility revenue bonds, fixed interest rates ranging from 5.00% to 8.00%, maturing from 2019 to 2035	815	857
Other secured obligations, fixed interest rates ranging from 3.81% to 12.24%, maturing from 2021 to 2028	711	773
	23,759	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	25,009	25,301
Less: Total unamortized debt discount, premium and issuance costs	242	236
Less: Current maturities	2,493	2,554
Long-term debt and capital lease obligations, net of current maturities	\$ 22,274	\$ 22,511

The table below shows the maximum availability under revolving credit facilities, all of which were undrawn, as of September 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

In August and October 2017, American created three pass-through trusts which issued approximately \$1.0 billion aggregate face amount of Series 2017-2 Class AA, Class A and Class B EETCs (the 2017-2 EETCs). Of the approximately \$1.0 billion 2017-2 EETCs, approximately \$735 million of such proceeds were used in 2017 to purchase equipment notes issued by American in connection with the financing of 24 aircraft. The remaining approximately \$283 million was used in the first six months of 2018 to purchase equipment notes issued by American in connection with financing the remaining 6 of 30 aircraft financed under the 2017-2 EETCs. 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, which interest payments began in April 2018 and principal payments will begin 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 September 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 September 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

Other Equipment Notes Issued in 2018

In the first nine months of 2018, American entered into agreements under which it borrowed \$1.3 billion in connection with the financing of certain aircraft and pre-delivery purchase deposits. Debt incurred under these agreements matures in 2021 through 2029 and bears interest at fixed and variable rates of LIBOR plus an applicable margin averaging 4.09% at September 30, 2018.

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

(Unaudited)

2018 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.

2014 Credit Facilities

In September 2018, American and AAG entered into a Fifth Amendment (the Fifth Amendment) to the Amended and Restated Credit and Guaranty Agreement, amending the Amended and Restated Credit and Guaranty Agreement dated as of April 20, 2015 (as previously amended, the 2014 Credit Agreement, and the term loan and revolving credit facilities established thereunder, as amended by the Fifth Amendment, the 2014 Credit Facilities). The Fifth Amendment provides for incremental term loans in the amount of \$500 million. The terms are substantially similar to the terms of the existing term loans under the 2014 Credit Agreement including in relation to maturity and interest rate. As of September 30, 2018, approximately \$1.2 billion was outstanding under the term loan portion of the 2014 Credit Facilities and there were no other borrowings or letters of credit outstanding thereunder.

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 no later than 2021 as a result of the repeal of corporate AMT.

During the three and nine months ended September 30, 2018, we recorded an income tax provision of \$115 million and \$404 million, respectively, which was substantially non-cash as we utilized our NOLs described above. For the nine months ended September 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% 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.

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 September 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 guidance by the U.S. Department of Treasury and the 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.

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

(Unaudited)

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 nine months ended September 30, 2018.

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

	Fair Value Measurements as of September 30, 2018			
	Total	Level 1	Level 2	Level 3
Short-term investments ^{(1) (2)} :				
Money market funds	\$68	\$68	\$—	\$ —
Corporate obligations	1,443	—	1,443	—
Bank notes/certificates of deposit/time deposits	2,801	—	2,801	—
Repurchase agreements	240	—	240	—
	4,552	68	4,484	—
Restricted cash and short-term investments ⁽¹⁾	154	12	142	—
Long-term investments ⁽³⁾	211	211	—	—
Total	\$4,917	\$291	\$4,626	\$ —

⁽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 \$942 million of bank notes/certificates of deposit/time deposits and \$150 million of corporate obligations.

⁽³⁾ Long-term investments primarily include our equity 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):

	September 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current maturities	\$24,767	\$24,932	\$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 September 30,				
Service cost	\$1	\$1	\$ 1	\$ 1
Interest cost	169	180	9	10
Expected return on assets	(226)	(198)	(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)	\$26	\$ (60	) \$ (59

	Pension Benefits		Retiree Medical and Other Postretirement Benefits	
	2018	2017	2018	2017
Nine Months Ended September 30,				
Service cost	\$2	\$2	\$ 3	\$ 3
Interest cost	507	541	26	29
Expected return on assets	(678)	(592)	(17	) (16
Amortization of:				
Prior service cost (benefit)	21	21	(178	) (178
Unrecognized net loss (gain)	108	108	(15	) (17
Net periodic benefit cost (income)	\$(40)	\$80	\$ (181	) \$ (179

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 nine months of 2018, we contributed \$467 million to our defined benefit pension plans, including supplemental contributions of \$425 million in addition to a \$42 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	(64	) —	15		(2)(49
Net current-period other comprehensive income (loss)	(64	) —	15		(49
Balance at September 30, 2018	\$ (4,587	) \$ (1	) \$ (615	)	\$(5,203)

⁽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 September 30, 2018		Nine Months Ended September 30, 2017		
Amortization of pension, retiree medical and other postretirement benefits:					
Prior service benefit	\$(40)	\$(33)	\$(121)	\$(100)	Nonoperating other income, net
Actuarial loss	23	19	72	57	Nonoperating other income, net
Total reclassifications for the period, net of tax	\$(17)	\$(14)	\$(49)	\$(43)	

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 September 30, 2018		Nine Months Ended September 30, 2017	
	2018	2017	2018	2017
Aircraft fuel and related taxes	\$506	\$352	\$1,369	\$999
Salaries, wages and benefits	403	369	1,175	1,074
Capacity purchases from third-party regional carriers	363	404	1,081	1,210
Maintenance, materials and repairs	83	74	251	209
Other rent and landing fees	155	159	455	466
Aircraft rent	8	9	25	26
Selling expenses	94	95	276	269
Depreciation and amortization	76	79	241	235
Special items, net	2	(5)	1	(1)
Other	143	118	449	361
Total regional expenses	\$1,833	\$1,654	\$5,323	\$4,848

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 September 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)

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 August 29, 2018, the Court denied in part defendants' motion for summary judgment, and fully denied plaintiffs' cross-motion for summary judgment. A bench trial is expected to be scheduled in the next few months. 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 October 2018, we announced that our Board of Directors declared a \$0.10 per share dividend for stockholders of record as of November 6, 2018, and payable on November 20, 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 Notes

In October 2018, American issued equipment notes in the principal amount of \$74 million in connection with the financing of certain aircraft. These equipment notes are secured by liens on the aircraft financed and mature in October 2023.

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

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions)(Unaudited)

	Three Months		Nine Months	
	Ended September		Ended September	
	30,	30,	30,	30,
	2018	2017	2018	2017
Operating revenues:				
Passenger	\$ 10,561	\$ 10,096	\$ 30,714	\$ 29,447
Cargo	260	223	748	633
Other	735	643	2,132	1,923
Total operating revenues	11,556	10,962	33,594	32,003
Operating expenses:				
Aircraft fuel and related taxes	2,234	1,570	6,100	4,481
Salaries, wages and benefits	3,127	3,027	9,231	8,920
Regional expenses	1,810	1,662	5,275	4,860
Maintenance, materials and repairs	526	487	1,499	1,474
Other rent and landing fees	497	471	1,448	1,363
Aircraft rent	312	304	921	892
Selling expenses	395	400	1,136	1,094
Depreciation and amortization	473	433	1,382	1,255
Special items, net	215	112	563	432
Other	1,298	1,247	3,885	3,652
Total operating expenses	10,887	9,713	31,440	28,423
Operating income	669	1,249	2,154	3,580
Nonoperating income (expense):				
Interest income	85	56	240	158
Interest expense, net	(262)	(250)	(771)	(738)
Other income, net	44	48	102	112
Total nonoperating expense, net	(133)	(146)	(429)	(468)
Income before income taxes	536	1,103	1,725	3,112
Income tax provision	133	417	467	1,170
Net income	\$ 403	\$ 686	\$ 1,258	\$ 1,942

See accompanying notes to condensed consolidated financial statements.

AMERICAN AIRLINES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$403	\$686	\$1,258	\$1,942
Other comprehensive loss, net of tax:				
Pension, retiree medical and other postretirement benefits	(17)	(15)	(50)	(44)
Total comprehensive income	\$386	\$671	\$1,208	\$1,898

See accompanying notes to condensed consolidated financial statements.

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

	September 30, 2018	December 31, 2017
	(Unaudited)	
ASSETS		
Current assets		
Cash	\$ 294	\$ 287
Short-term investments	4,542	4,768
Restricted cash and short-term investments	154	318
Accounts receivable, net	2,222	1,755
Receivables from related parties, net	10,525	8,822
Aircraft fuel, spare parts and supplies, net	1,506	1,294
Prepaid expenses and other	739	647
Total current assets	19,982	17,891
Operating property and equipment		
Flight equipment	40,669	39,993
Ground property and equipment	8,906	8,006
Equipment purchase deposits	1,330	1,217
Total property and equipment, at cost	50,905	49,216
Less accumulated depreciation and amortization	(16,964)	(15,354)
Total property and equipment, net	33,941	33,862
Other assets		
Goodwill	4,091	4,091
Intangibles, net of accumulated amortization of \$653 and \$622, respectively	2,147	2,203
Deferred tax asset	1,429	2,071
Other assets	1,280	1,283
Total other assets	8,947	9,648
Total assets	\$ 62,870	\$ 61,401
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Current maturities of long-term debt and capital leases	\$ 2,497	\$ 2,058
Accounts payable	1,822	1,625
Accrued salaries and wages	1,332	1,613
Air traffic liability	5,040	4,042
Loyalty program liability	3,242	3,121
Other accrued liabilities	2,213	2,209
Total current liabilities	16,146	14,668
Noncurrent liabilities		
Long-term debt and capital leases, net of current maturities	20,995	21,236
Pension and postretirement benefits	6,855	7,452
Loyalty program liability	5,317	5,701
Other liabilities	2,317	2,456
Total noncurrent liabilities	35,484	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	16,783	16,716
Accumulated other comprehensive loss	(5,301)	(5,251)
Accumulated deficit	(242)	(1,577)
Total stockholder's equity	11,240	9,888
Total liabilities and stockholder's equity	\$ 62,870	\$ 61,401

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2018	2017
Net cash provided by operating activities	\$ 1,282	\$ 2,738
Cash flows from investing activities:		
Capital expenditures and aircraft purchase deposits	(2,697)	(4,501)
Proceeds from sale of property and equipment and sale-leaseback transactions	855	816
Purchases of short-term investments	(2,582)	(4,093)
Sales of short-term investments	2,816	4,714
Decrease in restricted short-term investments	72	235
Purchase of equity investment	—	(203)
Other investing activities	(5)	—
Net cash used in investing activities	(1,541)	(3,032)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	2,149	2,160
Payments on long-term debt and capital leases	(1,942)	(1,813)
Deferred financing costs	(48)	(66)
Other financing activities	15	21
Net cash provided by financing activities	174	302
Net increase (decrease) in cash and restricted cash	(85)	8
Cash and restricted cash at beginning of period	390	424
	\$ 305	\$ 432

Cash and restricted
cash at end of period
(a)

Supplemental
information:

Interest paid, net	741	718
Income taxes paid	14	13

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

Cash	\$294	\$328
Restricted cash included in restricted cash and short-term investments	11	104
Total cash and restricted cash	\$305	\$432

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 nine months ended September 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 nine months ended September 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 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 nine months ended September 30, 2018 and 2017, \$11 million and \$104 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 nine months ended September 30, 2017 were as follows (in millions):

Three Months Ended September 30, 2017	As Reported	New Revenue Standard		Gross Versus Net Presentation	New Retirement Standard Reclassifications	As Recast
		Deferred Revenue Method	Auxiliary Revenue Reclassifications			
Operating revenues:						
Passenger	\$ 9,377	\$ 59	\$ 651	\$ 9	\$ —	\$ 10,096
Cargo	200	—	10	13	—	223
Other	1,298	—	(661)	6	—	643
Total operating revenues	10,875	59	—	28	—	10,962
Total operating expenses	9,650	—	—	28	35	9,713
Operating income	1,225	59	—	—	(35)	1,249
Total nonoperating expense, net	(181)	) —	—	—	35	(146)
Income before income taxes	1,044	59	—	—	—	1,103
Income tax provision	395	22	—	—	—	417
Net income	\$ 649	\$ 37	\$ —	\$ —	\$ —	\$ 686

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

Nine Months Ended September 30, 2017	As Reported	New Revenue Standard		Gross Versus Net Presentation	New Retirement Standard Reclassifications	As Recast
		Deferred Revenue Method	Ad Revenue Reclassifications			
Operating revenues:						
Passenger	\$ 27,114	\$ 328	\$ 1,976	\$ 29	\$ —	\$ 29,447
Cargo	568	—	31	34	—	633
Other	3,916	—	(2,007)	14	—	1,923
Total operating revenues	31,598	328	—	77	—	32,003
Total operating expenses	28,242	—	—	77	104	28,423
Operating income	3,356	328				