

American Airlines Group Inc.  
Form 10-Q  
October 26, 2017

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, 2017  
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

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

(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
------------------------------	-------------------------	-------------------	-----------------------	---------------------------	-------------------------

American Airlines, Inc.	Large Accelerated Filer	Accelerated Filer	Non-accelerated Filer	Smaller Reporting Company	Emerging Growth Company
-------------------------	-------------------------	-------------------	-----------------------	---------------------------	-------------------------

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 20, 2017, there were 478,499,073 shares of American Airlines Group Inc. common stock outstanding.

As of October 20, 2017, 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, 2017  
Table of Contents

	Page
<b>PART I: FINANCIAL INFORMATION</b>	
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>20</u>
<u>Condensed Consolidated Statements of Operations</u>	<u>20</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>21</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>22</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>23</u>
<u>Notes to the Condensed Consolidated Financial Statements</u>	<u>24</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>35</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>60</u>
Item 4. <u>Controls and Procedures</u>	<u>60</u>
<b>PART II: OTHER INFORMATION</b>	
Item 1. <u>Legal Proceedings</u>	<u>62</u>
Item 1A. <u>Risk Factors</u>	<u>63</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>79</u>
Item 6. <u>Exhibits</u>	<u>79</u>
<u>SIGNATURES</u>	<u>82</u>

This combined Quarterly Report on Form 10-Q is filed by American Airlines Group Inc. (formerly named AMR Corporation) (AAG) and its wholly-owned subsidiary American Airlines, Inc. (American). References in this Quarterly Report on Form 10-Q 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 (the Merger). References to “US Airways Group” and “US Airways,” a subsidiary of US Airways Group, represent the entities during the period of time prior to AAG’s internal corporate restructuring on December 30, 2015. References in this Quarterly Report on Form 10-Q 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, and 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 Quarterly Report on Form 10-Q or as of the dates indicated in the statements.

**PART I: FINANCIAL INFORMATION**

This combined Quarterly 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		Nine Months	
	Ended		Ended September	
	September 30,		30,	
	2017	2016	2017	2016
Operating revenues:				
Mainline passenger	\$7,628	\$7,419	\$21,981	\$21,192
Regional passenger	1,749	1,731	5,133	5,040
Cargo	200	171	568	506
Other	1,301	1,273	3,924	3,653
Total operating revenues	10,878	10,594	31,606	30,391
Operating expenses:				
Aircraft fuel and related taxes	1,570	1,393	4,481	3,736
Salaries, wages and benefits	2,995	2,772	8,824	8,094
Regional expenses	1,654	1,538	4,848	4,488
Maintenance, materials and repairs	487	481	1,474	1,352
Other rent and landing fees	471	463	1,363	1,342
Aircraft rent	304	299	892	908
Selling expenses	400	347	1,094	990
Depreciation and amortization	433	399	1,255	1,128
Special items, net	112	289	432	450
Other	1,220	1,182	3,575	3,386
Total operating expenses	9,646	9,163	28,238	25,874
Operating income	1,232	1,431	3,368	4,517
Nonoperating income (expense):				
Interest income	25	16	70	45
Interest expense, net	(266 )	(250 )	(787 )	(738 )
Other, net	13	(8 )	8	(25 )
Total nonoperating expense, net	(228 )	(242 )	(709 )	(718 )
Income before income taxes	1,004	1,189	2,659	3,799
Income tax provision	380	452	998	1,412
Net income	\$624	\$737	\$1,661	\$2,387
Earnings per common share:				
Basic	\$1.29	\$1.40	\$3.37	\$4.23
Diluted	\$1.28	\$1.40	\$3.35	\$4.20
Weighted average shares outstanding (in thousands):				
Basic	484,772	525,415	493,164	564,886
Diluted	486,625	528,510	495,796	568,679
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,	
	2017	2016	2017	2016
Net income	\$624	\$737	\$1,661	\$2,387
Other comprehensive loss, net of tax:				
Pension, retiree medical and other postretirement benefits	(15 )	(17 )	(44 )	(52 )
Investments	—	2	—	6
Total other comprehensive loss, net of tax	(15 )	(15 )	(44 )	(46 )
Total comprehensive income	\$609	\$722	\$1,617	\$2,341

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, 2017 (Unaudited)	December 31, 2016
<b>ASSETS</b>		
Current assets		
Cash	\$340	\$ 322
Short-term investments	5,428	6,037
Restricted cash and short-term investments	393	638
Accounts receivable, net	1,700	1,594
Aircraft fuel, spare parts and supplies, net	1,315	1,094
Prepaid expenses and other	826	639
Total current assets	10,002	10,324
Operating property and equipment		
Flight equipment	39,545	37,028
Ground property and equipment	7,902	7,116
Equipment purchase deposits	1,280	1,209
Total property and equipment, at cost	48,727	45,353
Less accumulated depreciation and amortization	(15,416 )	(14,194 )
Total property and equipment, net	33,311	31,159
Other assets		
Goodwill	4,091	4,091
Intangibles, net of accumulated amortization of \$612 and \$578, respectively	2,214	2,173
Deferred tax asset	538	1,498
Other assets	2,245	2,029
Total other assets	9,088	9,791
Total assets	\$52,401	\$ 51,274
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Current maturities of long-term debt and capital leases	\$2,467	\$ 1,855
Accounts payable	1,638	1,592
Accrued salaries and wages	1,413	1,516
Air traffic liability	4,653	3,912
Loyalty program liability	2,893	2,789
Other accrued liabilities	2,243	2,208
Total current liabilities	15,307	13,872
Noncurrent liabilities		
Long-term debt and capital leases, net of current maturities	22,217	22,489
Pension and postretirement benefits	7,467	7,842
Other liabilities	3,462	3,286
Total noncurrent liabilities	33,146	33,617
Commitments and contingencies		
Stockholders' equity		
Common stock, \$0.01 par value; 1,750,000,000 shares authorized, 479,999,894 shares issued and outstanding at September 30, 2017; 507,294,153 shares issued and outstanding at December 31, 2016	5	5



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

Additional paid-in capital	5,918	7,223
Accumulated other comprehensive loss	(5,127 )	(5,083 )
Retained earnings	3,152	1,640
Total stockholders' equity	3,948	3,785
Total liabilities and stockholders' equity	\$52,401	\$ 51,274

See accompanying notes to condensed consolidated financial statements.

6

---

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

	Nine Months Ended September 30,	
	2017	2016
Net cash provided by operating activities	\$ 4,307	\$ 5,897
Cash flows from investing activities:		
Capital expenditures and aircraft purchase deposits	(4,563 )	(4,271 )
Purchases of short-term investments	(4,093 )	(5,078 )
Sales of short-term investments	4,714	4,587
Purchase of equity investment	(203 )	—
Decrease in restricted cash and short-term investments	245	60
Proceeds from sale of property and equipment and sale-leaseback transactions	831	60
Net cash used in investing activities	(3,069 )	(4,642 )
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	2,160	5,392
Payments on long-term debt and capital leases	(1,813 )	(2,534 )
Deferred financing costs	(66 )	(39 )
Treasury stock repurchases	(1,372 )	(3,931 )
Dividend payments	(150 )	(172 )
Other financing activities	21	20
Net cash used in financing activities	(1,220 )	(1,264 )
Net increase (decrease) in cash	18	(9 )
	322	390

Cash at beginning of period				
Cash at end of period	\$	340	\$	381
Non-cash investing and financing activities:				
Settlement of bankruptcy obligations	\$	15	\$	3
Supplemental information:				
Interest paid, net		778		714
Income taxes paid		15		10
See accompanying notes to condensed consolidated financial statements.				

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

(Unaudited)

1. 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, 2016. 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, 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. Certain prior period amounts have been reclassified to conform to the current year presentation.

Recent Accounting Pronouncements

Revenue

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 completes the joint effort by the FASB and International Accounting Standards Board (IASB) to improve financial reporting by creating common revenue recognition guidance for GAAP and International Financial Reporting Standards (IFRS). Subsequently, the FASB has issued several additional ASUs to clarify the implementation. The new revenue standard applies to all companies that enter into contracts with customers to transfer goods or services and is effective for public entities for interim and annual reporting periods beginning after December 15, 2017. We will adopt the new revenue standard effective January 1, 2018. Entities have the choice to apply the new revenue standard either retrospectively to each reporting period presented or by recognizing the cumulative effect of applying the new revenue standard at the date of initial application and not adjusting comparative information. We will adopt the new revenue standard using the full retrospective method.

We are in the process of finalizing how the application of the new revenue standard will impact our condensed consolidated financial statements. We currently expect that the new revenue standard will materially impact our liability for outstanding mileage credits earned by AAdvantage loyalty program members. We currently use the incremental cost method to account for this portion of our loyalty program liability, which values these mileage credits based on the estimated incremental cost of carrying one additional passenger. The new revenue standard will require us to change our policy and apply a relative selling price approach whereby a portion of each passenger ticket sale attributable to mileage credits earned will be deferred and recognized in passenger revenue upon future mileage redemption. The carrying value of the earned mileage credits recognized in loyalty program liability is expected to be materially greater under the relative selling price approach than the value attributed to these mileage credits under the incremental cost method. The new revenue standard will also require us to reclassify certain ancillary fees to passenger revenue, which are currently included within other operating revenue. See Part I, Item 2. Management's

Discussion and Analysis of Financial Condition and Results of Operations - “Recent Accounting Pronouncements” for our preliminary assessment of the quantitative impacts of the new revenue standard on our consolidated financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842).” ASU 2016-02 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 Accounting Standards Codification Topic 606, Revenue from Contracts with Customers.

ASU 2016-02

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

(Unaudited)

is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. We expect we will adopt the new lease standard effective January 1, 2019. Entities are required to adopt the new lease standard using a modified retrospective approach for all leases existing at or commencing after the date of initial application with an option to use certain practical expedients. We are currently evaluating how the adoption of the new lease standard will impact our condensed 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 condensed 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.

#### Statement of Cash Flows

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." ASU 2016-18 requires 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. ASU 2016-18 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 is to be applied retrospectively to each period presented and is effective for public entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. We expect we will adopt this new standard effective January 1, 2018. This standard is not expected to have a material impact on our condensed consolidated financial statements.

#### Retirement Benefits

In March 2017, the FASB issued ASU 2017-07, "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." ASU 2017-07 requires an entity to present the service cost component of net benefit cost in the income statement line items where it reports compensation cost. Entities will present all other components of net benefit cost outside of operating income, if this subtotal is presented. This standard is to be applied retrospectively to each period presented and is effective for public entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. We will adopt this standard on January 1, 2018. The new standard will require all components of our net periodic benefit cost (income), with the exception of service cost, currently reported within operating expenses as salaries, wages and benefits, to be reclassified and reported within nonoperating income (expense). The adoption of this new standard will have no impact on pre-tax income or net income reported. See Note 8 for our current components of net periodic benefit cost (income).

#### Financial Instruments

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10)." ASU 2016-01 makes several modifications to Subtopic 825-10, including the elimination of the available-for-sale classification of equity investments, and it requires equity investments with readily determinable fair values to be measured at fair value with changes in fair value recognized in net income. ASU 2016-01 is effective for interim and annual periods beginning after December 15, 2017. We will adopt this standard on January 1, 2018. Based on our portfolio of investments as of September 30, 2017, we do not expect the adoption of ASU 2016-01 to have a material impact on our condensed consolidated financial statements.

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

(Unaudited)

## 2. Special Items, Net

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Merger integration expenses <sup>(1)</sup>	\$62	\$194	\$192	\$395
Fleet restructuring expenses <sup>(2)</sup>	62	31	174	72
Mark-to-market adjustments for bankruptcy obligations and other	(12 )	39	7	(22 )
Labor contract expenses <sup>(3)</sup>	—	—	45	—
Other operating charges, net	—	25	14	5
Mainline operating special items, net	112	289	432	450
Regional operating special items, net <sup>(4)</sup>	(5 )	5	(1 )	13
Nonoperating special items, net <sup>(5)</sup>	3	—	12	36

Merger integration expenses included costs related to information technology, professional fees, re-branding of

- (1) aircraft and airport facilities and training. Additionally, the 2016 periods also included costs related to alignment of labor union contracts, re-branded uniforms, relocation and severance.
- (2) Fleet restructuring expenses driven by the Merger principally included the acceleration of aircraft depreciation and impairments for aircraft grounded or expected to be grounded earlier than planned.
- (3) Labor contract expenses primarily included one-time charges to adjust the vacation accruals for pilots and flight attendants as a result of the mid-contract pay rate adjustments effective in the second quarter of 2017.
- (4) Regional operating special items, net principally related to a gain on the sale of certain aircraft in the 2017 period and Merger integration expenses in the 2016 period.
- (5) Nonoperating special items, net primarily consisted of debt issuance and extinguishment costs associated with term loan refinancings. Additionally, the 2016 nine-month period included costs associated with a bond refinancing.

## 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		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
<b>Basic EPS:</b>				
Net income	\$ 624	\$ 737	\$ 1,661	\$ 2,387
Weighted average common shares outstanding (in thousands)	484,773	525,415	493,164	564,886
Basic EPS	\$ 1.29	\$ 1.40	\$ 3.37	\$ 4.23
<b>Diluted EPS:</b>				
Net income for purposes of computing diluted EPS	\$ 624	\$ 737	\$ 1,661	\$ 2,387
Share computation for diluted EPS (in thousands):				
Basic weighted average common shares outstanding	484,773	525,415	493,164	564,886
Dilutive effect of stock awards	1,853	3,095	2,632	3,793
Diluted weighted average common shares outstanding	486,625	528,510	495,796	568,679
Diluted EPS	\$ 1.28	\$ 1.40	\$ 3.35	\$ 4.20
Restricted stock unit awards excluded from the calculation of diluted EPS because inclusion would be antidilutive (in thousands)	66	1,623	432	1,771

## 4. Share Repurchase Programs and Dividends

Since July 2014, our Board of Directors has approved six share repurchase programs aggregating \$11.0 billion of authority. As of September 30, 2017, \$677 million remained unused under a repurchase program that expires on December 31, 2018. Share repurchases under our share 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. Our share repurchase programs do not obligate us to repurchase any specific number of shares and may be suspended at any time at our discretion.

During the three months ended September 30, 2017, we repurchased 7.7 million shares of AAG common stock for \$362 million at a weighted average cost per share of \$46.97. During the nine months ended September 30, 2017, we repurchased 29.4 million shares of AAG common stock for \$1.3 billion at a weighted average cost per share of \$45.05. Since the inception of our share repurchase programs in July 2014, we have repurchased 257.7 million shares of AAG common stock for \$10.3 billion at a weighted average cost per share of \$40.05.

Our Board of Directors declared the following cash dividends during the first nine months of 2017:

Period	Per share	For stockholders of record as of	Payable on	Total (millions)
First Quarter	\$ 0.10	February 13, 2017	February 27, 2017	\$ 51
Second Quarter	0.10	May 16, 2017	May 30, 2017	50
Third Quarter	0.10	August 14, 2017	August 28, 2017	49
Total				\$ 150

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 payment of dividends may be suspended at any time at our discretion.





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

(Unaudited)

## 5. Debt

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

	September 30, 2017	December 31, 2016
<b>Secured</b>		
2013 Credit Facilities, variable interest rate of 3.24%, installments through 2020	\$ 1,825	\$ 1,843
2014 Credit Facilities, variable interest rate of 3.24%, installments through 2021	735	735
April 2016 Credit Facilities, variable interest rate of 3.74%, installments through 2023	990	1,000
December 2016 Credit Facilities, variable interest rate of 3.73%, installments through 2023	1,250	1,250
Aircraft enhanced equipment trust certificates (EETCs), fixed interest rates ranging from 3.00% to 9.75%, maturing from 2018 to 2029	11,396	10,912
Equipment loans and other notes payable, fixed and variable interest rates ranging from 2.34% to 8.99%, maturing from 2018 to 2029	5,330	5,343
Special facility revenue bonds, fixed interest rates ranging from 5.00% to 8.00%, maturing from 2018 to 2035	857	891
Other secured obligations, fixed interest rates ranging from 3.60% to 12.24%, maturing from 2017 to 2028	789	849
	23,172	22,823
<b>Unsecured</b>		
5.50% senior notes, interest only payments until due in 2019	750	750
6.125% senior notes, interest only payments until due in 2018	500	500
4.625% senior notes, interest only payments until due in 2020	500	500
	1,750	1,750
Total long-term debt and capital lease obligations	24,922	24,573
Less: Total unamortized debt discount, premium and issuance costs	238	229
Less: Current maturities	2,467	1,855
Long-term debt and capital lease obligations, net of current maturities	\$ 22,217	\$ 22,489

The table below shows the maximum availability under revolving credit facilities, all of which were undrawn, as of September 30, 2017 (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)

## 2017 Aircraft Financing Activities

## 2017-2 EETCs

In August 2017, American created two pass-through trusts which issued approximately \$797 million aggregate principal amount of Series 2017-2 Class AA and Class A EETCs (the 2017-2 EETCs) in connection with the financing of 30 aircraft previously delivered to American or scheduled to be delivered to American through April 2018 (the 2017-2 Aircraft). A portion of the net proceeds received from the sale of the 2017-2 EETCs has been used to acquire Series AA and A equipment notes issued by American to the pass-through trusts and the balance of such proceeds is being held in escrow for the benefit of the holders of the 2017-2 EETCs until such time as American issues additional Series AA and A equipment notes to the pass-through trusts, which trusts will purchase such additional equipment notes with the escrowed funds. These escrowed funds are not guaranteed by American and are not reported as debt on our condensed consolidated balance sheet because the proceeds held by the depository are not American's assets.

As of September 30, 2017, approximately \$253 million of the escrowed proceeds from the 2017-2 EETCs have been used to purchase equipment notes issued by American. 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 and the remaining escrowed proceeds of the 2017-2 EETCs, as of September 30, 2017, is set forth in the table below.

	2017-2 EETCs	
	Series AA	Series A
Aggregate principal issued	\$545 million	\$252 million
Remaining escrowed proceeds	\$372 million	\$172 million
Fixed interest rate per annum	3.35%	3.60%
Maturity date	October 2029	October 2029

## 2017-1 EETCs

In January 2017, American created three pass-through trusts which issued approximately \$983 million aggregate principal amount of Series 2017-1 Class AA, Class A and Class B EETCs (the 2017-1 EETCs) in connection with the financing of 24 aircraft delivered to American through May 2017 (the 2017-1 Aircraft).

During the first six months of 2017, all of the net proceeds received from the sale of the 2017-1 EETCs were used to purchase equipment notes issued by American in connection with the financing of the 2017-1 Aircraft. Interest and principal payments on equipment notes issued in connection with the 2017-1 EETCs are payable semi-annually in February and August of each year, with interest payments that began in August 2017 and principal payments beginning in February 2018. These equipment notes are secured by liens on the 2017-1 Aircraft.

Certain information regarding the 2017-1 EETC equipment notes, as of September 30, 2017, is set forth in the table below.

	2017-1 EETCs		
	Series AA	Series A	Series B
Aggregate principal issued	\$537 million	\$248 million	\$198 million
Fixed interest rate per annum	3.65%	4.00%	4.95%
Maturity date	February 2029	February 2029	February 2025

## 2016-3 EETCs

During the first quarter of 2017, all remaining net proceeds of the Series 2016-3 Class AA and Class A EETCs (the 2016-3 EETCs), in the amount of \$109 million, were used to purchase equipment notes issued by American in connection with the financing of two of the 25 aircraft financed under the 2016-3 EETCs (such 25 aircraft, the 2016-3

Aircraft). Interest and principal payments on equipment notes issued in connection with the 2016-3 EETCs are payable semi-annually in April and October of each year, with interest payments that began in April 2017 and principal payments beginning in October 2017. These equipment notes are secured by liens on the 2016-3 Aircraft.

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

(Unaudited)

Certain information regarding the 2016-3 EETC equipment notes, as of September 30, 2017, is set forth in the table below.

	2016-3 EETCs	
	Series AA	Series A
Aggregate principal issued	\$558 million	\$256 million
Fixed interest rate per annum	3.00%	3.25%
Maturity date	October 2028	October 2028

## Equipment Loans and Other Notes Payable Issued in 2017

In the first nine months of 2017, American entered into agreements under which it borrowed \$815 million in connection with the financing of certain aircraft. Debt incurred under these agreements matures in 2021 through 2029.

## 2017 Other Financing Activities

## 2013 Credit Facilities

In March 2017, American and AAG entered into the Second 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 by the First Amendment to Amended and Restated Credit and Guaranty Agreement dated as of October 26, 2015, pursuant to which we refinanced the \$1.8 billion term loan facility due June 2020 established thereunder (the 2013 Term Loan Facility and, together with the \$1.4 billion revolving credit facility established under such agreement (the 2013 Revolving Facility), the 2013 Credit Facilities) to reduce the LIBOR margin from 2.50% to 2.00% and the base rate margin from 1.50% to 1.00%.

In August 2017, American and AAG entered into the Third Amendment to the Amended and Restated Credit and Guaranty Agreement pursuant to which the maturity date of the 2013 Revolving Facility was extended to October 2022, the LIBOR margin thereon was reduced from 3.00% to 2.25%, and the maximum principal amount of such facility was reduced to \$1.2 billion. As of September 30, 2017, approximately \$1.8 billion of principal was outstanding under the 2013 Term Loan Facility and there were no borrowings or letters of credit outstanding under the 2013 Revolving Facility.

## 2014 Credit Facilities

In June 2017, American and AAG entered into the Third 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 (which amended and restated the Credit and Guaranty Agreement dated as of October 10, 2014), as previously amended by the First Amendment to Amended and Restated Credit and Guaranty Agreement dated as of October 26, 2015 and the Second Amendment to Amended and Restated Credit and Guaranty Agreement dated as of September 22, 2016, pursuant to which we refinanced the \$735 million term loan facility due October 2021 established thereunder (the 2014 Term Loan Facility and, together with the \$1.025 billion revolving credit facility established under such agreement (the 2014 Revolving Facility), the 2014 Credit Facilities) to reduce the LIBOR margin from 2.50% to 2.00% and the base rate margin from 1.50% to 1.00%.

In August 2017, American and AAG entered into the Fourth Amendment to the Amended and Restated Credit and Guaranty Agreement pursuant to which the maturity date of the 2014 Revolving Facility was extended to October 2022, the LIBOR margin thereon was reduced from 3.00% to 2.25%, and the maximum principal amount of such facility was reduced to \$1.0 billion. As of September 30, 2017, approximately \$735 million of principal was outstanding under the 2014 Term Loan Facility and there were no borrowings or letters of credit outstanding under the 2014 Revolving Facility.

## April 2016 Credit Facilities

In August 2017, American and AAG entered into the Second Amendment to the Credit and Guaranty Agreement, amending the Credit and Guaranty Agreement dated as of April 29, 2016 (the April 2016 Credit Facilities), as

previously amended by the First Amendment to the Credit and Guaranty Agreement, dated as of October 31, 2016, pursuant to which a new \$300 million revolving credit facility (the April 2016 Revolving Facility) was established with a maturity date of October 2022 and a LIBOR margin of 2.25%. As of September 30, 2017, approximately \$990 million of principal was outstanding under the term loan facility under the April 2016 Credit Facilities and there were no borrowings or letters of credit outstanding under the April 2016 Revolving Facility.

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

(Unaudited)

## 6. Income Taxes

At December 31, 2016, we had approximately \$10.5 billion of gross net operating losses (NOLs) carried over from prior taxable years (NOL Carryforwards) to reduce future federal taxable income, substantially all of which are expected to be available for use in 2017. The federal NOL Carryforwards will expire beginning in 2022 if unused. We also had approximately \$3.7 billion of NOL Carryforwards to reduce future state taxable income at December 31, 2016, which will expire in years 2017 through 2036 if unused.

At December 31, 2016, we had an alternative minimum tax credit carryforward of approximately \$339 million available for federal income tax purposes, which is available for an indefinite period.

During the three and nine months ended September 30, 2017, we recorded an income tax provision of \$380 million and \$998 million, respectively, which was substantially non-cash due to the utilization of the NOLs described above. Substantially all of our income before income taxes is attributable to the United States.

## 7. Fair Value Measurements and Other Investments

## 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, 2017.

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

	Fair Value Measurements as of September 30, 2017			
	Total	Level 1	Level 2	Level 3
Short-term investments <sup>(1) (2)</sup> :				
Money market funds	\$ 170	\$ 170	\$ —	\$ —
Corporate obligations	2,320	—	2,320	—
Bank notes/certificates of deposit/time deposits	2,738	—	2,738	—
Repurchase agreements	200	—	200	—
	5,428	170	5,258	—
Restricted cash and short-term investments <sup>(1)</sup>	393	104	289	—
Total	\$5,821	\$274	\$5,547	\$ —

<sup>(1)</sup> Unrealized gains or losses on short-term investments and restricted cash and 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

<sup>(2)</sup> mature in one year or less except for \$1.2 billion of bank notes/certificates of deposit/time deposits and \$341 million of corporate obligations.

## 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, 2017	December 31, 2016
--	-----------------------	----------------------

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

	Carrying Fair		Carrying Fair	
	Value	Value	Value	Value
Long-term debt, including current maturities	\$24,684	\$25,681	\$24,344	\$24,983

15

---



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

(Unaudited)

## Other Investments

We have an approximate 25% ownership interest in Republic Airways Holdings Inc. (Republic), which we received in the second quarter of 2017 in consideration for our unsecured claim in Republic's bankruptcy case. This ownership interest is accounted for under the equity method and our portion of Republic's financial results is recognized within other, net on the condensed consolidated statements of operations.

Additionally, in the third quarter of 2017, we acquired 2.7% of the outstanding shares of China Southern Airlines Company Limited for \$203 million. Since our subscription agreement restricts the sale or transfer of these shares for three years, we account for this investment under the cost method.

## 8. Employee Benefit Plans

The following tables provide the components of net periodic benefit cost (income) (in millions):

	Pension Benefits		Retiree Medical and Other Postretirement Benefits	
	2017	2016	2017	2016
Three Months Ended September 30,				
Service cost	\$ 1	\$ 1	\$ 1	\$ 1
Interest cost	180	187	10	12
Expected return on assets	(198 )	(188 )	(5 )	(5 )
Amortization of:				
Prior service cost (benefit)	7	7	(59 )	(60 )
Unrecognized net loss (gain)	36	32	(6 )	(4 )
Net periodic benefit cost (income)	\$ 26	\$ 39	\$ (59 )	\$ (56 )

	Pension Benefits		Retiree Medical and Other Postretirement Benefits	
	2017	2016	2017	2016
Nine Months Ended September 30,				
Service cost	\$ 2	\$ 2	\$ 3	\$ 2
Interest cost	541	562	29	36
Expected return on assets	(592 )	(562 )	(16 )	(15 )
Amortization of:				
Prior service cost (benefit)	21	21	(178 )	(180 )
Unrecognized net loss (gain)	108	95	(17 )	(12 )
Net periodic benefit cost (income)	\$ 80	\$ 118	\$ (179 )	\$ (169 )

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

During the first nine months of 2017, we contributed \$281 million to our defined benefit pension plans, including supplemental contributions of \$256 million in addition to a \$25 million minimum required cash contribution.

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

(Unaudited)

9. Accumulated Other Comprehensive Loss

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

	Pension, Retiree Medical and Other Postretirement Benefits	Income Tax Benefit (Provision) <sup>(1)</sup>	Total
Balance at December 31, 2016	\$ (4,406 )	\$ (677 )	\$(5,083)
Other comprehensive loss before reclassifications	(1 )	—	(1 )
Amounts reclassified from AOCI	(66 )	23	(2)(43 )
Net current-period other comprehensive income (loss)	(67 )	23	(44 )
Balance at September 30, 2017	\$ (4,473 )	\$ (654 )	\$(5,127)

(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.

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, 2017		Nine Months Ended September 30, 2016		
Amortization of pension, retiree medical and other postretirement benefits:					
Prior service cost (benefit)	\$(33)	\$(33)	\$(100)	\$(100)	Salaries, wages and benefits
Actuarial loss	19	17	57	52	Salaries, wages and benefits
Total reclassifications for the period, net of tax	\$(14)	\$(16)	\$(43 )	\$(48 )	

10. Regional Expenses

Expenses associated with our wholly-owned regional airlines and third-party regional carriers operating under the brand name American Eagle 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, 2017		Nine Months Ended September 30, 2016	
Aircraft fuel and related taxes	\$352	\$303	\$999	\$801
Salaries, wages and benefits	369	337	1,074	990
Capacity purchases from third-party regional carriers	404	378	1,210	1,164
Maintenance, materials and repairs	74	82	209	264
Other rent and landing fees	159	143	466	413

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

Aircraft rent	9	9	26	26
Selling expenses	95	90	269	256
Depreciation and amortization	79	78	235	218
Special items, net	(5	) 5	(1	) 13
Other	118	113	361	343
Total regional expenses	\$1,654	\$1,538	\$4,848	\$4,488

17

---

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES GROUP 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 September 30, 2017, 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 on the same basis as if such distributions had been made on or about the Effective Date. 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. On April 18, 2014, the Bankruptcy Court granted American's motion for summary judgment with respect to certain non-union employees, concluding that their benefits were not vested and could be terminated. The summary judgment motion was denied with respect to all other retirees. The Bankruptcy Court has not yet scheduled a trial on the merits concerning whether those retirees' benefits are vested, and American cannot predict whether it will receive relief from obligations to provide benefits to any of those retirees. Our financial statements presently reflect these retirement programs without giving effect to any modification or termination of benefits that may ultimately be implemented based upon the outcome of this proceeding.

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. In addition, 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 October 28, 2016, the Court denied a motion by the airline defendants to dismiss all claims in the class actions. Both the DOJ investigation and these lawsuits are in their relatively early stages and we intend to defend these matters vigorously.

Private Party Antitrust Action. On July 2, 2013, a lawsuit captioned Carolyn Fjord, et al., v. US Airways Group, Inc., et al., was filed in the United States District Court for the Northern District of California. The complaint named as defendants US Airways Group and US Airways, 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 August 6, 2013, the plaintiffs re-filed their complaint in the Bankruptcy Court, adding AMR and American as defendants. On November 27, 2013, the Bankruptcy Court denied plaintiffs' motion to preliminarily enjoin the Merger. On May 12, 2017, defendants filed a motion for summary judgment. On June 23, 2017, plaintiffs filed an opposition to defendants' motion and cross-motion for summary judgment. Briefing of the parties' respective motions concluded on September 1, 2017; a hearing date has not yet been set. 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,

18

---

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

(Unaudited)

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.

12. Subsequent Events

Dividend Declaration

In October 2017, we announced that our Board of Directors had declared a \$0.10 per share dividend for stockholders of record on November 13, 2017, and payable on November 27, 2017. 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 payment of dividends may be suspended at any time at our discretion.

2016-3 Class B EETCs

In October 2017, American created one additional pass-through trust which issued approximately \$193 million aggregate principal amount of Series 2016-3 Class B EETCs (the 2016-3 Class B EETCs) in connection with the financing of the 2016-3 Aircraft. The proceeds received from the sale of the 2016-3 Class B EETCs were used on the date of issuance of the 2016-3 Class B EETCs to acquire Series B equipment notes issued by American in connection with the financing of the 2016-3 Aircraft.

These Series B equipment notes bear interest at 3.75% per annum. Interest and principal payments on equipment notes issued in connection with the 2016-3 Class B EETCs are payable semi-annually in April and October of each year, beginning in April 2018.

2017-2 Class B EETCs

In October 2017, American created one additional pass-through trust which issued approximately \$221 million aggregate principal amount of Series 2017-2 Class B EETCs (the 2017-2 Class B EETCs) in connection with the financing of the 2017-2 Aircraft. A portion of the net proceeds received from the sale of the Series 2017-2 Class B EETCs was used on the date of issuance of the 2017-2 Class B EETCs to acquire Series B equipment notes issued by American in connection with the financing of certain 2017-2 Aircraft, and the balance of such proceeds is being held in escrow for the benefit of the holders of the 2017-2 Class B EETCs until such time as American issues additional Series B equipment notes to the pass-through trust, which trusts will purchase such additional equipment notes with the escrowed funds. These escrowed funds are not guaranteed by American and are not reported as debt on our condensed consolidated balance sheet because the proceeds held by the depository are not American's assets.

These Series B equipment notes bear interest at 3.70% per annum. Interest and principal payments on equipment notes issued in connection with the 2017-2 Class B 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.

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

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions)(Unaudited)

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Operating revenues:				
Mainline passenger	\$7,628	\$7,419	\$21,981	\$21,192
Regional passenger	1,749	1,731	5,133	5,040
Cargo	200	171	568	506
Other	1,298	1,270	3,916	3,639
Total operating revenues	10,875	10,591	31,598	30,377
Operating expenses:				
Aircraft fuel and related taxes	1,570	1,393	4,481	3,736
Salaries, wages and benefits	2,991	2,770	8,816	8,087
Regional expenses	1,662	1,534	4,860	4,480
Maintenance, materials and repairs	487	481	1,474	1,352
Other rent and landing fees	471	463	1,363	1,342
Aircraft rent	304	299	892	908
Selling expenses	400	347	1,094	990
Depreciation and amortization	433	399	1,255	1,128
Special items, net	112	289	432	450
Other	1,220	1,184	3,575	3,391
Total operating expenses	9,650	9,159	28,242	25,864
Operating income	1,225	1,432	3,356	4,513
Nonoperating income (expense):				
Interest income	56	28	158	74
Interest expense, net	(250 )	(229 )	(738 )	(674 )
Other, net	13	(8 )	8	(27 )
Total nonoperating expense, net	(181 )	(209 )	(572 )	(627 )
Income before income taxes	1,044	1,223	2,784	3,886
Income tax provision	395	465	1,046	1,445
Net income	\$649	\$758	\$1,738	\$2,441

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, 2017		Nine Months Ended September 30, 2016	
Net income	\$649	\$758	\$1,738	\$2,441
Other comprehensive loss, net of tax:				
Pension, retiree medical and other postretirement benefits	(15 )	(17 )	(44 )	(53 )
Investments	—	2	—	6
Total other comprehensive loss, net of tax	(15 )	(15 )	(44 )	(47 )
Total comprehensive income	\$634	\$743	\$1,694	\$2,394

See accompanying notes to condensed consolidated financial statements.



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

	September 30, 2017	December 31, 2016
	(Unaudited)	
<b>ASSETS</b>		
Current assets		
Cash	\$ 328	\$ 310
Short-term investments	5,425	6,034
Restricted cash and short-term investments	393	638
Accounts receivable, net	1,705	1,599
Receivables from related parties, net	8,457	6,810
Aircraft fuel, spare parts and supplies, net	1,252	1,032
Prepaid expenses and other	820	633
Total current assets	18,380	17,056
Operating property and equipment		
Flight equipment	39,214	36,671
Ground property and equipment	7,661	6,910
Equipment purchase deposits	1,280	1,209
Total property and equipment, at cost	48,155	44,790
Less accumulated depreciation and amortization	(15,127 )	(13,909 )
Total property and equipment, net	33,028	30,881
Other assets		
Goodwill	4,091	4,091
Intangibles, net of accumulated amortization of \$612 and \$578, respectively	2,214	2,173
Deferred tax asset	903	1,912
Other assets	2,177	1,979
Total other assets	9,385	10,155
Total assets	\$ 60,793	\$ 58,092
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
Current liabilities		
Current maturities of long-term debt and capital leases	\$ 1,970	\$ 1,859
Accounts payable	1,580	1,546
Accrued salaries and wages	1,366	1,460
Air traffic liability	4,653	3,912
Loyalty program liability	2,893	2,789
Other accrued liabilities	2,132	2,106
Total current liabilities	14,594	13,672
Noncurrent liabilities		
Long-term debt and capital leases, net of current maturities	20,942	20,718
Pension and postretirement benefits	7,426	7,800
Other liabilities	3,421	3,253
Total noncurrent liabilities	31,789	31,771
Commitments and contingencies		
Stockholder's equity		
Common stock, \$1.00 par value; 1,000 shares authorized, issued and outstanding	—	—
Additional paid-in capital	16,690	16,624

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

Accumulated other comprehensive loss	(5,226	) (5,182	)
Retained earnings	2,946	1,207	
Total stockholder's equity	14,410	12,649	
Total liabilities and stockholder's equity	\$ 60,793	\$ 58,092	

See accompanying notes to condensed consolidated financial statements.

22

---

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

	Nine Months Ended September 30,	
	2017	2016
Net cash provided by operating activities	\$ 2,738	\$ 1,769
Cash flows from investing activities:		
Capital expenditures and aircraft purchase deposits	(4,501 )	(4,219 )
Purchases of short-term investments	(4,093 )	(5,078 )
Sales of short-term investments	4,714	4,587
Purchase of equity investment	(203 )	—
Decrease in restricted cash and short-term investments	245	60
Proceeds from sale of property and equipment and sale-leaseback transactions	816	50
Net cash used in investing activities	(3,022 )	(4,600 )
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	2,160	5,392
Payments on long-term debt and capital leases	(1,813 )	(2,534 )
Deferred financing costs	(66 )	(39 )
Other financing activities	21	20
Net cash provided by financing activities	302	2,839
Net increase in cash	18	8
Cash at beginning of period	310	364
Cash at end of period	\$ 328	\$ 372

Non-cash investing  
and financing  
activities:

Settlement of bankruptcy obligations	\$	15	\$	3
--	----	----	----	---

Supplemental  
information:

Interest paid, net	718	653
Income taxes paid	13	9

See accompanying notes to condensed consolidated financial statements.

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

1. 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, 2016. 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, 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. Certain prior period amounts have been reclassified to conform to the current year presentation.

Recent Accounting Pronouncements

Revenue

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 completes the joint effort by the FASB and International Accounting Standards Board (IASB) to improve financial reporting by creating common revenue recognition guidance for GAAP and International Financial Reporting Standards (IFRS). Subsequently, the FASB has issued several additional ASUs to clarify the implementation. The new revenue standard applies to all companies that enter into contracts with customers to transfer goods or services and is effective for public entities for interim and annual reporting periods beginning after December 15, 2017. American will adopt the new revenue standard effective January 1, 2018. Entities have the choice to apply the new revenue standard either retrospectively to each reporting period presented or by recognizing the cumulative effect of applying the new revenue standard at the date of initial application and not adjusting comparative information. American will adopt the new revenue standard using the full retrospective method.

American is in the process of finalizing how the application of the new revenue standard will impact its condensed consolidated financial statements. American currently expects that the new revenue standard will materially impact its liability for outstanding mileage credits earned by AAdvantage loyalty program members. American currently uses the incremental cost method to account for this portion of its loyalty program liability, which values these mileage credits based on the estimated incremental cost of carrying one additional passenger. The new revenue standard will require American to change its policy and apply a relative selling price approach whereby a portion of each passenger ticket sale attributable to mileage credits earned will be deferred and recognized in passenger revenue upon future mileage redemption. The carrying value of the earned mileage credits recognized in loyalty program liability is expected to be materially greater under the relative selling price approach than the value attributed to these mileage credits under the incremental cost method. The new revenue standard will also require American to reclassify certain ancillary fees to passenger revenue, which are currently included within other operating revenue. See Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - "Recent Accounting Pronouncements" for American's preliminary assessment of the quantitative impacts of the new revenue standard on its

consolidated financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." ASU 2016-02 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 Accounting Standards Codification Topic 606, Revenue from Contracts with Customers. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early

24

---

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

adoption is permitted. American expects to adopt the new lease standard effective January 1, 2019. Entities are required to adopt the new lease standard using a modified retrospective approach for all leases existing at or commencing after the date of initial application with an option to use certain practical expedients. American is currently evaluating how the adoption of the new lease standard will impact its condensed consolidated financial statements. Interpretations are on-going and could have a material impact on American's implementation. Currently, American expects that the adoption of the new lease standard will have a material impact on its condensed 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.

#### Statement of Cash Flows

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." ASU 2016-18 requires 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. ASU 2016-18 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 is to be applied retrospectively to each period presented and is effective for public entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. American expects to adopt this new standard effective January 1, 2018. This standard is not expected to have a material impact on American's condensed consolidated financial statements.

#### Retirement Benefits

In March 2017, the FASB issued ASU 2017-07, "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." ASU 2017-07 requires an entity to present the service cost component of net benefit cost in the income statement line items where it reports compensation cost. Entities will present all other components of net benefit cost outside of operating income, if this subtotal is presented. This standard is to be applied retrospectively to each period presented and is effective for public entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. American will adopt this standard on January 1, 2018. The new standard will require all components of American's net periodic benefit cost (income), with the exception of service cost, currently reported within operating expenses as salaries, wages and benefits, to be reclassified and reported within nonoperating income (expense). The adoption of this new standard will have no impact on pre-tax income or net income reported. See Note 6 for American's current components of net periodic benefit cost (income).

#### Financial Instruments

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10)." ASU 2016-01 makes several modifications to Subtopic 825-10, including the elimination of the available-for-sale classification of equity investments, and it requires equity investments with readily determinable fair values to be measured at fair value with changes in fair value recognized in net income. ASU 2016-01 is effective for interim and annual periods beginning after December 15, 2017. American will adopt this standard on January 1, 2018. Based on American's portfolio of investments as of September 30, 2017, it does not expect the adoption of ASU 2016-01 to have a material impact on its condensed consolidated financial statements.

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

2. Special Items, Net

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

	Three		Nine	
	Months		Months	
	Ended		Ended	
	September		September	
	30,		30,	
	2017	2016	2017	2016
Merger integration expenses <sup>(1)</sup>	\$62	\$194	\$192	\$395
Fleet restructuring expenses <sup>(2)</sup>	62	31	174	72
Mark-to-market adjustments for bankruptcy obligations and other	(12 )	39	7	(22 )
Labor contract expenses <sup>(3)</sup>	—	—	45	—
Other operating charges, net	—	25	14	5
Mainline operating special items, net	112	289	432	450
Regional operating special items, net <sup>(4)</sup>	(1 )	3	3	11
Nonoperating special items, net <sup>(5)</sup>	3	—	12	36

- Merger integration expenses included costs related to information technology, professional fees, re-branding of aircraft and airport facilities and training. Additionally, the 2016 periods also included costs related to alignment of labor union contracts, re-branded uniforms, relocation and severance.
- (1) aircraft and airport facilities and training. Additionally, the 2016 periods also included costs related to alignment of labor union contracts, re-branded uniforms, relocation and severance.
- (2) Fleet restructuring expenses driven by the Merger principally included the acceleration of aircraft depreciation and impairments for aircraft grounded or expected to be grounded earlier than planned.
- (3) Labor contract expenses primarily included one-time charges to adjust the vacation accruals for pilots and flight attendants as a result of the mid-contract pay rate adjustments effective in the second quarter of 2017.
- (4) Regional operating special items, net principally related to Merger integration expenses.
- (5) Nonoperating special items, net primarily consisted of debt issuance and extinguishment costs associated with term loan refinancings. Additionally, the 2016 nine-month period included costs associated with a bond refinancing.



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

3. Debt

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

	September 30, 2017	December 31, 2016
Secured		
2013 Credit Facilities, variable interest rate of 3.24%, installments through 2020	\$ 1,825	\$ 1,843
2014 Credit Facilities, variable interest rate of 3.24%, installments through 2021	735	735
April 2016 Credit Facilities, variable interest rate of 3.74%, installments through 2023	990	1,000
December 2016 Credit Facilities, variable interest rate of 3.73%, installments through 2023	1,250	1,250
Aircraft enhanced equipment trust certificates (EETCs), fixed interest rates ranging from 3.00% to 9.75%, maturing from 2018 to 2029	11,396	10,912
Equipment loans and other notes payable, fixed and variable interest rates ranging from 2.34% to 8.99%, maturing from 2018 to 2029	5,330	5,343
Special facility revenue bonds, fixed interest rates ranging from 5.00% to 5.50%, maturing from 2018 to 2035	828	862
Other secured obligations, fixed interest rates ranging from 3.60% to 12.24%, maturing from 2017 to 2028	788	848
Total long-term debt and capital lease obligations	23,142	22,793
Less: Total unamortized debt discount, premium and issuance costs	230	216
Less: Current maturities	1,970	1,859
Long-term debt and capital lease obligations, net of current maturities	\$ 20,942	\$ 20,718

The table below shows the maximum availability under revolving credit facilities, all of which were undrawn, as of September 30, 2017 (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.

2017 Aircraft Financing Activities

2017-2 EETCs

In August 2017, American created two pass-through trusts which issued approximately \$797 million aggregate principal amount of Series 2017-2 Class AA and Class A EETCs (the 2017-2 EETCs) in connection with the financing of 30 aircraft previously delivered to American or scheduled to be delivered to American through April 2018 (the 2017-2 Aircraft). A portion of the net proceeds received from the sale of the 2017-2 EETCs has been used to acquire Series AA and A equipment notes issued by American to the pass-through trusts and the balance of such proceeds is being held in escrow for the benefit of the holders of the 2017-2 EETCs until such time as American issues additional Series AA and A equipment notes to the pass-through trusts, which trusts will purchase such additional equipment notes with the escrowed funds. These escrowed funds are not guaranteed by American and are not reported as debt on American's condensed consolidated balance sheet because the proceeds held by the depository are not American's assets.

As of September 30, 2017, approximately \$253 million of the escrowed proceeds from the 2017-2 EETCs have been used to purchase equipment notes issued by American. 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 and the remaining escrowed proceeds of the 2017-2 EETCs, as of September 30, 2017, is set forth in the table below.

	2017-2 EETCs	
	Series AA	Series A
Aggregate principal issued	\$545 million	\$252 million
Remaining escrowed proceeds	\$372 million	\$172 million
Fixed interest rate per annum	3.35%	3.60%
Maturity date	October 2029	October 2029

2017-1 EETCs

In January 2017, American created three pass-through trusts which issued approximately \$983 million aggregate principal amount of Series 2017-1 Class AA, Class A and Class B EETCs (the 2017-1 EETCs) in connection with the financing of 24 aircraft delivered to American through May 2017 (the 2017-1 Aircraft).

During the first six months of 2017, all of the net proceeds received from the sale of the 2017-1 EETCs were used to purchase equipment notes issued by American in connection with the financing of the 2017-1 Aircraft. Interest and principal payments on equipment notes issued in connection with the 2017-1 EETCs are payable semi-annually in February and August of each year, with interest payments that began in August 2017 and principal payments beginning in February 2018. These equipment notes are secured by liens on the 2017-1 Aircraft.

Certain information regarding the 2017-1 EETC equipment notes, as of September 30, 2017, is set forth in the table below.

	2017-1 EETCs		
	Series AA	Series A	Series B
Aggregate principal issued	\$537 million	\$248 million	\$198 million
Fixed interest rate per annum	3.65%	4.00%	4.95%
Maturity date	February 2029	February 2029	February 2025

2016-3 EETCs

During the first quarter of 2017, all remaining net proceeds of the Series 2016-3 Class AA and Class A EETCs (the 2016-3 EETCs), in the amount of \$109 million, were used to purchase equipment notes issued by American in connection with the financing of two of the 25 aircraft financed under the 2016-3 EETCs (such 25 aircraft, the 2016-3 Aircraft). Interest and principal payments on equipment notes issued in connection with the 2016-3 EETCs are payable semi-annually in April and October of each year, with interest payments that began in April 2017 and principal payments beginning in October 2017. These equipment notes are secured by liens on the 2016-3 Aircraft.

Certain information regarding the 2016-3 EETC equipment notes, as of September 30, 2017, is set forth in the table below.

	2016-3 EETCs	
	Series AA	Series A
Aggregate principal issued	\$558 million	\$256 million
Fixed interest rate per annum	3.00%	3.25%
Maturity date	October 2028	October 2028

Equipment Loans and Other Notes Payable Issued in 2017

In the first nine months of 2017, American entered into agreements under which it borrowed \$815 million in connection with the financing of certain aircraft. Debt incurred under these agreements matures in 2021 through 2029.

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

2017 Other Financing Activities

2013 Credit Facilities

In March 2017, American and AAG entered into the Second 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 by the First Amendment to Amended and Restated Credit and Guaranty Agreement dated as of October 26, 2015, pursuant to which American refinanced the \$1.8 billion term loan facility due June 2020 established thereunder (the 2013 Term Loan Facility and, together with the \$1.4 billion revolving credit facility established under such agreement (the 2013 Revolving Facility), the 2013 Credit Facilities) to reduce the LIBOR margin from 2.50% to 2.00% and the base rate margin from 1.50% to 1.00%.

In August 2017, American and AAG entered into the Third Amendment to the Amended and Restated Credit and Guaranty Agreement pursuant to which the maturity date of the 2013 Revolving Facility was extended to October 2022, the LIBOR margin thereon was reduced from 3.00% to 2.25%, and the maximum principal amount of such facility was reduced to \$1.2 billion. As of September 30, 2017, approximately \$1.8 billion of principal was outstanding under the 2013 Term Loan Facility and there were no borrowings or letters of credit outstanding under the 2013 Revolving Facility.

2014 Credit Facilities

In June 2017, American and AAG entered into the Third 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 (which amended and restated the Credit and Guaranty Agreement dated as of October 10, 2014), as previously amended by the First Amendment to Amended and Restated Credit and Guaranty Agreement dated as of October 26, 2015 and the Second Amendment to Amended and Restated Credit and Guaranty Agreement dated as of September 22, 2016, pursuant to which American refinanced the \$735 million term loan facility due October 2021 established thereunder (the 2014 Term Loan Facility and, together with the \$1.025 billion revolving credit facility established under such agreement (the 2014 Revolving Facility), the 2014 Credit Facilities) to reduce the LIBOR margin from 2.50% to 2.00% and the base rate margin from 1.50% to 1.00%.

In August 2017, American and AAG entered into the Fourth Amendment to the Amended and Restated Credit and Guaranty Agreement pursuant to which the maturity date of the 2014 Revolving Facility was extended to October 2022, the LIBOR margin thereon was reduced from 3.00% to 2.25%, and the maximum principal amount of such facility was reduced to \$1.0 billion. As of September 30, 2017, approximately \$735 million of principal was outstanding under the 2014 Term Loan Facility and there were no borrowings or letters of credit outstanding under the 2014 Revolving Facility.

April 2016 Credit Facilities

In August 2017, American and AAG entered into the Second Amendment to the Credit and Guaranty Agreement, amending the Credit and Guaranty Agreement dated as of April 29, 2016 (the April 2016 Credit Facilities), as previously amended by the First Amendment to the Credit and Guaranty Agreement, dated as of October 31, 2016, pursuant to which a new \$300 million revolving credit facility (the April 2016 Revolving Facility) was established with a maturity date of October 2022 and a LIBOR margin of 2.25%. As of September 30, 2017, approximately \$990 million of principal was outstanding under the term loan facility under the April 2016 Credit Facilities and there were no borrowings or letters of credit outstanding under the April 2016 Revolving Facility.

4. Income Taxes

At December 31, 2016, American had approximately \$11.3 billion of gross net operating losses (NOLs) carried over from prior taxable years (NOL Carryforwards) to reduce future federal taxable income, substantially all of which are expected to be available for use in 2017. 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 \$10.5 billion, substantially all of which is expected to be available for use in 2017. The federal NOL Carryforwards will expire beginning in 2022

if unused. American also had approximately \$3.4 billion of NOL Carryforwards to reduce future state taxable income at December 31, 2016, which will expire in years 2017 through 2034 if unused.

At December 31, 2016, American had an alternative minimum tax credit carryforward of approximately \$452 million available for federal income tax purposes, which is available for an indefinite period.

During the three and nine months ended September 30, 2017, American recorded an income tax provision of \$395 million and \$1.0 billion, respectively, which was substantially non-cash due to the utilization of the NOLs described above. Substantially all of American's income before income taxes is attributable to the United States.

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

5. Fair Value Measurements and Other Investments

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 nine months ended September 30, 2017.

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

	Fair Value Measurements as of September 30, 2017			
	Total	Level 1	Level 2	Level 3
Short-term investments <sup>(1) (2)</sup> :				
Money market funds	\$ 169	\$ 169	\$ —	\$ —
Corporate obligations	2,320	—	2,320	—
Bank notes/certificates of deposit/time deposits	2,736	—	2,736	—
Repurchase agreements	200	—	200	—
	5,425	169	5,256	—
Restricted cash and short-term investments <sup>(1)</sup>	393	104	289	—
Total	\$5,818	\$273	\$5,545	\$ —

<sup>(1)</sup> Unrealized gains or losses on short-term investments and restricted cash and 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

<sup>(2)</sup> investments mature in one year or less except for \$1.2 billion of bank notes/certificates of deposit/time deposits and \$341 million of corporate obligations.

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):

	September 30, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current maturities	\$22,912	\$23,839	\$22,577	\$23,181

Other Investments

American has an approximate 25% ownership interest in Republic Airways Holdings Inc. (Republic), which it received in the second quarter of 2017 in consideration for its unsecured claim in Republic's bankruptcy case. This ownership interest is accounted for under the equity method and American's portion of Republic's financial results is recognized within other, net on the condensed consolidated statements of operations.

Additionally, in the third quarter of 2017, American acquired 2.7% of the outstanding shares of China Southern Airlines Company Limited for \$203 million. Since American's subscription agreement restricts the sale or transfer of

these shares for three years, American accounts for this investment under the cost method.

30

---

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

6. Employee Benefit Plans

The following tables provide the components of net periodic benefit cost (income) (in millions):

	Pension Benefits		Retiree Medical and Other Postretirement Benefits	
	2017	2016	2017	2016
Three Months Ended September 30,				
Service cost	\$—	\$—	\$ 1	\$ 1
Interest cost	179	186	10	12
Expected return on assets	(197)	(187)	(5)	(5)
Amortization of:				
Prior service cost (benefit)	7	7	(59)	(60)
Unrecognized net loss (gain)	36	32	(6)	(4)
Net periodic benefit cost (income)	\$25	\$38	\$ (59)	\$ (56)

	Pension Benefits		Retiree Medical and Other Postretirement Benefits	
	2017	2016	2017	2016
Nine Months Ended September 30,				
Service cost	\$1	\$1	\$ 3	\$ 2
Interest cost	538	559	29	36
Expected return on assets	(589)	(560)	(16)	(15)
Amortization of:				
Prior service cost (benefit)	21	21	(178)	(180)
Unrecognized net loss (gain)	108	94	(17)	(12)
Net periodic benefit cost (income)	\$79	\$115	\$ (179)	\$ (169)

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

During the first nine months of 2017, American contributed \$281 million to its defined benefit pension plans, including supplemental contributions of \$256 million in addition to a \$25 million minimum required cash contribution.

7. Accumulated Other Comprehensive Loss

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

	Pension, Retiree Medical and Other Postretirement Benefits		Income Tax Benefit (Provision) <sup>(1)</sup>	Total	
Balance at December 31, 2016	\$ (4,394)	)	\$ (788)	)	\$ (5,182)
Other comprehensive loss before reclassifications	(1)	)	—	)	(1)
Amounts reclassified from AOCI	(66)	)	23	)	(2)(43)
Net current-period other comprehensive income (loss)	(67)	)	23	)	(44)
Balance at September 30, 2017	\$ (4,461)	)	\$ (765)	)	\$ (5,226)

(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 September 30, 2017		Nine Months Ended September 30, 2016		
Amortization of pension, retiree medical and other postretirement benefits:					
Prior service cost (benefit)	\$(33)	\$(33)	\$(100)	\$(101)	Salaries, wages and benefits
Actuarial loss	19	17	57	52	Salaries, wages and benefits
Total reclassifications for the period, net of tax	\$(14)	\$(16)	\$(43)	\$(49)	

#### 8. Regional Expenses

Expenses associated with American's third-party regional carriers operating under the brand name American Eagle 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, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
Aircraft fuel and related taxes	\$352	\$303	\$999	\$801
Salaries, wages and benefits	85	82	246	249
Capacity purchases from third-party regional carriers	832	793	2,460	2,407
Maintenance, materials and repairs	2	1	5	4
Other rent and landing fees	152	124	449	356
Aircraft rent	7	7	20	20
Selling expenses	95	90	269	256
Depreciation and amortization	66	62	194	174
Special items, net	(1)	3	3	11
Other	72	69	215	202
Total regional expenses	\$1,662	\$1,534	\$4,860	\$4,480

#### 9. Transactions with Related Parties

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

	September 30, 2017		December 31, 2016	
	2017	2016	2017	2016
AAG <sup>(1)</sup>	\$10,618	\$8,981		
AAG's wholly-owned subsidiaries <sup>(2)</sup>	(2,161)	(2,171)		
Total	\$8,457	\$6,810		

(1) The increase in American's net related party receivable from AAG is primarily due to American providing the cash funding for AAG's share repurchase and dividend programs.

The net payable to AAG's wholly-owned subsidiaries consists primarily of amounts due under regional capacity 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)

## 10. 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, 2017, 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 on the same basis as if such distributions had been made on or about the Effective Date. 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. On April 18, 2014, the Bankruptcy Court granted American's motion for summary judgment with respect to certain non-union employees, concluding that their benefits were not vested and could be terminated. The summary judgment motion was denied with respect to all other retirees. The Bankruptcy Court has not yet scheduled a trial on the merits concerning whether those retirees' benefits are vested, and American cannot predict whether it will receive relief from obligations to provide benefits to any of those retirees. American's financial statements presently reflect these retirement programs without giving effect to any modification or termination of benefits that may ultimately be implemented based upon the outcome of this proceeding.

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. In addition, 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 October 28, 2016, the Court denied a motion by the airline defendants to dismiss all claims in the class actions. Both the DOJ investigation and these lawsuits are in their relatively early stages and American intends to defend these matters vigorously.

Private Party Antitrust Action. On July 2, 2013, a lawsuit captioned Carolyn Fjord, et al., v. US Airways Group, Inc., et al., was filed in the United States District Court for the Northern District of California. The complaint named as defendants US Airways Group and US Airways, 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 August 6, 2013, the plaintiffs re-filed their complaint in the Bankruptcy Court, adding AMR and American as defendants. On November 27, 2013, the Bankruptcy Court denied plaintiffs' motion to preliminarily enjoin the Merger. On May 12, 2017, defendants filed a motion for summary judgment. On June 23, 2017, plaintiffs filed an opposition to defendants' motion and cross-motion for summary judgment. Briefing of the parties' respective motions concluded on September 1, 2017; a hearing date has not yet been set. 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.

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

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.

11. Subsequent Events

2016-3 Class B EETCs

In October 2017, American created one additional pass-through trust which issued approximately \$193 million aggregate principal amount of Series 2016-3 Class B EETCs (the 2016-3 Class B EETCs) in connection with the financing of the 2016-3 Aircraft. The proceeds received from the sale of the 2016-3 Class B EETCs were used on the date of issuance of the 2016-3 Class B EETCs to acquire Series B equipment notes issued by American in connection with the financing of the 2016-3 Aircraft.

These Series B equipment notes bear interest at 3.75% per annum. Interest and principal payments on equipment notes issued in connection with the 2016-3 Class B EETCs are payable semi-annually in April and October of each year, beginning in April 2018.

2017-2 Class B EETCs

In October 2017, American created one additional pass-through trust which issued approximately \$221 million aggregate principal amount of Series 2017-2 Class B EETCs (the 2017-2 Class B EETCs) in connection with the financing of the 2017-2 Aircraft. A portion of the net proceeds received from the sale of the Series 2017-2 Class B EETCs was used on the date of issuance of the 2017-2 Class B EETCs to acquire Series B equipment notes issued by American in connection with the financing of certain 2017-2 Aircraft, and the balance of such proceeds is being held in escrow for the benefit of the holders of the 2017-2 Class B EETCs until such time as American issues additional Series B equipment notes to the pass-through trust, which trusts will purchase such additional equipment notes with the escrowed funds. These escrowed funds are not guaranteed by American and are not reported as debt on American's condensed consolidated balance sheet because the proceeds held by the depository are not American's assets.

These Series B equipment notes bear interest at 3.70% per annum. Interest and principal payments on equipment notes issued in connection with the 2017-2 Class B 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.

## 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, 2016 (the 2016 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 2016 Form 10-K.

### Background

Together with our wholly-owned regional airline subsidiaries and third-party regional carriers operating as American Eagle, American operates 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 third quarter of 2017, approximately 51 million passengers boarded our mainline and regional flights.

We are committed to consistently delivering safe, reliable and convenient service to our customers in every aspect of our operation, to building the best employee relations in the industry and to providing returns for our stockholders. In January 2017, we were named the 2017 Airline of the Year by Air Transport World, which cited the integration work related to the Merger, our operational and customer service improvements and the investments we are making in our product.

### Financial Overview

#### The U.S. Airline Industry

Despite a strong economy and demand environment, industry revenue results were mixed in the third quarter of 2017 in part due to competitive pricing actions, as well as the impact from hurricanes. With respect to fuel costs, the price of Brent crude oil per barrel, which jet fuel prices tend to follow, was on average approximately 13% higher in the third quarter of 2017 as compared to the 2016 period. The average daily spot price for Brent crude oil during the third quarter of 2017 was \$52 per barrel as compared to an average daily spot price of \$46 per barrel during the third quarter of 2016. On a daily basis, Brent crude oil prices fluctuated during the quarter between a high of \$60 per barrel to a low of \$46 per barrel, and closed the quarter on September 30, 2017 at \$57 per barrel. Brent crude oil prices were higher in the 2017 period due to reductions of global inventories driven in part by continued production restraint, as well as hurricane-related refinery disruptions and, more recently, to geopolitical instability in the Middle East.

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 Third Quarter 2017 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		Increase (Decrease)	Percent Increase (Decrease)
	Ended September 30, 2017	2016		
(In millions, except percentage changes)				
Mainline and regional passenger revenues	\$9,377	\$9,150	\$ 227	2.5
Other operating revenues	1,301	1,273	28	2.2
Total operating revenues	10,878	10,594	284	2.7
Mainline and regional aircraft fuel and related taxes	1,922	1,696	226	13.3
Salaries, wages and benefits	2,995	2,772	223	8.0
Total operating expenses	9,646	9,163	483	5.3
Operating income	1,232	1,431	(199)	(13.9)
Pre-tax income	1,004	1,189	(185)	(15.6)
Income tax provision	380	452	(72)	(16.0)
Net income	624	737	(113)	(15.4)
Pre-tax income	\$1,004	\$1,189	\$ (185)	(15.6)
Adjusted for: Total pre-tax special items <sup>(1)</sup>	110	294	(184)	(62.6)
Pre-tax income excluding special items	\$1,114	\$1,483	\$ (369)	(24.9)

<sup>(1)</sup> 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

We realized net income of \$624 million in the third quarter of 2017 as compared to net income of \$737 million in the third quarter of 2016. Pre-tax income was \$1.0 billion and \$1.2 billion in the third quarters of 2017 and 2016, respectively. Excluding the effects of pre-tax net special items, we recognized pre-tax income of \$1.1 billion in the third quarter of 2017 as compared to \$1.5 billion in the third quarter of 2016. 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 higher wage rates and fuel costs. Wage rates were higher due to mid-contract pay increases for pilots and flight attendants effective in the second quarter of 2017, as well as increases for maintenance and fleet service work groups, which became effective mid-third quarter of 2016. Additionally, fuel costs increased due to a 13.3% increase in the average price per gallon of fuel as discussed below. These increases were offset in part by higher revenues.

## Revenue

In the third quarter of 2017, we reported total operating revenues of \$10.9 billion, an increase of \$284 million, or 2.7%, as compared to the 2016 period. Mainline and regional passenger revenues were \$9.4 billion, an increase of \$227 million, or 2.5%, as compared to the 2016 period. The increase in mainline and regional passenger revenues was driven by a 1.6% period-over-period increase in consolidated yields and continued strong demand. Domestic consolidated yields increased 1.2% and international yields rose 3.4%, due principally to improved performance in Latin America. The third quarter of 2017 marks our fourth consecutive quarter of period-over-period increasing unit revenue. Our mainline and regional total revenue per available seat mile (TRASM) was 14.89 cents in the third quarter of 2017, a 1.1% increase as compared to 14.73 cents in the third quarter of 2016.

## Fuel

Our mainline and regional fuel expense totaled \$1.9 billion in the third quarter of 2017, which was \$226 million, or 13.3%, higher as compared to the 2016 period. This increase was driven by a 13.3% increase in the average price per gallon of fuel to \$1.67 in the third quarter of 2017 from \$1.48 in the 2016 period.





As of September 30, 2017, 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 2017 third quarter mainline cost per available seat mile (CASM) was 12.37 cents, an increase of 3.5%, from 11.96 cents in 2016. The increase was primarily driven by higher wage rates due to the mid-contract pay increases described above and higher fuel costs.

Our 2017 third quarter mainline CASM excluding special items and fuel was 9.77 cents, an increase of 4.8%, as compared to the 2016 period, which was also driven by higher wage rates as described above.

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

#### Liquidity and Stockholder Returns

As of September 30, 2017, we had approximately \$8.3 billion in total available liquidity, consisting of \$5.8 billion in unrestricted cash and investments and \$2.5 billion in undrawn revolving credit facilities. We also had restricted cash of \$393 million.

During the third quarter of 2017, we returned \$411 million to our stockholders, including quarterly dividend payments of \$49 million and the repurchase of \$362 million of common stock, or 7.7 million shares. Since our capital return program commenced in mid-2014, we have returned more than \$11.1 billion to stockholders, including \$797 million in quarterly dividend payments and \$10.3 billion in share repurchases, or 257.7 million shares. In October 2017, our Board of Directors declared a \$0.10 per share dividend for stockholders of record on November 13, 2017, and payable on November 27, 2017.

We continue to take advantage of historically low interest rates to finance new aircraft deliveries under our fleet renewal program. During the third quarter of 2017, we issued an aggregate principal amount of \$253 million in Enhanced Equipment Trust Certificate (EETC) equipment notes at an average fixed interest rate of 3.43%, as well as \$282 million in other equipment notes, which primarily bear interest at variable rates based on LIBOR plus a margin, averaging 2.85% at September 30, 2017. We also raised \$500 million in net proceeds from aircraft sale-leaseback transactions. See Note 5 to AAG’s Condensed Consolidated Financial Statements in Part I, Item 1A for additional information on our debt obligations.

As a result of the foregoing factors, we currently have a higher debt level and fewer unencumbered assets than our network airline peers. Accordingly, we believe it is important to retain liquidity levels higher than our peers given our overall leverage as well as to protect against an adverse economic shock. Our current plan is to maintain minimum total available liquidity of \$7.0 billion. We were well above that minimum level at September 30, 2017.

#### 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 table below 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 Ended September 30, 2017		Nine Months Ended September 30, 2016	
Reconciliation of Pre-Tax Income Excluding Special Items:				
Pre-tax income	\$1,004	\$1,189	\$2,659	\$3,799
Pre-tax special items <sup>(1)</sup> :				
Operating special items, net	107	294	431	463
Nonoperating special items, net	3	—	12	36
Total pre-tax special items	110	294	443	499
Pre-tax income excluding special items	\$1,114	\$1,483	\$3,102	\$4,298

Additionally, the table below presents the reconciliation of mainline operating costs (GAAP measure) to mainline operating costs excluding special items and fuel (non-GAAP measure). Management uses mainline 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 September 30, 2017		Nine Months Ended September 30, 2016	
Reconciliation of Mainline CASM Excluding Special Items and Fuel:				
(In millions)				
Total operating expenses	\$9,646	\$9,163	\$28,238	\$25,874
Less regional expenses:				
Fuel and related taxes	(352 )	(303 )	(999 )	(801 )
Other	(1,302 )	(1,235 )	(3,849 )	(3,687 )
Total mainline operating expenses	7,992	7,625	23,390	21,386
Adjusted for: Special items, net <sup>(1)</sup>	(112 )	(289 )	(432 )	(450 )
Adjusted for: Aircraft fuel and related taxes	(1,570 )	(1,393 )	(4,481 )	(3,736 )
Mainline operating expenses excluding special items and fuel	\$6,310	\$5,943	\$18,477	\$17,200
(In millions)				
Available Seat Miles (ASM)	64,582	63,751	184,665	183,985
(In cents)				
Mainline CASM	12.37	11.96	12.67	11.62
Adjusted for: Special items, net per ASM	(0.17 )	(0.45 )	(0.23 )	(0.24 )
Adjusted for: Aircraft fuel and related taxes per ASM	(2.43 )	(2.18 )	(2.43 )	(2.03 )
Mainline CASM excluding special items and fuel	9.77	9.32	10.01	9.35

<sup>(1)</sup> 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 mainline and regional operating data for the three and nine months ended September 30, 2017 and 2016.

	Three Months		Increase (Decrease)		Nine Months		Increase (Decrease)	
	Ended September 30, 2017	2016			Ended September 30, 2017	2016		
<b>Mainline</b>								
Revenue passenger miles (millions) <sup>(a)</sup>	54,012	53,472	1.0	%	152,400	151,619	0.5	%
Available seat miles (millions) <sup>(b)</sup>	64,582	63,751	1.3	%	184,665	183,985	0.4	%
Passenger load factor (percent) <sup>(c)</sup>	83.6	83.9	(0.3)	)pts	82.5	82.4	0.1	pts
Yield (cents) <sup>(d)</sup>	14.12	13.87	1.8	%	14.42	13.98	3.2	%
Passenger revenue per available seat mile (cents) <sup>(e)</sup>	11.81	11.64	1.5	%	11.90	11.52	3.3	%
Operating cost per available seat mile (cents) <sup>(f)</sup>	12.37	11.96	3.5	%	12.67	11.62	9.0	%
Aircraft at end of period	947	922	2.7	%	947	922	2.7	%
Fuel consumption (gallons in millions)	947	953	(0.6)	)%	2,713	2,739	(0.9)	)%
Average aircraft fuel price including related taxes (dollars per gallon)	1.66	1.46	13.4	%	1.65	1.36	21.1	%
Full-time equivalent employees at end of period	105,000	101,200	3.8	%	105,000	101,200	3.8	%
<b>Total Mainline and Regional</b>								
Revenue passenger miles (millions) <sup>(a)</sup>	60,471	59,919	0.9	%	171,019	170,025	0.6	%
Available seat miles (millions) <sup>(b)</sup>	73,053	71,911	1.6	%	209,136	207,726	0.7	%
Passenger load factor (percent) <sup>(c)</sup>	82.8	83.3	(0.5)	)pts	81.8	81.9	(0.1)	)pts
Yield (cents) <sup>(d)</sup>	15.51	15.27	1.6	%	15.85	15.43	2.8	%
Passenger revenue per available seat mile (cents) <sup>(e)</sup>	12.84	12.72	0.9	%	12.96	12.63	2.7	%
Total revenue per available seat mile (cents) <sup>(g)</sup>	14.89	14.73	1.1	%	15.11	14.63	3.3	%
Aircraft at end of period	1,558	1,521	2.4	%	1,558	1,521	2.4	%
Fuel consumption (gallons in millions)	1,148	1,149	—	%	3,291	3,304	(0.4)	)%
Average aircraft fuel price including related taxes (dollars per gallon)	1.67	1.48	13.3	%	1.67	1.37	21.2	%
Full-time equivalent employees at end of period <sup>(h)</sup>	127,600	121,800	4.8	%	127,600	121,800	4.8	%

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

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

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

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

<sup>(e)</sup> Passenger revenue per available seat mile (PRASM) – Passenger revenues divided by ASMs.

<sup>(f)</sup> Operating cost per available seat mile (CASM) – Operating expenses divided by ASMs.

<sup>(g)</sup> Total revenue per available seat mile (TRASM) – Total revenues divided by total mainline and regional ASMs.

<sup>(h)</sup> Regional full-time equivalent employees only include our wholly-owned regional airline subsidiaries, Envoy, Piedmont and PSA.

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

We realized pre-tax income of \$1.0 billion and \$1.2 billion in the third quarters of 2017 and 2016, respectively. Excluding the effects of pre-tax net special items, pre-tax income was \$1.1 billion and \$1.5 billion in the third quarters of 2017 and 2016, respectively.

Our third quarter 2017 pre-tax results on both a GAAP basis and excluding pre-tax net special items were principally driven by higher wage rates and fuel costs, which were offset in part by higher revenues.

Operating Revenues

	Three Months Ended		Increase (Decrease)	Percent Increase (Decrease)
	September 30, 2017	September 30, 2016		
	(In millions, except percentage changes)			
Mainline passenger	\$7,628	\$7,419	\$ 209	2.8
Regional passenger	1,749	1,731	18	1.1
Cargo	200	171	29	17.0
Other	1,301	1,273	28	2.2
Total operating revenues	\$10,878	\$10,594	\$ 284	2.7

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

	Increase (Decrease) vs. Three Months Ended September 30, 2016						
Three Months Ended September 30, 2017 (In millions)	Passenger Revenue	RPMs	ASMs	Load Factor	Passenger Yield	PRASM	
Mainline passenger	\$ 7,628	2.8%	1.0%	1.3%	(0.3)pts	1.8 %	1.5 %
Regional passenger	1,749	1.1%	0.2%	3.8%	(2.7)pts	0.9 %	(2.7)%
Total passenger revenues	\$ 9,377	2.5%	0.9%	1.6%	(0.5)pts	1.6 %	0.9 %

Total passenger revenues increased \$227 million, or 2.5%, in the third quarter of 2017 from the 2016 period primarily driven by a 1.6% period-over-period increase in consolidated passenger yields and continued strong demand. Domestic consolidated yields increased 1.2% and international yields rose 3.4%, due principally to improved performance in Latin America.

Cargo revenue increased \$29 million, or 17.0%, in the third quarter of 2017 from the 2016 period primarily driven by an increase in freight volume.

Other revenue primarily includes revenue associated with our loyalty program, baggage fees, ticketing change fees, airport clubs and inflight services. In the third quarters of 2017 and 2016, other revenue associated with our loyalty program was \$577 million and \$569 million, respectively, of which \$549 million and \$540 million, respectively, related to the marketing component of mileage sales and other marketing related payments.

Total operating revenues in the third quarter of 2017 increased \$284 million, or 2.7%, from the 2016 period driven principally by a 2.5% increase in total passenger revenues as described above. Our mainline and regional TRASM was 14.89 cents in the third quarter of 2017, a 1.1% increase as compared to 14.73 cents in the 2016 period.

## Mainline Operating Expenses

	Three Months Ended September 30, 2017		2016	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)				
Aircraft fuel and related taxes	\$1,570	\$1,393	\$	177	12.7
Salaries, wages and benefits	2,995	2,772	223		8.0
Maintenance, materials and repairs	487	481	6		1.4
Other rent and landing fees	471	463	8		1.7
Aircraft rent	304	299	5		1.5
Selling expenses	400	347	53		15.1
Depreciation and amortization	433	399	34		8.6
Special items, net	112	289	(177	)	(61.2
Other	1,220	1,182	38		3.3
Total mainline operating expenses	\$7,992	\$7,625	\$	367	4.8

Mainline operating expenses increased \$367 million, or 4.8%, in the third quarter of 2017 from the 2016 period. The increase in operating expenses was primarily driven by higher wage rates and fuel costs. See detailed explanations below relating to changes in mainline CASM.

## Mainline 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 mainline operating expenses (GAAP measure) to mainline operating costs excluding special items and fuel (non-GAAP measure). Management uses mainline 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 mainline CASM and our mainline CASM excluding special items and fuel for the three months ended September 30, 2017 and 2016 are as follows (amounts may not recalculate due to rounding):

	Three Months Ended		Percent Increase (Decrease)
	September 30, 2017	2016	
(In cents, except percentage changes)			
<b>Mainline CASM:</b>			
Aircraft fuel and related taxes	2.43	2.18	11.3
Salaries, wages and benefits	4.64	4.35	6.6
Maintenance, materials and repairs	0.75	0.75	0.1
Other rent and landing fees	0.73	0.73	0.4
Aircraft rent	0.47	0.47	0.2
Selling expenses	0.62	0.54	13.6
Depreciation and amortization	0.67	0.63	7.2
Special items, net	0.17	0.45	(61.7 )
Other	1.89	1.85	1.9
Total mainline CASM	12.37	11.96	3.5
Special items, net	(0.17 )	(0.45 )	(61.7 )
Aircraft fuel and related taxes	(2.43 )	(2.18 )	11.3
Mainline CASM, excluding special items and fuel	9.77	9.32	4.8

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

Aircraft fuel and related taxes per ASM increased 11.3% primarily due to a 13.4% increase in the average price per gallon of fuel to \$1.66 in the third quarter of 2017 from \$1.46 in the 2016 period.

Salaries, wages and benefits per ASM increased 6.6% primarily due to mid-contract pay rate increases for pilots and flight attendants effective in the second quarter of 2017, as well as rate increases for maintenance and fleet service work groups, which became effective mid-third quarter of 2016.

Selling expenses per ASM increased 13.6% primarily due to higher revenues in the third quarter of 2017 as compared to the 2016 period, resulting in higher commissions.

Depreciation and amortization per ASM increased 7.2% primarily due to aircraft purchased in connection with our fleet renewal program.

Operating Special Items, Net

	Three Months Ended	
	September 30, 2017	2016
(In millions)		
Merger integration expenses <sup>(1)</sup>	\$62	\$194
Fleet restructuring expenses <sup>(2)</sup>	62	31
Mark-to-market adjustments for bankruptcy obligations and other	(12 )	39
Other operating charges, net	—	25
Total mainline operating special items, net	112	289
Regional operating special items, net <sup>(3)</sup>	(5 )	5
Total operating special items, net	\$107	\$294

Merger integration expenses included costs related to information technology, professional fees, re-branding of

<sup>(1)</sup> aircraft and airport facilities and training. Additionally, the 2016 period also included costs related to alignment of labor union contracts, re-branded uniforms, relocation and severance.





- (2) Fleet restructuring expenses driven by the Merger principally included the acceleration of aircraft depreciation and impairments for aircraft grounded or expected to be grounded earlier than planned.
- (3) Regional operating special items, net principally related to a gain on the sale of certain aircraft in the 2017 period and Merger integration expenses in the 2016 period.

## Regional Operating Expenses

	Three Months Ended		Increase (Decrease)	Percent Increase (Decrease)
	September 30, 2017	September 30, 2016		
(In millions, except percentage changes)				
Aircraft fuel and related taxes	\$352	\$303	\$ 49	16.1
Other	1,302	1,235	67	5.4
Total regional operating expenses	\$1,654	\$1,538	\$ 116	7.5

Regional operating expenses increased \$116 million, or 7.5%, in the third quarter of 2017 from the 2016 period. The period-over-period increase was primarily due to a \$49 million, or 16.1%, increase in fuel costs and a \$67 million, or 5.4%, increase in other regional operating expenses. The average price per gallon of fuel increased 13.1% to \$1.75 in the third quarter of 2017 from \$1.55 in the 2016 period, on a 2.6% increase in consumption. The increase in other regional operating expenses was primarily driven by a 3.8% increase in capacity, principally from our wholly-owned regional carriers. See Note 10 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A for further information on regional expenses.

## Nonoperating Results

	Three Months Ended		Increase (Decrease)	Percent Increase (Decrease)
	September 30, 2017	September 30, 2016		
(In millions, except percentage changes)				
Interest income	\$25	\$16	\$ 9	51.4
Interest expense, net	(266 )	(250 )	(16 )	6.6
Other, net	13	(8 )	21	nm
Total nonoperating expense, net	\$(228)	\$(242)	\$ 14	(5.4 )

Our short-term investments in each period consisted of highly liquid investments that provided relatively nominal returns. Interest income increased \$9 million, or 51.4%, principally due to an increase in interest rates, which drove more than a 50 basis point increase in average yields in the third quarter of 2017 as compared to the 2016 period. Interest expense, net increased \$16 million in the third quarter of 2017 as compared to the 2016 period primarily due to higher outstanding debt as a result of aircraft financings associated with our fleet renewal program.

## Income Taxes

In the third quarter 2017, we recorded an income tax provision of \$380 million, which was substantially non-cash due to utilization of our net operating losses (NOLs). Substantially all of our income before income taxes is attributable to the United States. At December 31, 2016, we had approximately \$10.5 billion of gross NOLs to reduce future federal taxable income, substantially all of which are expected to be available for use in 2017.

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

## Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

We realized pre-tax income of \$2.7 billion and \$3.8 billion in the first nine months of 2017 and 2016, respectively. Excluding the effects of pre-tax net special items, pre-tax income was \$3.1 billion and \$4.3 billion in the first nine months of 2017 and 2016, respectively.

Our pre-tax results on both a GAAP basis and excluding pre-tax net special items for the first nine months of 2017 were principally driven by higher wage rates and fuel costs, which were offset in part by higher revenues.

## Operating Revenues

	Nine Months Ended September 30, 2017		2016		Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)					
Mainline passenger	\$21,981	\$21,192	\$ 789			3.7
Regional passenger	5,133	5,040	93			1.8
Cargo	568	506	62			12.2
Other	3,924	3,653	271			7.4
Total operating revenues	\$31,606	\$30,391	\$ 1,215			4.0

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

	Increase (Decrease) vs. Nine Months Ended September 30, 2016						
	Nine Months Ended September 30, 2017 (In millions)	Passenger Revenue	RPMs	ASMs	Load Factor	Passenger Yield	PRASM
Mainline passenger	\$ 21,981	3.7%	0.5%	0.4%	0.1 pts	3.2%	3.3 %
Regional passenger	5,133	1.8%	1.2%	3.1%	(1.4)pts	0.7%	(1.2 )%
Total passenger revenues	\$ 27,114	3.4%	0.6%	0.7%	(0.1)pts	2.8%	2.7 %

Total passenger revenues increased \$882 million, or 3.4%, in the first nine months of 2017 from the 2016 period primarily driven by a 2.8% period-over-period increase in consolidated passenger yields and continued strong demand. Domestic consolidated yields increased 3.6% and international yields rose 1.8%, due principally to improved performance in Latin America.

Cargo revenue increased \$62 million, or 12.2%, in the first nine months of 2017 from the 2016 period primarily driven by an increase in freight volume.

Other revenue primarily includes revenue associated with our loyalty program, baggage fees, ticketing change fees, airport clubs and inflight services. Other revenue increased \$271 million, or 7.4%, in the first nine months of 2017 from the 2016 period primarily driven by an increase in loyalty program revenue. In the first nine months of 2017 and 2016, other revenue associated with our loyalty program was \$1.8 billion and \$1.5 billion, respectively, of which \$1.6 billion and \$1.4 billion, respectively, related to the marketing component of mileage sales and other marketing related payments. This period-over-period increase was primarily due to revenues associated with our new co-branded credit card agreements that became effective in the third quarter of 2016.

Total operating revenues in the first nine months of 2017 increased \$1.2 billion, or 4.0%, from the 2016 period driven principally by a 3.4% increase in total passenger revenues as described above. Our mainline and regional TRASM was 15.11 cents in the first nine months of 2017, a 3.3% increase as compared to 14.63 cents in the 2016 period.

## Mainline Operating Expenses

	Nine Months Ended September 30, 2017		2016	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)				
Aircraft fuel and related taxes	\$4,481	\$3,736	\$ 745	19.9	
Salaries, wages and benefits	8,824	8,094	730	9.0	
Maintenance, materials and repairs	1,474	1,352	122	9.1	
Other rent and landing fees	1,363	1,342	21	1.6	
Aircraft rent	892	908	(16 )	(1.7 )	
Selling expenses	1,094	990	104	10.5	
Depreciation and amortization	1,255	1,128	127	11.3	
Special items, net	432	450	(18 )	(3.8 )	
Other	3,575	3,386	189	5.6	
Total mainline operating expenses	\$23,390	\$21,386	\$ 2,004	9.4	

Mainline operating expenses increased \$2.0 billion, or 9.4%, in the first nine months of 2017 from the 2016 period.

The increase in operating expenses was primarily driven by higher wage rates and fuel costs. See detailed explanations below relating to changes in mainline CASM.

## Mainline 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 mainline operating expenses (GAAP measure) to mainline operating costs excluding special items and fuel (non-GAAP measure). Management uses mainline 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 mainline CASM and our mainline CASM excluding special items and fuel for the nine months ended September 30, 2017 and 2016 are as follows (amounts may not recalculate due to rounding):

	Nine Months Ended September 30,		Percent Increase (Decrease)
	2017	2016	
(In cents, except percentage changes)			
<b>Mainline CASM:</b>			
Aircraft fuel and related taxes	2.43	2.03	19.5
Salaries, wages and benefits	4.78	4.40	8.6
Maintenance, materials and repairs	0.80	0.73	8.7
Other rent and landing fees	0.74	0.73	1.2
Aircraft rent	0.48	0.49	(2.1 )
Selling expenses	0.59	0.54	10.1
Depreciation and amortization	0.68	0.61	10.9
Special items, net	0.23	0.24	(4.2 )
Other	1.94	1.84	5.2
Total mainline CASM	12.67	11.62	9.0
Special items, net	(0.23 )	(0.24 )	(4.2 )
Aircraft fuel and related taxes	(2.43 )	(2.03 )	19.5
Mainline CASM, excluding special items and fuel	10.01	9.35	7.0

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

Aircraft fuel and related taxes per ASM increased 19.5% primarily due to a 21.1% increase in the average price per gallon of fuel to \$1.65 in the first nine months of 2017 from \$1.36 in the 2016 period, offset in part by a 0.9% decrease in gallons of fuel consumed.

Salaries, wages and benefits per ASM increased 8.6% primarily due to mid-contract pay rate increases for pilots and flight attendants effective in the second quarter of 2017, as well as rate increases for maintenance and fleet service work groups, which became effective mid-third quarter of 2016.

Maintenance, materials and repairs per ASM increased 8.7% as compared to the 2016 period primarily due to a contract change impacting the timing of maintenance expenses incurred. Certain flight equipment was transitioned to a new flight hour based contract (referred to as power by the hour) where expense is incurred and recognized based on actual hours flown. Previously this flight equipment was covered by a time and materials based contract where expense is incurred and recognized as maintenance is performed.

Selling expenses per ASM increased 10.1% primarily due to higher revenues in the first nine months of 2017 as compared to the 2016 period, resulting in higher commissions.

Depreciation and amortization per ASM increased 10.9% primarily due to aircraft purchased in connection with our fleet renewal program.

Other operating expenses per ASM increased 5.2% primarily due to expenses associated with improving our product offerings, customer experience and operational reliability.

## Operating Special Items, Net

	Nine Months Ended September 30, 2017 2016 (In millions)	
Merger integration expenses <sup>(1)</sup>	\$192	\$395
Fleet restructuring expenses <sup>(2)</sup>	174	72
Mark-to-market adjustments for bankruptcy obligations and other	7	(22 )
Labor contract expenses <sup>(3)</sup>	45	—
Other operating charges, net	14	5
Total mainline operating special items, net	432	450
Regional operating special items, net <sup>(4)</sup>	(1 )	13
Total operating special items, net	\$431	\$463

- Merger integration expenses included costs related to information technology, professional fees, re-branding of aircraft and airport facilities and training. Additionally, the 2016 period also included costs related to alignment of labor union contracts, re-branded uniforms, relocation and severance.
- (2) Fleet restructuring expenses driven by the Merger principally included the acceleration of aircraft depreciation and impairments for aircraft grounded or expected to be grounded earlier than planned.
- (3) Labor contract expenses primarily included one-time charges to adjust the vacation accruals for pilots and flight attendants as a result of the mid-contract pay rate adjustments effective in the second quarter of 2017.
- (4) Regional operating special items, net principally related to a gain on the sale of certain aircraft in the 2017 period and Merger integration expenses in the 2016 period.

## Regional Operating Expenses

	Nine Months Ended September 30, 2017 2016		Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Aircraft fuel and related taxes	\$999	\$801	\$ 198	24.7
Other	3,849	3,687	162	4.4
Total regional operating expenses	\$4,848	\$4,488	\$ 360	8.0

Regional operating expenses increased \$360 million, or 8.0%, in the first nine months of 2017 from the 2016 period. The period-over-period increase was primarily due to a \$198 million, or 24.7%, increase in fuel costs and a \$162 million, or 4.4%, increase in other regional operating expenses. The average price per gallon of fuel increased 21.8% to \$1.73 in the first nine months of 2017 from \$1.42 in the 2016 period, on a 2.4% increase in consumption. The increase in other regional operating expenses was primarily driven by a 3.1% increase in capacity, principally from our wholly-owned regional carriers. See Note 10 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A for further information on regional expenses.

## Nonoperating Results

	Nine Months Ended September 30, 2017		2016	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)				
Interest income	\$70	\$45	\$ 25		55.4
Interest expense, net	(787 )	(738 )	(49 )		6.6
Other, net	8	(25 )	33		nm
Total nonoperating expense, net	\$(709)	\$(718)	\$ 9		(1.3 )

Our short-term investments in each period consisted of highly liquid investments that provided relatively nominal returns. Interest income increased \$25 million, or 55.4%, principally due to an increase in interest rates, which drove more than a 50 basis point increase in average yields in the first nine months of 2017 as compared to the 2016 period. Interest expense, net increased \$49 million in the first nine months of 2017 as compared to the 2016 period primarily due to higher outstanding debt as a result of aircraft financings associated with our fleet renewal program.

Other nonoperating expense, net in the 2016 period primarily included \$36 million of net special charges consisting of debt issuance and extinguishment costs associated with a bond refinancing, offset in part by \$19 million of foreign currency gains.

## Income Taxes

In the first nine months of 2017, we recorded an income tax provision of \$998 million, which was substantially non-cash due to utilization of our NOLs. Substantially all of our income before income taxes is attributable to the United States. At December 31, 2016, we had approximately \$10.5 billion of gross NOLs to reduce future federal taxable income, substantially all of which are expected to be available for use in 2017.

See Note 6 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 September 30, 2017 Compared to Three Months Ended September 30, 2016

American realized pre-tax income of \$1.0 billion and \$1.2 billion in the third quarters of 2017 and 2016, respectively. American's third quarter 2017 pre-tax results were principally driven by higher wage rates and fuel costs, which were offset in part by higher revenues.

## Operating Revenues

	Three Months Ended September 30, 2017		2016	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)				
Mainline passenger	\$7,628	\$7,419	\$ 209		2.8
Regional passenger	1,749	1,731	18		1.1
Cargo	200	171	29		17.0
Other	1,298	1,270	28		2.2
Total operating revenues	\$10,875	\$10,591	\$ 284		2.7

Total passenger revenues increased \$227 million, or 2.5%, in the third quarter of 2017 from the 2016 period primarily driven by a period-over-period increase in consolidated passenger yields and continued strong demand.

Cargo revenue increased \$29 million, or 17.0%, in the third quarter of 2017 from the 2016 period primarily driven by an increase in freight volume.

Other revenue primarily includes revenue associated with American's loyalty program, baggage fees, ticketing change fees, airport clubs and inflight services. In the third quarters of 2017 and 2016, other revenue associated with American's loyalty program was \$577 million and \$569 million, respectively, of which \$549 million and \$540 million, respectively, related to the marketing component of mileage sales and other marketing related payments.

Total operating revenues in the third quarter of 2017 increased \$284 million, or 2.7%, from the 2016 period driven principally by a 2.5% increase in total passenger revenues as described above.

Mainline Operating Expenses

	Three Months Ended		Increase (Decrease)	Percent Increase (Decrease)
	September 30, 2017	2016		
(In millions, except percentage changes)				
Aircraft fuel and related taxes	\$1,570	\$1,393	\$ 177	12.7
Salaries, wages and benefits	2,991	2,770	221	8.0
Maintenance, materials and repairs	487	481	6	1.4
Other rent and landing fees	471	463	8	1.7
Aircraft rent	304	299	5	1.5
Selling expenses	400	347	53	15.1
Depreciation and amortization	433	399	34	8.6
Special items, net	112	289	(177 )	(61.2 )
Other	1,220	1,184	36	3.1
Total mainline operating expenses	\$7,988	\$7,625	\$ 363	4.8

Mainline operating expenses increased \$363 million, or 4.8%, in the third quarter of 2017 from the 2016 period. The increase in operating expenses was primarily driven by higher wage rates and fuel costs. Detailed explanations related to the changes in American's mainline operating expenses are as follows:

Aircraft fuel and related taxes increased 12.7% primarily due to a 13.4% increase in the average price per gallon of fuel to \$1.66 in the third quarter of 2017 from \$1.46 in the 2016 period.

Salaries, wages and benefits increased 8.0% primarily due to mid-contract pay rate increases for pilots and flight attendants effective in the second quarter of 2017, as well as rate increases for maintenance and fleet service work groups, which became effective mid-third quarter of 2016.

Selling expenses increased 15.1% primarily due to higher revenues in the third quarter of 2017 as compared to the 2016 period, resulting in higher commissions.

Depreciation and amortization increased 8.6% primarily due to aircraft purchased in connection with American's fleet renewal program.

Operating Special Items, Net

	Three Months Ended	
	September 30, 2017	2016
(In millions)		
Merger integration expenses <sup>(1)</sup>	\$62	\$194
Fleet restructuring expenses <sup>(2)</sup>	62	31
Mark-to-market adjustments for bankruptcy obligations and other	(12 )	39
Other operating charges, net	—	25
Total mainline operating special items, net	112	289
Regional operating special items, net <sup>(3)</sup>	(1 )	3



Total operating special items, net	\$111	\$292
------------------------------------	-------	-------

- Merger integration expenses included costs related to information technology, professional fees, re-branding of
- (1) aircraft and airport facilities and training. Additionally, the 2016 period also included costs related to alignment of labor union contracts, re-branded uniforms, relocation and severance.
  - (2) Fleet restructuring expenses driven by the Merger principally included the acceleration of aircraft depreciation and impairments for aircraft grounded or expected to be grounded earlier than planned.
  - (3) Regional operating special items, net principally related to Merger integration expenses.

## Regional Operating Expenses

	Three Months Ended		Increase (Decrease)	Percent Increase (Decrease)
	September 30, 2017	September 30, 2016		
(In millions, except percentage changes)				
Aircraft fuel and related taxes	\$352	\$303	\$ 49	16.1
Other	1,310	1,231	79	6.4
Total regional operating expenses	\$1,662	\$1,534	\$ 128	8.3

Regional operating expenses increased \$128 million, or 8.3%, in the third quarter of 2017 from the 2016 period. The period-over-period increase was primarily due to a \$49 million, or 16.1%, increase in fuel costs and a \$79 million, or 6.4%, increase in other regional operating expenses. The average price per gallon of fuel increased 13.1% to \$1.75 in the third quarter of 2017 from \$1.55 in the 2016 period, on a 2.6% increase in consumption. The increase in other regional operating expenses was primarily driven by increased capacity. See Note 8 to American's Condensed Consolidated Financial Statements in Part I, Item 1B for further information on regional expenses.

## Nonoperating Results

	Three Months Ended		Increase (Decrease)	Percent Increase (Decrease)
	September 30, 2017	September 30, 2016		
(In millions, except percentage changes)				
Interest income	\$56	\$28	\$ 28	nm
Interest expense, net	(250 )	(229 )	(21 )	9.4
Other, net	13	(8 )	21	nm
Total nonoperating expense, net	\$(181)	\$(209)	\$ 28	(13.5 )

American's short-term investments in each period consisted of highly liquid investments that provided relatively nominal returns. Interest income increased \$28 million principally due to an increase in interest rates, which drove more than a 50 basis point increase in average yields in the third quarter of 2017 as compared to the 2016 period. Interest expense, net increased \$21 million in the third quarter of 2017 as compared to the 2016 period primarily due to higher outstanding debt as a result of aircraft financings associated with American's fleet renewal program.

## Income Taxes

In the third quarter 2017, American recorded an income tax provision of \$395 million, which was substantially non-cash due to utilization of its NOLs. Substantially all of American's income before income taxes is attributable to the United States. At December 31, 2016, American had approximately \$11.3 billion of gross NOLs to reduce future federal taxable income, substantially all of which are expected to be available for use in 2017.

See Note 4 to American's Condensed Consolidated Financial Statements in Part I, Item 1B for additional information on income taxes.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

American realized pre-tax income of \$2.8 billion and \$3.9 billion in the first nine months of 2017 and 2016, respectively.

American's pre-tax results for the first nine months of 2017 were principally driven by higher wage rates and fuel costs, which were offset in part by higher revenues.

#### Operating Revenues

	Nine Months Ended September 30, 2017		2016	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)				
Mainline passenger	\$21,981	\$21,192	\$ 789	3.7	
Regional passenger	5,133	5,040	93	1.8	
Cargo	568	506	62	12.2	
Other	3,916	3,639	277	7.6	
Total operating revenues	\$31,598	\$30,377	\$ 1,221	4.0	

Total passenger revenues increased \$882 million, or 3.4%, in the first nine months of 2017 from the 2016 period primarily driven by a period-over-period increase in consolidated passenger yields and continued strong demand. Cargo revenue increased \$62 million, or 12.2%, in the first nine months of 2017 from the 2016 period primarily driven by an increase in freight volume.

Other revenue primarily includes revenue associated with American's loyalty program, baggage fees, ticketing change fees, airport clubs and inflight services. Other revenue increased \$277 million, or 7.6%, in the first nine months of 2017 from the 2016 period primarily driven by an increase in loyalty program revenue. In the first nine months of 2017 and 2016, other revenue associated with American's loyalty program was \$1.8 billion and \$1.5 billion, respectively, of which \$1.6 billion and \$1.4 billion, respectively, related to the marketing component of mileage sales and other marketing related payments. This period-over-period increase was primarily due to revenues associated with our new co-branded credit card agreements that became effective in the third quarter of 2016.

Total operating revenues in the first nine months of 2017 increased \$1.2 billion, or 4.0%, from the 2016 period driven principally by a 3.4% increase in total passenger revenues as described above.

#### Mainline Operating Expenses

	Nine Months Ended September 30, 2017		2016	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)				
Aircraft fuel and related taxes	\$4,481	\$3,736	\$ 745	19.9	
Salaries, wages and benefits	8,816	8,087	729	9.0	
Maintenance, materials and repairs	1,474	1,352	122	9.1	
Other rent and landing fees	1,363	1,342	21	1.6	
Aircraft rent	892	908	(16)	(1.7)	
Selling expenses	1,094	990	104	10.5	
Depreciation and amortization	1,255	1,128	127	11.3	
Special items, net	432	450	(18)	(3.8)	
Other	3,575	3,391	184	5.4	
Total mainline operating expenses	\$23,382	\$21,384	\$ 1,998	9.3	

Mainline operating expenses increased \$2.0 billion, or 9.3%, in the first nine months of 2017 from the 2016 period. The increase in operating expenses was primarily driven by higher wage rates and fuel costs. Detailed explanations related to the changes in American's mainline operating expenses are as follows:



Aircraft fuel and related taxes increased 19.9% primarily due to a 21.1% increase in the average price per gallon of fuel to \$1.65 in the first nine months of 2017 from \$1.36 in the 2016 period, offset in part by a 0.9% decrease in gallons of fuel consumed.

Salaries, wages and benefits increased 9.0% primarily due to mid-contract pay rate increases for pilots and flight attendants effective in the second quarter of 2017, as well as rate increases for maintenance and fleet service work groups, which became effective mid-third quarter of 2016.

Maintenance, materials and repairs increased 9.1% as compared to the 2016 period primarily due to a contract change impacting the timing of maintenance expenses incurred. Certain flight equipment was transitioned to a new flight hour based contract (referred to as power by the hour) where expense is incurred and recognized based on actual hours flown. Previously this flight equipment was covered by a time and materials based contract where expense is incurred and recognized as maintenance is performed.

Selling expenses increased 10.5% primarily due to higher revenues in the first nine months of 2017 as compared to the 2016 period, resulting in higher commissions.

Depreciation and amortization increased 11.3% primarily due to aircraft purchased in connection with American's fleet renewal program.

Other operating expenses increased 5.4% primarily due to expenses associated with improving our product offerings, customer experience and operational reliability.

Operating Special Items, Net

	Nine Months Ended September 30, 2017 2016 (In millions)	
Merger integration expenses <sup>(1)</sup>	\$192	\$395
Fleet restructuring expenses <sup>(2)</sup>	174	72
Mark-to-market adjustments for bankruptcy obligations and other	7	(22 )
Labor contract expenses <sup>(3)</sup>	45	—
Other operating charges, net	14	5
Total mainline operating special items, net	432	450
Regional operating special items, net <sup>(4)</sup>	3	11
Total operating special items, net	\$435	\$461

Merger integration expenses included costs related to information technology, professional fees, re-branding of aircraft and airport facilities and training. Additionally, the 2016 period also included costs related to alignment of labor union contracts, re-branded uniforms, relocation and severance.

<sup>(2)</sup> Fleet restructuring expenses driven by the Merger principally included the acceleration of aircraft depreciation and impairments for aircraft grounded or expected to be grounded earlier than planned.

<sup>(3)</sup> Labor contract expenses primarily included one-time charges to adjust the vacation accruals for pilots and flight attendants as a result of the mid-contract pay rate adjustments effective in the second quarter of 2017.

<sup>(4)</sup> Regional operating special items, net principally related to Merger integration expenses.

## Regional Operating Expenses

	Nine Months Ended September 30, 2017 2016		Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Aircraft fuel and related taxes	\$999	\$801	\$ 198	24.7
Other	3,861	3,679	182	5.0
Total regional operating expenses	\$4,860	\$4,480	\$ 380	8.5

Regional operating expenses increased \$380 million, or 8.5%, in the first nine months of 2017 from the 2016 period. The period-over-period increase was primarily due to a \$198 million, or 24.7%, increase in fuel costs and a \$182 million, or 5.0%, increase in other regional operating expenses. The average price per gallon of fuel increased 21.8% to \$1.73 in the first nine months of 2017 from \$1.42 in the 2016 period, on a 2.4% increase in consumption. The increase in other regional operating expenses was primarily driven by increased capacity. See Note 8 to American's Condensed Consolidated Financial Statements in Part I, Item 1B for further information on regional expenses.

## Nonoperating Results

	Nine Months Ended September 30, 2017 2016		Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Interest income	\$158	\$74	\$ 84	nm
Interest expense, net	(738 )	(674 )	(64 )	9.4
Other, net	8	(27 )	35	nm
Total nonoperating expense, net	\$(572)	\$(627)	\$ 55	(8.8 )

American's short-term investments in each period consisted of highly liquid investments that provided relatively nominal returns. Interest income increased \$84 million principally due to an increase in interest rates, which drove more than a 50 basis point increase in average yields in the first nine months of 2017 as compared to the 2016 period. Interest expense, net increased \$64 million in the first nine months of 2017 as compared to the 2016 period primarily due to higher outstanding debt as a result of aircraft financings associated with American's fleet renewal program. Other nonoperating expense, net in the 2016 period primarily included \$36 million of net special charges consisting of debt issuance and extinguishment costs associated with a bond refinancing, offset in part by \$19 million of foreign currency gains.

## Income Taxes

In the first nine months of 2017, American recorded an income tax provision of \$1.0 billion, which was substantially non-cash due to utilization of its NOLs. Substantially all of American's income before income taxes is attributable to the United States. At December 31, 2016, American had approximately \$11.3 billion of gross NOLs to reduce future federal taxable income, substantially all of which are expected to be available for use in 2017.

See Note 4 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 September 30, 2017, AAG had approximately \$8.3 billion in total available liquidity and \$393 million in restricted cash and short-term investments. Additional detail of our available liquidity is provided in the table below (in millions):

	AAG		American	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Cash	\$340	\$ 322	\$328	\$ 310
Short-term investments	5,428	6,037	5,425	6,034
Undrawn revolving credit facilities	2,500	2,425	2,500	2,425
Total available liquidity	\$8,268	\$ 8,784	\$8,253	\$ 8,769

## Share Repurchase Programs

Since July 2014, our Board of Directors has approved six share repurchase programs aggregating \$11.0 billion of authority. As of September 30, 2017, \$677 million remained unused under a repurchase program that expires on December 31, 2018. Share repurchases under our share 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. Our share repurchase programs do not obligate us to repurchase any specific number of shares and may be suspended at any time at our discretion.

During the three months ended September 30, 2017, we repurchased 7.7 million shares of AAG common stock for \$362 million at a weighted average cost per share of \$46.97. During the nine months ended September 30, 2017, we repurchased 29.4 million shares of AAG common stock for \$1.3 billion at a weighted average cost per share of \$45.05. Since the inception of our share repurchase programs in July 2014, we have repurchased 257.7 million shares of AAG common stock for \$10.3 billion at a weighted average cost per share of \$40.05.

## Cash Dividends

Our Board of Directors declared the following cash dividends during the first nine months of 2017:

Period	Per share	For stockholders of record as of	Payable on	Total (millions)
First Quarter	\$ 0.10	February 13, 2017	February 27, 2017	\$ 51
Second Quarter	0.10	May 16, 2017	May 30, 2017	50
Third Quarter	0.10	August 14, 2017	August 28, 2017	49
Total				\$ 150

In October 2017, we announced that our Board of Directors had declared a \$0.10 per share dividend for stockholders of record on November 13, 2017, and payable on November 27, 2017.

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 payment of dividends may be suspended at any time at our discretion.

## Sources and Uses of Cash

## AAG

## Operating Activities

Our net cash provided by operating activities was \$4.3 billion and \$5.9 billion for the first nine months of 2017 and 2016, respectively, a period-over-period decrease of \$1.6 billion. The decrease was primarily due to lower profitability in the first nine months of 2017 driven by higher wage rates and fuel costs, which were offset in part by higher revenues. Additionally, we made a \$256 million supplemental contribution to our pension plans in the 2017 period.

#### Investing Activities

Our net cash used in investing activities was \$3.1 billion and \$4.6 billion for the first nine months of 2017 and 2016, respectively.

Our principal investing activities in the 2017 period included expenditures of \$4.6 billion for property and equipment, primarily 58 aircraft, including 20 Airbus A321 aircraft, 15 Boeing 737-800 aircraft, 12 Embraer 175 aircraft, 10 Boeing 787 Family aircraft and one Boeing 737-8 MAX aircraft, as well as a \$203 million equity investment in China Southern Airlines Company Limited (China Southern Airlines). These cash outflows were offset in part by \$831 million of net proceeds from the sale of property and equipment, primarily including cash proceeds from aircraft sale-leaseback transactions, and \$621 million in net sales of short-term investments.

Our principal investing activities in the 2016 period included expenditures of \$4.3 billion for property and equipment, primarily 77 aircraft, including 19 Airbus A321 aircraft, 18 Bombardier CRJ900 aircraft, 18 Embraer 175 aircraft, 15 Boeing 737-800 aircraft, five Boeing 787 Family aircraft and two Boeing 777 aircraft. We also had \$491 million in net purchases of short-term investments.

#### Financing Activities

Our net cash used in financing activities was \$1.2 billion and \$1.3 billion for the first nine months of 2017 and 2016, respectively.

Our principal financing activities in the 2017 period included net proceeds of \$2.2 billion from the issuance of debt, primarily the issuance of \$1.3 billion of EETCs and \$815 million borrowed in connection with the financing of certain aircraft. These cash inflows were offset in part by \$1.8 billion in scheduled debt repayments, \$1.4 billion in share repurchases and \$150 million in dividend payments.

Our principal financing activities in the 2016 period included net proceeds of \$5.4 billion from the issuance of debt, primarily including the issuance of \$2.1 billion of EETCs, \$1.0 billion provided under the 2016 Term Loan Facility, an \$844 million issuance of special facility revenue refunding bonds related to JFK and an additional \$1.4 billion borrowed in connection with the financing of certain aircraft. These cash inflows were offset in part by \$3.9 billion in share repurchases, \$2.5 billion in debt repayments, primarily including the repayment of \$588 million in remaining principal of the 2013 Citicorp Credit Facility Tranche B-2 and the refunding of approximately \$1.0 billion of special facility revenue bonds related to JFK, and \$172 million in dividend payments.

#### American

##### Operating Activities

American's net cash provided by operating activities was \$2.7 billion and \$1.8 billion for the first nine months of 2017 and 2016, respectively, a period-over-period increase of \$969 million. We have the ability to move funds freely between our subsidiaries to support our cash requirements. The increase in operating cash flows during the first nine months of 2017 as compared to the 2016 period was primarily due to a decrease in intercompany cash transfers from American to AAG. This increase in operating cash flows was offset in part by lower profitability in the first nine months of 2017 driven by higher wage rates and fuel costs, which were offset in part by higher revenues.

Additionally, American made a \$256 million supplemental contribution to its pension plans in the 2017 period.

##### Investing Activities

American's net cash used in investing activities was \$3.0 billion and \$4.6 billion for the first nine months of 2017 and 2016, respectively.

American's principal investing activities in the 2017 period included expenditures of \$4.5 billion for property and equipment, primarily 58 aircraft, including 20 Airbus A321 aircraft, 15 Boeing 737-800 aircraft, 12 Embraer 175 aircraft, 10 Boeing 787 Family aircraft and one Boeing 737-8 MAX aircraft, as well as a \$203 million equity investment in China Southern Airlines. These cash outflows were offset in part by \$816 million of net proceeds from the sale of property and equipment, primarily including cash proceeds from aircraft sale-leaseback transactions, and \$621 million in net sales of short-term investments.

American's principal investing activities in the 2016 period included expenditures of \$4.2 billion for property and equipment, primarily 77 aircraft, including 19 Airbus A321 aircraft, 18 Bombardier CRJ900 aircraft, 18 Embraer 175 aircraft, 15 Boeing





737-800 aircraft, five Boeing 787 Family aircraft and two Boeing 777 aircraft. American also had \$491 million in net purchases of short-term investments.

#### Financing Activities

American's net cash provided by financing activities was \$302 million and \$2.8 billion for the first nine months of 2017 and 2016, respectively.

American's principal financing activities in the 2017 period included net proceeds of \$2.2 billion from the issuance of debt, primarily the issuance of \$1.3 billion of EETCs and \$815 million borrowed in connection with the financing of certain aircraft. These cash inflows were offset in part by \$1.8 billion in scheduled debt repayments.

American's principal financing activities in the 2016 period included net proceeds of \$5.4 billion from the issuance of debt, primarily including the issuance of \$2.1 billion of EETCs, \$1.0 billion provided under the 2016 Term Loan Facility, an \$844 million issuance of special facility revenue refunding bonds related to JFK and an additional \$1.4 billion borrowed in connection with the financing of certain aircraft. These cash inflows were offset in part by \$2.5 billion in debt repayments, primarily including the repayment of \$588 million in remaining principal of the 2013 Citicorp Credit Facility Tranche B-2 and the refunding of approximately \$1.0 billion of special facility revenue bonds related to JFK.

#### Commitments

##### Significant Indebtedness

As of September 30, 2017, AAG and American had \$24.9 billion and \$23.1 billion, respectively, including current maturities of \$2.5 billion and \$2.0 billion, respectively, in long-term debt and capital leases. During the nine months ended September 30, 2017, there have been no material changes in our significant indebtedness as discussed in our 2016 Form 10-K, except as discussed in Note 5 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A and Note 3 to American's Condensed Consolidated Financial Statements in Part I, Item 1B.

##### 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 September 30, 2017, 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 September 30, 2017:

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

<sup>(1)</sup> 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.

## Aircraft and Engine Purchase Commitments

As of September 30, 2017, we had definitive purchase agreements with Airbus, Boeing and Embraer for the acquisition of the following mainline and regional aircraft:

	Remainder of 2017	2018	2019	2020	2021	2022 and Thereafter	Total
Airbus							
A320neo Family	—	—	25	25	25	25	100
A350 XWB	—	—	—	2	5	15	22
Boeing							
737-800	5	—	—	—	—	—	5
737 MAX Family	3	16	20	20	20	20	99
787 Family	3	6	2	—	—	—	11
Embraer							
ERJ175 <sup>(1)</sup>	4	—	—	—	—	—	4
Total	15	22	47	47	50	60	241

(1) These aircraft may be operated by wholly-owned regional subsidiaries which would operate the aircraft under capacity purchase arrangements.

We also have agreements for 42 spare engines to be delivered in 2017 and beyond.

As of September 30, 2017, we had financing commitments for all of the aircraft currently on order and scheduled to be delivered through April 2018. We do not have financing commitments for the following aircraft currently on order and scheduled to be delivered through the end of 2018: eleven Boeing 737 MAX Family aircraft and five Boeing 787 Family aircraft. In addition, we do not have financing commitments in place for substantially all aircraft currently on order and scheduled to be delivered in 2019 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 2016 Form 10-K.

## Contractual Obligations

The following table provides details of our future cash contractual obligations as of September 30, 2017 (in millions):

	Payments Due by Period						Total
	Remainder of 2017	2018	2019	2020	2021	2022 and Thereafter	
<b>American</b>							
Debt and capital lease obligations <sup>(1)</sup> <sup>(3)</sup>	\$ 386	\$ 2,080	\$ 2,115	\$ 3,524	\$ 2,790	\$ 12,247	\$ 23,142
Interest obligations <sup>(2)</sup> <sup>(3)</sup>	226	936	859	751	628	1,847	5,247
Aircraft and engine purchase commitments <sup>(4)</sup>	861	1,691	2,669	2,790	2,909	3,688	14,608
Operating lease commitments <sup>(5)</sup>	521	2,155	1,933	1,745	1,303	4,295	11,952
Regional capacity purchase agreements <sup>(6)</sup>	397	1,447	1,302	1,054	857	2,742	7,799
Minimum pension obligations <sup>(7)</sup>	—	62	1,136	800	793	3,082	5,873
Retiree medical and other postretirement benefits and other obligations <sup>(8)</sup>	410	1,817	1,266	825	933	321	5,572
<b>Total American Contractual Obligations</b>	<b>\$ 2,801</b>	<b>\$ 10,188</b>	<b>\$ 11,280</b>	<b>\$ 11,489</b>	<b>\$ 10,213</b>	<b>\$ 28,222</b>	<b>\$ 74,193</b>
<b>AAG Parent and Other AAG Subsidiaries</b>							
Debt and capital lease obligations <sup>(1)</sup>	\$ —	\$ 500	\$ 750	\$ 506	\$ 2	\$ 22	\$ 1,780
Interest obligations <sup>(2)</sup>	36	82	67	14	2	8	209
Operating lease commitments	5	17	9	7	9	16	63
<b>Total AAG Contractual Obligations</b>	<b>\$ 2,842</b>	<b>\$ 10,787</b>	<b>\$ 12,106</b>	<b>\$ 12,016</b>	<b>\$ 10,226</b>	<b>\$ 28,268</b>	<b>\$ 76,245</b>

Amounts represent contractual amounts due. Excludes \$230 million and \$8 million of unamortized debt discount, premium and issuance costs as of September 30, 2017 for American and AAG Parent, respectively. For additional information, see Note 5 and Note 3 to AAG's and American's Condensed Consolidated Financial Statements in Part I, Items 1A and 1B.

<sup>(2)</sup> For variable-rate debt, future interest obligations are estimated using the current forward rates at September 30, 2017.

<sup>(3)</sup> Includes \$11.4 billion of future principal payments and \$2.7 billion of future interest payments, respectively, as of September 30, 2017, related to EETC notes associated with mortgage financings for the purchase of certain aircraft.

<sup>(4)</sup> 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.

<sup>(5)</sup> Includes \$1.2 billion of future minimum lease payments related to EETC leverage leased financings of certain aircraft as of September 30, 2017.

<sup>(6)</sup> 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.

<sup>(7)</sup> Includes minimum pension contributions based on actuarially determined estimates.

<sup>(8)</sup> Includes retiree medical and other postretirement benefit payments and other minimum purchase obligations.

### 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, and may authorize additional share repurchase programs in the future.

### Critical Accounting Policies and Estimates

In the third quarter of 2017, 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 2016 Form 10-K.

### Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 completes the joint effort by the FASB and International Accounting Standards Board (IASB) to improve financial reporting by creating common revenue recognition guidance for GAAP and International Financial Reporting Standards (IFRS). Subsequently, the FASB has issued several additional ASUs to clarify the implementation. The new revenue standard applies to all companies that enter into contracts with customers to transfer goods or services and is effective for public entities for interim and annual reporting periods beginning after December 15, 2017. We will adopt the new revenue standard effective January 1, 2018. Entities have the choice to apply the new revenue standard either retrospectively to each reporting period presented or by recognizing the cumulative effect of applying the new revenue standard at the date of initial application and not adjusting comparative information. We will adopt the new revenue standard using the full retrospective method.

We are in the process of finalizing how the application of the new revenue standard will impact our condensed consolidated financial statements. We currently expect that the new revenue standard will materially impact our liability for outstanding mileage credits earned by AAdvantage loyalty program members. We currently use the incremental cost method to account for this portion of our loyalty program liability, which values these mileage credits based on the estimated incremental cost of carrying one additional passenger. The new revenue standard will require us to change our policy and apply a relative selling price approach whereby a portion of each passenger ticket sale attributable to mileage credits earned will be deferred and recognized in passenger revenue upon future mileage redemption. The carrying value of the earned mileage credits recognized in loyalty program liability is expected to be materially greater under the relative selling price approach than the value attributed to these mileage credits under the incremental cost method. The new revenue standard will also require us to reclassify certain ancillary fees to passenger revenue, which are currently included within other operating revenue.



We currently estimate that upon adoption of the new revenue standard as of January 1, 2018, our liability for outstanding mileage credits will increase by approximately \$5.5 billion, offset in part by a \$2.0 billion increase in our deferred tax asset, resulting in a net \$3.5 billion charge to retained earnings. Additionally, after applying the new revenue standard, our 2017 passenger revenue and pre-tax income is currently estimated to increase by approximately \$300 million. Finally, approximately \$2.5 billion annually of ancillary revenues presently included within other revenue will be reclassified to passenger revenue. This reclassification will have no impact on total operating revenues. The foregoing estimates are subject to change.

See Note 1 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A and Note 1 to American's Condensed Consolidated Financial Statements in Part I, 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 2016 Form 10-K except as updated below.

#### Aircraft Fuel

As of September 30, 2017, 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. Our 2017 forecasted mainline and regional fuel consumption is presently approximately 4.4 billion gallons, and based on this forecast, a one cent per gallon increase in aviation fuel price would result in a \$44 million increase in annual expense.

#### 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 investments. If annual interest rates increase 100 basis points, based on our September 30, 2017 variable-rate debt and short-term investments balances, annual interest expense on variable-rate debt would increase by approximately \$96 million and annual interest income on short-term investments would increase by approximately \$59 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 September 30, 2017 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 September 30, 2017.



#### 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. For the quarter ended September 30, 2017, there has been no change 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 September 30, 2017.

## 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 September 30, 2017, 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 on the same basis as if such distributions had been made on or about the Effective Date. 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. On April 18, 2014, the Bankruptcy Court granted American's motion for summary judgment with respect to certain non-union employees, concluding that their benefits were not vested and could be terminated. The summary judgment motion was denied with respect to all other retirees. The Bankruptcy Court has not yet scheduled a trial on the merits concerning whether those retirees' benefits are vested, and American cannot predict whether it will receive relief from obligations to provide benefits to any of those retirees. Our financial statements presently reflect these retirement programs without giving effect to any modification or termination of benefits that may ultimately be implemented based upon the outcome of this proceeding.

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. In addition, 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 October 28, 2016, the Court denied a motion by the airline defendants to dismiss all claims in the class actions. Both the DOJ investigation and these lawsuits are in their relatively early stages and we intend to defend these matters vigorously.

Private Party Antitrust Action. On July 2, 2013, a lawsuit captioned Carolyn Fjord, et al., v. US Airways Group, Inc., et al., was filed in the United States District Court for the Northern District of California. The complaint named as defendants US Airways Group and US Airways, 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 August 6, 2013, the plaintiffs re-filed their complaint in the Bankruptcy Court, adding AMR and American as defendants. On November 27, 2013, the Bankruptcy Court denied plaintiffs' motion to preliminarily enjoin the Merger. On May 12, 2017, defendants filed a motion for summary judgment. On June 23, 2017, plaintiffs filed an opposition to defendants' motion and cross-motion for summary judgment. Briefing of the parties' respective motions concluded on September 1, 2017; a hearing date has not yet been set. 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.

##### Risks Relating to AAG and Industry-Related Risks

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 revenues. 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 sufficiently to offset fuel price increases. Similarly, we cannot predict the effect or the actions of our competitors if the current low fuel prices remain in place for a significant period of time or fuel prices decrease in the future.

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, 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, additional fuel price volatility and cost increases in the future.

Our aviation fuel purchase contracts generally do not provide meaningful price protection against increases in fuel costs. Prior to the closing of the Merger, we sought to manage the risk of fuel price increases by using derivative contracts. 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. Accordingly, as of September 30, 2017, 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.

If in the future we enter into derivative contracts to hedge our fuel consumption, there can be no assurance that, at any given time, we will have derivatives in place to provide any particular level of protection against increased fuel costs or that our counterparties will be able to perform under our derivative contracts. To the extent we use derivative contracts that have the potential to create an obligation to pay upon settlement if prices decline significantly, such

derivative contracts may limit our ability to benefit from lower fuel costs in the future. Also, a rapid decline in the projected price of fuel at a time when we

63

---

have fuel hedging contracts in place could materially adversely impact our short-term liquidity, because hedge counterparties could require that we post collateral in the form of cash or letters of credit. 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 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.

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. A number of low-cost carriers have announced growth strategies including commitments to acquire significant numbers of 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. For example, as a result of divestitures completed in connection with gaining regulatory approval for the Merger, low-fare, low-cost carriers have gained additional access in a number of markets, including Ronald Reagan Washington National Airport (DCA), a slot-controlled airport. 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. 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 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, including carriers based in the Middle East, the three largest of which we believe benefit from significant government subsidies. Our international service exposes us to foreign economies and the potential for reduced demand, such as we have recently experienced in Brazil and Venezuela, when any foreign countries we serve suffer 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 are party to antitrust-immunized cooperation agreements with British Airways, Iberia, Finnair, Royal Jordanian, Japan Airlines, LAN Airlines and LAN Peru. As part of the antitrust-immunized relationships, we have also established joint business agreements (JBAs) with British Airways, Iberia and Finnair, and separately with Japan Airlines. In October 2017, American Airlines 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. We

intend to file a new application for antitrust immunity with the DOT this year, which, if granted, would allow us to expand that relationship further. In addition, we have signed JBAs with certain air carriers of the LATAM Airlines Group and have applied for approval in the relevant jurisdictions affected by such agreements, which applications have been approved in Brazil, Colombia and Uruguay, but are still pending before other relevant authorities, including the DOT and in 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.

Ongoing data security requirements and obligations could increase our costs, and any significant data security incident could disrupt our operations and harm our reputation, business, results of operations and financial condition.

Our business requires the appropriate and secure utilization of customer, employee, business partner and other sensitive information, and confidence in the networks and systems that allow us to operate. We cannot be certain that we will not be the target of attacks on our networks and intrusions into our data, particularly given recent advances in technical capabilities, and increased financial and political motivations to carry out cyber-attacks on physical systems, gain unauthorized access to information, and make information unavailable for use through, for example, ransomware or denial-of-service attacks, and otherwise exploit new and existing vulnerabilities in our infrastructure. The risk of a data security incident or disruption, particularly through cyber-attack or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Furthermore, in response to these threats there has been heightened legislative and regulatory focus on attacks on critical infrastructures, including those in the transportation sector, and on data security in the U.S. and abroad (particularly in the European Union (EU)), including requirements for varying levels of data subject notification in the event of a data security incident.

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 data security incident or our failure to comply with applicable U.S. or foreign data security regulations or other data security standards may impact our brand and expose us to litigation and regulatory enforcement actions, resulting in fines, sanctions or other penalties. Such actions could further harm our reputation, adversely impact our relationship with our customers, employees, and stockholders, result in material financial impact, and disrupt business operations. Failure to appropriately address these issues could also give rise to similar legal risks and damages.

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;
- 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;

65

---

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 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. 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 significant investments in modernizing our fleet. Significant capital resources will be required to execute this plan. We estimate that, based on our commitments as of September 30, 2017, our planned aggregate expenditures for aircraft purchase commitments and certain engines on a consolidated basis for calendar years 2017-2021 would be approximately \$10.9 billion. Accordingly, we will need substantial financing or other capital resources to finance such aircraft. 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.

Currently, our minimum funding obligation for our pension plans is subject to favorable temporary funding rules that are scheduled to expire 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 contributions relating to the 2018 fiscal year. In addition, we may have significant obligations for other postretirement benefits, the ultimate amount of which depends on, among other things, the outcome of an adversary proceeding related to retiree medical and other postretirement benefits and life insurance obligations filed in the Chapter 11 Cases.

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 2016 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 2016 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 in our current or future labor negotiations, such as the employee profit sharing program we instituted effective January 1, 2016 and the mid-contract adjustment we provided to our flight attendants and pilots in 2017. As of December 31, 2016, 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 resulting from air traffic control (ATC) delays, weather conditions, natural disasters, growth constraints, relations with third-party service providers, failure of computer systems, disruptions at

67

---

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.

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 office 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. 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 certain foreign airports served by us are regulated by governmental entities through the use of slots or similar regulatory mechanisms which limit the rights of carriers to conduct operations at those airports. Each slot represents the authorization to land at or take off from the particular airport during a specified time period and may have other operational restrictions as well. In the U.S., the Federal Aviation Administration (FAA) currently regulates the allocation of slots or slot exemptions at DCA and two New York City airports: John F. Kennedy International Airport 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, 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 applicable local law. We currently have sufficient slots or analogous authorizations to operate our existing flights and we have generally, but not always, been able to obtain the rights to expand our operations and to change our schedules. 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 risks 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. For example, one of our significant third-party operators of regional capacity, Republic, commenced a Chapter 11 bankruptcy in 2016. In connection with Republic's bankruptcy process, we restructured our contractual relationship with Republic and received an approximate 25% equity interest in Republic in consideration for our unsecured claim in the case. 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.

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 call centers and our website. 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 third-party 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, and require us to make significant investments in potential new distribution technologies. 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 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. Additionally, the FAA is presently considering regulations that would impose a cap on ticket change fees charged by airlines. 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, new regulatory requirements could have a material adverse effect on us and the industry.

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 reservations process, at the airport, and onboard the aircraft, and require disclosures concerning airline fares and ancillary fees such as baggage fees. The DOT has been aggressively investigating alleged violations of these rules. Other DOT rules apply to post-ticket purchase price increases and an expansion of tarmac delay regulations to international airlines.

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 which 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 (for example, a "passenger bill of rights");
- 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 managing the growing demand for U.S. air travel. Air traffic controllers rely on outdated procedures and technologies that are routinely overwhelmed and compel airlines to fly inefficient routes or take significant delays on the ground. The ATC system's inability to handle 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, in 2014 the ATC systems in Chicago took weeks to recover following a fire in the ATC tower at ORD, which resulted in thousands of cancelled flights.

The FAA has embarked on transforming the national airspace system, to include migration from the current radar-based air traffic control 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 air traffic control 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 London Heathrow Airport (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 will mandate further modification in the current regulatory regime. 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.

70

---

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.

Potential tax reform in the U.S. may result in significant changes to U.S. federal income taxation law, including changes to the U.S. federal income taxation of corporations (including us), which could, among other things, result in a lower corporate tax rate, the elimination of certain tax deductions and preferences, and impacts to the international tax environment. We are currently unable to predict whether such changes will occur and, if so, the impact such changes would have on us and our subsidiaries.

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 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

71

---

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 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. In March 2017, the United Kingdom served notice of its decision to withdraw to 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 will need to 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 that flows between the U.S. and the EU via LHR in the United Kingdom. Among other things, 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. For example, in October 2016, International Civil Aviation Organization (ICAO) passed a resolution adopting the ICAO 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 help to ensure that these costs will be more predictable and more evenly applied to American and its competitors. The CORSIA is expected to be implemented in phases, 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 2017, compliance with the CORSIA or similar emissions-related requirements could significantly increase our operating costs beyond 2017. Further, 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 and the number of future 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 global greenhouse gas 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. The Environmental Protection Agency (EPA) recently issued an endangerment finding that aircraft engine GHG emissions cause or contribute to air pollution that may reasonably be anticipated to endanger public health or welfare, which is a precursor to EPA regulation of aircraft engine GHG emission standards. It is anticipated that any such standards established by the EPA would closely align with emission standards currently being developed by ICAO. In February 2016, the ICAO Committee on Aviation Environmental Protection recommended that ICAO adopt carbon dioxide certification standards that 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 and/or regional GHG cap and trade programs.

Depending on the

73

---



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 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 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 automated systems cannot be completely protected against other 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 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 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 will be necessary to operate US Airways and American as a single airline and to achieve cost synergies by eliminating redundancies in the businesses. 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.

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 are at risk of losses and adverse publicity stemming from any public incident, accident involving our personnel or aircraft or the personnel or aircraft of our regional or codeshare operators.

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

74

---

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. In many cases, the aircraft we intend to operate are not yet in our fleet, but we have contractual commitments to purchase or lease them. If for any reason we were 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. As a result, we are vulnerable to any problems associated with the supply of those aircraft, parts and engines, including design defects, mechanical problems, contractual performance by the 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 and other factors have caused a shortage of pilots which could materially adversely affect our business.

We currently have a higher than normal number of pilots eligible for retirement. Among other things, the extension of pilot careers facilitated by the FAA's 2007 modification of the mandatory retirement age from age 60 to age 65 has now been fully implemented, resulting in large numbers of pilots in the industry approaching the revised mandatory retirement age. 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 to hire pilots to replace retiring pilots. 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 net operating losses (NOLs) carried over from prior taxable years (NOL Carryforwards). As of December 31, 2016, we had available NOL Carryforwards of approximately \$10.5 billion for regular federal income tax purposes which will expire, if unused, beginning in 2022, and approximately \$3.7 billion for state income tax purposes which will expire, if unused, between

2017 and 2036. 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 \$8.9 billion of unlimited NOL still remaining at December 31, 2016) 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 is not amortized, but is assessed for impairment at least annually. In accordance with applicable accounting standards, we are required to assess our indefinite-lived intangible assets for impairment on an annual basis, or more frequently if conditions indicate that an impairment may have occurred. 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 our share repurchase program and any future dividend payments that may be declared by our Board of Directors;
- new regulatory pronouncements and changes in regulatory guidelines;



- general and industry-specific economic conditions;
- the success or failure of AAG's integration efforts;
- 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 repurchase our common stock pursuant to our share repurchase programs or continue to 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 six share repurchase programs aggregating \$11.0 billion of authority. As of September 30, 2017, \$677 million remained unused under a repurchase program that expires on December 31, 2018. Share repurchases under our share 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. The repurchase programs 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 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, repurchases of AAG common stock pursuant to our share repurchase programs and any future 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, our share repurchase programs and any future 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 share repurchase programs 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;
- a prohibition against stockholders calling special meetings of stockholders;
- 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 September 30, 2017.

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)
July 2017	1,037,573	\$51.79	1,037,573	\$985
August 2017	3,186,417 <sup>(1)</sup>	\$46.63	3,177,325	\$837
September 2017	3,485,296	\$45.85	3,485,296	\$677

Includes the repurchase of 9,092 shares of AAG common stock separate from our share repurchase programs in

<sup>(1)</sup> August 2017 for less than \$1 million from the Disputed Claims Reserve at the then prevailing market price in order to fund cash tax obligations resulting from distributions by the Disputed Claims Reserve.

## 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
4.1	<u>Pass Through Trust Agreement, dated as of September 16, 2014, between American Airlines, Inc. and Wilmington Trust Company, as Trustee (incorporated by reference to Exhibit 4.1 to American Airlines, Inc.'s Current Report on Form 8-K filed on September 17, 2014 (Commission File No. 1-2691)).</u>
4.2	<u>Trust Supplement No. 2017-2AA, dated as of August 14, 2017, 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 August 14, 2017 (Commission File No. 1-2691)).</u>
4.3	<u>Trust Supplement No. 2017-2A, dated as of August 14, 2017, 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 4.3 to American Airlines, Inc.'s Current Report on Form 8-K filed on August 14, 2017 (Commission File No. 1-2691)).</u>
4.4	<u>Intercreditor Agreement (2017-2), dated as of August 14, 2017, among Wilmington Trust Company, as Trustee of the American Airlines Pass Through Trust 2017-2AA and as Trustee of the American Airlines Pass Through Trust 2017-2A, National Australia Bank Limited, as Class AA Liquidity Provider and Class A Liquidity Provider, and Wilmington Trust Company, as Subordination Agent (incorporated by reference to Exhibit 4.4 to American Airlines, Inc.'s Current Report on Form 8-K filed on August 14, 2017 (Commission File No. 1-2691)).</u>
4.5	<u>Deposit Agreement (Class AA), dated as of August 14, 2017, 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 4.5 to American Airlines, Inc.'s Current Report on Form 8-K filed on August 14, 2017 (Commission File No. 1-2691)).</u>
4.6	<u>Deposit Agreement (Class A), dated as of August 14, 2017, 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 4.6 to American Airlines, Inc.'s Current Report on Form 8-K filed on August 14, 2017 (Commission File No. 1-2691)).</u>
4.7	<u>Escrow and Paying Agent Agreement (Class AA), dated as of August 14, 2017, among Wilmington Trust, National Association, as Escrow Agent, Goldman Sachs &amp; Co. LLC, Credit Suisse Securities (USA) LLC and Deutsche Bank Securities Inc., for themselves and on behalf of the several Underwriters, Wilmington Trust Company, not in its individual capacity, but solely as Pass Through Trustee for and on behalf of American Airlines Pass Through Trust 2017-2AA, and Wilmington Trust Company, as Paying Agent (incorporated by reference to Exhibit 4.7 to American Airlines, Inc.'s Current Report on Form 8-K filed on August 14, 2017 (Commission File No. 1-2691)).</u>
4.8	<u>Escrow and Paying Agent Agreement (Class A), dated as of August 14, 2017, among Wilmington Trust, National Association, as Escrow Agent, Goldman Sachs &amp; Co. LLC, Credit Suisse Securities (USA) LLC and Deutsche Bank Securities Inc., for themselves and on behalf of the several Underwriters, Wilmington Trust Company, not in its individual capacity, but solely as Pass Through Trustee for and on behalf of American Airlines Pass Through Trust 2017-2A, and Wilmington Trust Company, as Paying Agent (incorporated by reference to Exhibit 4.8 to American Airlines, Inc.'s Current Report on Form 8-K filed on August 14, 2017 (Commission File No. 1-2691)).</u>
4.9	<u>Note Purchase Agreement, dated as of August 14, 2017, among American Airlines, Inc., Wilmington Trust Company, as Pass Through Trustee under each of the Pass Through Trust Agreements, Wilmington Trust Company, as Subordination Agent, Wilmington Trust, National Association, as Escrow Agent, and Wilmington Trust Company, as Paying Agent (incorporated by reference to Exhibit 4.9 to American Airlines, Inc.'s Current Report on Form 8-K filed on August 14, 2017 (Commission File No. 1-2691)).</u>
4.10	<u>Form of Participation Agreement (Participation Agreement among American Airlines, Inc., Wilmington Trust Company, as Pass Through Trustee under each of the Pass Through Trust Agreements, Wilmington</u>

Trust Company, as Subordination Agent, Wilmington Trust Company, as Loan Trustee, and Wilmington Trust Company, in its individual capacity as set forth therein) (incorporated by reference to Exhibit B to Exhibit 4.9 to American Airlines, Inc.'s Current Report on Form 8-K filed on August 14, 2017 (Commission File No. 1-2691)).

4.11 Form of Indenture and Security Agreement (Indenture and Security Agreement between American Airlines, Inc., and Wilmington Trust Company, as Loan Trustee) (incorporated by reference to Exhibit C to Exhibit 4.9 to American Airlines, Inc.'s Current Report on Form 8-K filed on August 14, 2017 (Commission File No. 1-2691)).

4.12 Form of Pass Through Trust Certificate, Series 2017-2AA (incorporated by reference to Exhibit A to Exhibit 4.2 to American Airlines, Inc.'s Current Report on Form 8-K filed on August 14, 2017 (Commission File No. 1-2691)).

4.13 Form of Pass Through Trust Certificate, Series 2017-2A (incorporated by reference to Exhibit A to Exhibit 4.3 to American Airlines, Inc.'s Current Report on Form 8-K filed on August 14, 2017 (Commission File No. 1-2691)).

4.14 Revolving Credit Agreement (2017-2AA), dated as of August 14, 2017, between Wilmington Trust Company, as Subordination Agent, as agent and trustee for the trustee of the American Airlines Pass Through Trust 2017-2AA, as Borrower, and National Australia Bank Limited, as Liquidity Provider (incorporated by reference to Exhibit 4.14 to American Airlines, Inc.'s Current Report on Form 8-K filed on August 14, 2017 (Commission File No. 1-2691)).

- 4.15 Revolving Credit Agreement (2017-2A), dated as of August 14, 2017, between Wilmington Trust Company, as Subordination Agent, as agent and trustee for the trustee of the American Airlines Pass Through Trust 2017-2A, as Borrower, and National Australia Bank Limited, as Liquidity Provider (incorporated by reference to Exhibit 4.15 to American Airlines, Inc.'s Current Report on Form 8-K filed on August 14, 2017 (Commission File No. 1-2691)).
- 10.1\* Second Amendment to the Credit and Guaranty Agreement, dated as of August 21, 2017, amending the Credit and Guaranty Agreement, dated as of April 29, 2016, among American Airlines, Inc., American Airlines Group Inc., the lenders from time to time party thereto, Barclays Bank PLC, as administrative agent, and certain other parties thereto.
- 10.2\* Third Amendment to the Amended and Restated Credit And Guaranty Agreement, dated as of August 21, 2017, 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 certain other parties thereto.
- 10.3\* Fourth Amendment to the Amended and Restated Credit and Guaranty Agreement, dated as of August 21, 2017, amending the Amended and Restated Credit and Guaranty Agreement, dated as of April 20, 2015, among American Airlines, Inc., American Airlines Group Inc., the lenders from time to time party thereto, Citibank N.A., as administrative agent, and certain other parties thereto.
- 12.1 Computation of ratio of earnings to fixed charges of American Airlines Group Inc. for the nine months ended September 30, 2017.
- 12.2 Computation of ratio of earnings to fixed charges of American Airlines, Inc. for the nine months ended September 30, 2017.
- 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 Interactive data files pursuant to Rule 405 of Regulation S-T.

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

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: October 26, 2017 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: October 26, 2017 By: /s/ Derek J. Kerr

Derek J. Kerr

Executive Vice President and Chief Financial Officer

(Duly Authorized Officer and Principal Financial Officer)