SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For fiscal year ended December 31, 1998.

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

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
(Address of principal executive offices)	(Zip Code)

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

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

Title of each class	Name of exchange on which registered
NONE	NONE

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

NONE
(Title of Class)

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. Yes X No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss. 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

American Airlines, Inc. is a wholly-owned subsidiary of AMR Corporation, and there is no market for the registrant's common stock. As of March 12, 1999, 1,000 shares of the registrant's common stock were outstanding.

The registrant meets the conditions set forth in, and is filing this form with the reduced disclosure format prescribed by, General Instructions I(1)(a) and (b) of Form 10-K.

PART I

ITEM 1. BUSINESS

American Airlines, Inc. (American or the Company), the principal subsidiary of AMR Corporation (AMR), was founded in 1934.

On July 2, 1996, AMR completed the reorganization of its information technology businesses known as The Sabre Group into a separate, wholly-owned subsidiary of AMR known as The Sabre Group Holdings, Inc. (the Reorganization). Prior to the Reorganization, most of The Sabre Group's business units were divisions of American. As part of the Reorganization, all of the businesses of The Sabre Group, including American's Sabre Travel Information Network, Sabre Computer Services, Sabre Development Services, and Sabre Interactive divisions (collectively, the Information Services Group), and certain buildings, equipment, and American's leasehold interest in certain other buildings used by The Sabre Group were combined in subsidiaries of American, which were then dividended to AMR. Following the Reorganization, American operates in only one business segment.

American is one of the largest scheduled passenger airlines in the world. At the end of 1998, American provided scheduled jet service to more than 180 destinations throughout North America, the Caribbean, Latin America, Europe and the Pacific. American is also one of the largest scheduled air freight carriers in the world, providing a full range of freight and mail services to shippers throughout its system.

COMPETITION

Most major air carriers have developed hub-and-spoke systems and schedule patterns in an effort to maximize the revenue potential of their service. American operates four hubs: Dallas/Fort Worth (DFW), Chicago O'Hare, Miami and San Juan, Puerto Rico. Delta Air Lines and United Airlines also have hub operations at Dallas/Fort Worth and Chicago O'Hare, respectively.

The American Eagle carriers, owned by AMR Eagle Holding Corporation, an AMR subsidiary, increase the number of markets American serves by providing connections at American's hubs and certain other major airports. The American Eagle carriers serve smaller markets through Boston, Dallas/Fort Worth, Chicago, Miami, San Juan, Los Angeles and New York John F. Kennedy International Airport. American's competitors also own or have marketing agreements with regional carriers which provide service at their major hubs.

In addition to its extensive domestic service, American provides international service to the Caribbean, Canada, Latin America, Europe and the Pacific. American's operating revenues from foreign operations were approximately $5.1 billion in 1998 and 1997 and $4.7 billion in 1996. Additional information about the Company's foreign operations is included in Note 11 to the consolidated financial statements.

Service over almost all of American's routes is highly competitive. Currently, any carrier deemed fit by the U.S. Department of Transportation (DOT) is free to operate scheduled passenger service between any two points within the U.S. and its possessions. On most of its non-stop routes, American competes with at least one, and sometimes more than one, major domestic airline including: America West Airlines, Continental Airlines, Delta Air Lines, Northwest Airlines, Southwest Airlines, Trans World Airlines, United Airlines and US Airways. Competition is even greater between cities that require a connection, where as many as nine airlines may compete via their respective hubs. American also competes with national, regional, all-cargo, and charter carriers and, particularly on shorter segments, ground transportation.

On all of its routes, pricing decisions are affected by competition from other airlines, some of which have cost structures significantly lower than American's and can therefore operate profitably at lower fare levels. As of December 31, 1998, approximately 48 percent of American's bookings were impacted by competition from low-cost carriers. American and its principal competitors use revenue management systems that permit them to vary the number of discount seats offered on each flight in an effort to maximize revenues, yet still be price competitive with low-cost carriers.

In April 1998, American and US Airways announced the creation of a broad marketing alliance between the two carriers. During 1998, the two carriers introduced reciprocal benefits to members of both carriers' frequent flyer programs and access to the carriers' domestic and international airport lounge facilities. In December 1998, American acquired Reno Air, Inc. (Reno Air). The Company anticipates that the acquisition of Reno Air will enhance American's overall network and strengthen American's presence in the western United States. Also in December 1998, American and Alaska Airlines announced the creation of a broad marketing alliance between the two carriers. The two carriers intend to introduce reciprocal benefits to members of both carriers' frequent flyer programs in April 1999 and initiate code-sharing by Alaska on American-operated services to and from the West Coast later in 1999.

Competition in many international markets is subject to extensive government regulation. In these markets, American competes with foreign investor-owned carriers, state-owned carriers and U.S. airlines that have been granted authority to provide scheduled passenger and cargo service between the U.S. and various overseas locations. American's operating authority in these markets is subject to aviation agreements between the U.S. and the respective countries, and in some cases, fares and schedules require the approval of the DOT and/or the relevant foreign governments. Because international air transportation is governed by bilateral or other agreements between the U.S. and the foreign country or countries involved, changes in U.S. or foreign government aviation policies could result in the alteration or termination of such agreements, diminish the value of such route authorities, or otherwise adversely affect American's international operations. Bilateral agreements between the U.S. and various foreign countries served by American are subject to frequent renegotiation. In addition, at most foreign airports, a carrier needs slots (landing and take-off authorizations) before the carrier can introduce new service or increase existing service. The availability of such slots is not assured and can therefore inhibit a carrier's efforts to compete in certain markets.

The major U.S. carriers have some advantage over foreign competitors in their ability to generate traffic from their extensive domestic route systems. In many cases, however, foreign governments, which own and subsidize some of American's foreign competitors, limit U.S. carriers' rights to carry passengers beyond designated gateway cities in foreign countries. To improve access to each other's markets, various U.S. and foreign carriers -- including American - -- have established marketing relationships with other airlines. American currently has code-sharing programs with Aero California, Air Liberte, Air Pacific, Asiana Airlines, British Midland, Canadian Airlines, China Airlines, China Eastern Airlines, Finnair, Grupo TACA, Gulf Air, Hawaiian Airlines, Iberia, Japan Airlines, LOT Polish Airlines, Qantas Airways, Singapore Airlines, South African Airways and the TAM Group. Certain of these relationships also include reciprocity between American and the other airlines' frequent flyer programs. In addition, the Company expects to implement alliances with other international carriers, including Aeropostal, Avianca, Aerolineas Argentinas and LanChile, pending regulatory approval. In the coming years, the Company expects to develop these code-sharing programs further and to evaluate new alliances with other international carriers.

In September 1998, American, British Airways, Canadian Airlines, Cathay Pacific Airways and Qantas Airways announced the formation of the global alliance oneworldTM. The oneworld alliance links the networks of the five carriers to enhance service and connections to the destinations served by the oneworld carriers, including linking the five carriers' frequent flyer programs and access to the carriers' airport lounge facilities. oneworld announced the addition of Finnair and Iberia to the alliance in December 1998 and February 1999, respectively.

In June 1996, American and British Airways announced plans to create a worldwide alliance. Among other things, the alliance contemplated extensive code-sharing across both carriers' networks, the combining of passenger and cargo services on flights between the United States and Europe, and the sharing of the resulting profits on these services. Regulatory approval of the alliance has not been obtained. In the interim, however, the carriers' have introduced a limited reciprocal frequent flyer program and have joined with other carriers in the formation of the oneworld alliance.

American believes that it has several advantages relative to its competition. Its fleet is efficient and quiet and is one of the youngest fleets in the U.S. airline industry. It has a comprehensive domestic and international route structure, anchored by efficient hubs, which permit it to take full advantage of whatever traffic growth occurs. The Company believes American's AAdvantage frequent flyer program, which is the largest program in the industry, and its superior service also give it a competitive advantage.

REGULATION

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

The FAA regulates flying operations generally, including establishing personnel, aircraft and security standards. As part of that oversight, the FAA has implemented a number of requirements that American is incorporating into its maintenance program. These matters relate to, among other things, inspection and maintenance of aging aircraft, corrosion control, the installation of upgraded digital flight data recorders, enhanced ground proximity warning systems and cargo compartment smoke detection and fire suppression systems. Based on its current implementation schedule, American expects to be in compliance with the applicable requirements within the required time periods.

The U.S. Department of Justice has jurisdiction over airline antitrust matters. The U.S. Postal Service has jurisdiction over certain aspects of the transportation of mail and related services. Labor relations in the air transportation industry are regulated under the Railway Labor Act, which vests in the National Mediation Board certain regulatory functions with respect to disputes between airlines and labor unions relating to union representation and collective bargaining agreements. To the extent American continues to increase its alliances with international carriers, American may be subject to certain regulations of foreign agencies.

Legislation has been introduced in Congress that would, if enacted, provide financial assistance, in the form of guarantees and/or subsidized loans, to smaller carriers for aircraft purchases. In addition, the Department of Justice is investigating the competitive practices of major carriers at major hub airports, including American's practices at DFW. Also, in April 1998, the DOT issued proposed pricing and capacity rules that would severely limit major carriers' ability to compete with new entrant carriers. The outcomes of the proposed legislation, the investigations and the proposed DOT rules are unknown. However, to the extent that (i) restrictions are imposed upon American's ability to respond to a competitor, or (ii) competitors have a financial advantage in the purchase of aircraft because of federal assistance, American's business may be adversely impacted.

AIRLINE FARES Airlines are permitted to establish their own domestic fares without governmental regulation, and the industry is characterized by substantial price competition. Legislation (sometimes referred to as the "Passengers' Bill of Rights") has been introduced in Congress, however, that would, if enacted, (i) place various limitations on airline fares and/or (ii) affect operating practices such as baggage handling and overbooking. To the extent legislation is enacted that would inhibit American's flexibility with respect to fares, its revenue management system or other aspects of its customer service operations, American's financial results could be adversely affected. The DOT maintains authority over international fares, rates and charges. International fares and rates are also subject to the jurisdiction of the governments of the foreign countries which American serves. While air carriers are required to file and adhere to international fare and rate tariffs, substantial commissions, overrides and discounts to travel agents, brokers and wholesalers characterize many international markets.

Fare discounting by competitors has historically had a negative effect on American's financial results because American is generally required to match competitors' fares to maintain passenger traffic. During recent years, a number of new low-cost airlines have entered the domestic market and several major airlines, including American, implemented efforts to lower their cost structures. Further fare reductions, domestic and international, may occur in the future. If fare reductions are not offset by increases in passenger traffic, cost reductions or changes in the mix of traffic that improves yields, American's operating results will be negatively impacted.

AIRPORT ACCESS In 1968, the FAA issued a rule designating New York John F. Kennedy, New York LaGuardia, Washington Reagan, Chicago O'Hare and Newark airports as high density traffic airports. Newark was subsequently removed from the high density airport classification. The rule limits the number of Instrument Flight Rule (IFR) operations -take-off and landings - permitted per hour and requires that a slot support each operation. Recently, the DOT proposed the elimination of slots at New York John F. Kennedy, New York LaGuardia and Chicago O'Hare airports. At this time, the probability of such a proposal becoming effective is unknown and with it, its effect on American. Currently, the FAA permits the purchasing, selling (except those designated for international or essential air service), leasing, transferring and trading of these slots by airlines and others, subject to certain restrictions. Most foreign airports, including London Heathrow, a major European destination for American, also have slot allocations. Most foreign authorities do not permit the purchasing, selling or leasing of slots.

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

ENVIRONMENTAL MATTERS The Company is subject to various laws and government regulations concerning environmental matters and employee safety and health in the U.S. and other countries. U.S. federal laws that have a particular impact on the Company include the Airport Noise and Capacity Act of 1990 (ANCA), the Clean Air Act, the Resource Conservation and Recovery Act, the Clean Water Act, the Safe Drinking Water Act, and the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA or the Superfund Act). The Company is also subject to the oversight of the Occupational Safety and Health Administration (OSHA) concerning employee safety and health matters. The U.S. Environmental Protection Agency (EPA), OSHA, and other federal agencies have been authorized to promulgate regulations that have an impact on the Company's operations. In addition to these federal activities, various states have been delegated certain authorities under the aforementioned federal statutes. Many state and local governments have adopted environmental and employee safety and health laws and regulations, some of which are similar to federal requirements. As a part of its continuing safety, health and environmental program, the Company has maintained compliance with such requirements without any material adverse effect on its business.

For purposes of noise standards, jet aircraft are rated by categories or "stages." The ANCA requires the phase-out by December 31, 1999, of Stage II aircraft operations, subject to certain exceptions. Under final regulations issued by the FAA in 1991, air carriers are required to reduce, by modification or retirement, the number of Stage II aircraft in their fleets 75 percent by December 31, 1998 and 100 percent by December 31, 1999. Alternatively, a carrier may satisfy the regulations by operating a fleet that is at least 75 percent and 100 percent Stage III by the dates set forth in the preceding sentence, respectively. At December 31, 1998, approximately 89 percent of American's active fleet was Stage III, the quietest and most fuel efficient rating category. American expects to achieve Stage III compliance requirements by the end of 1999 by retiring or modifying its Boeing 727-200 aircraft not currently Stage III compliant.

The ANCA recognizes the rights of airport operators with noise problems to implement local noise abatement programs so long as they do not interfere unreasonably with interstate or foreign commerce or the national air transportation system. Authorities in several cities have promulgated aircraft noise reduction programs, including the imposition of nighttime curfews. The ANCA generally requires FAA approval of local noise restrictions on Stage III aircraft first effective after October 1990, and establishes a regulatory notice and review process for local restrictions on Stage II aircraft first proposed after October 1990. While American has had sufficient scheduling flexibility to accommodate local noise restrictions imposed to date, American's operations could be adversely affected if locally-imposed regulations become more restrictive or widespread.

American has been identified by the EPA as a potentially responsible party (PRP) at the Operating Industries, Inc. Superfund Site in California. American has signed a partial consent decree with respect to this site and is one of several PRPs named. American's alleged waste disposal volumes are minor compared to the other PRPs. American has also been identified as a PRP at the Beede Waste Oil Superfund Site in New Hampshire. American has responded to a 104(e) Request for Information regarding interaction with several companies related to this Site. In 1998, the EPA named American a de minimis PRP at the Casmalia Waste Disposal Site in

California. American, along with other tenants at the Luis Munoz Marin International Airport in San Juan, Puerto Rico has been named as a PRP for environmental claims at the airport.

American, along with most other tenants at the San Francisco International Airport (SFIA), has been ordered by the California Regional Water Quality Control Board to engage in various studies of potential environmental contamination at the airport and to undertake remedial measures, if necessary. SFIA is also seeking to recover its past costs related to the contamination from the tenants.

The Miami International Airport Authority is currently remediating various environmental conditions at the Miami International Airport (the Airport) and funding the remediation costs through landing fee revenues. Future costs of the remediation effort may be borne by carriers operating at the Airport, including American, through increased landing fees and/or other charges since certain of the PRPs are no longer in business. The future increase in landing fees and/or other charges may be material but cannot be reasonably estimated due to various factors, including the unknown extent of the remedial actions that may be required, the proportion of the cost that will ultimately be recovered from the responsible parties, and uncertainties regarding the environmental agencies that will ultimately supervise the remedial activities and the nature of that supervision.

American does not expect these matters, individually or collectively, to have a material impact on its financial position or liquidity.

LABOR

The airline business is labor intensive. Wages, salaries and benefits represented approximately 38 percent of American's consolidated operating expenses for the year ended December 31, 1998.

The majority of American's employees are represented by labor unions and covered by collective bargaining agreements. American's relations with such labor organizations are governed by the Railway Labor Act. Under this act, the collective bargaining agreements among American and these organizations do not expire but instead become amendable as of a stated date. If either party wishes to modify the terms of any such agreement, it must notify the other party before the contract becomes amendable. After receipt of such notice, the parties must meet for direct negotiations, and if no agreement is reached, either party may request the National Mediation Board (NMB) to appoint a federal mediator. If no agreement is reached in mediation, the NMB may determine, at any time, that an impasse exists, and if an impasse is declared, the NMB proffers binding arbitration to the parties. Either party may decline to submit to arbitration. If arbitration is rejected, a 30-day "cooling-off" period commences, following which the labor organization may strike and the airline may resort to "self-help," including the imposition of its proposed amendments and the hiring of replacement workers.

In 1995, American reached agreements with the members of the Association of Professional Flight Attendants (APFA) and the Transport Workers Union (TWU) on their labor contracts. American's collective bargaining agreement with the APFA became amendable on November 1, 1998 and the collective bargaining agreement with the TWU becomes amendable on March 1, 2001. American exchanged proposals and commenced negotiations with the APFA on September 2, 1998. Direct negotiations continue. American's current collective bargaining agreement with the Allied Pilots Association (APA) was ratified by the APA membership on May 5, 1997. That contract becomes amendable August 31, 2001.

In early February 1999, some members of the APA engaged in certain activities (increased sick time and declining to fly additional trips) that resulted in numerous cancellations across American's system. These actions were taken in response to the acquisition of Reno Air in December 1998. On February 10, 1999, American obtained a temporary restraining order prohibiting the union from unilaterally taking actions outside the terms allowed under the collective bargaining agreement. Because of certain actions by the APA and its leaders, American filed a motion to have the APA and its leaders held in contempt of the court's temporary restraining order. The court granted that motion on February 13, 1999, and the airline's operations thereafter returned to normal. In an attempt to resolve the dispute, the Company and the APA have agreed to non-binding mediation.

The Communications Workers of America (CWA) filed a petition with the NMB on October 8, 1998, seeking to represent American's passenger service employees, who currently are not unionized. The mail ballots in the election conducted by the NMB were counted on December 15, 1998. Forty-one percent of the employees voted to unionize, short of the 50 percent plus one needed for unionization to occur. The CWA has challenged the results, claiming that certain of American's actions during the campaign interfered with the employees' ability to make a free choice. The CWA has asked that a new election be held. Both sides have submitted papers in support of their respective positions to the NMB and are awaiting further action by that agency.

FUEL

American's operations are significantly affected by the availability and price of jet fuel. American's fuel costs and consumption for the years 1996 through 1998 were:

Year	Gallons Consumed (in millions)	Total Cost (in millions)	Average Price Per Gallon (in cents)	Average Price Per Gallon, Excluding Fuel Tax (in cents)	Percent of American's Operating Expenses
1996	2,734	1,866	68.2	63.3	13.5
1997	2,773	1,860	67.1	62.1	12.9
1998	2,826	1,551	54.9	50.1	10.7

The impact of fuel price changes on the Company and its competitors is dependent upon various factors, including hedging strategies. The benefit of lower fuel prices may be offset by increased fare competition and lower revenues for all air carriers. However, due to the competitive nature of the airline industry, in the event of any increase in the price of jet fuel, there can be no assurance that American would be able to pass on increased fuel prices to its customers by increasing fares.

While American does not anticipate a significant reduction in fuel availability, dependency on foreign imports of crude oil and the possibility of changes in government policy on jet fuel production, transportation and marketing make it impossible to predict the future availability of jet fuel. If there were major reductions in the availability of jet fuel, American's business would be adversely affected.

FREQUENT FLYER PROGRAM

American established the AAdvantage frequent flyer program (AAdvantage) to develop passenger loyalty by offering awards to travelers for their continued patronage. AAdvantage members earn mileage credits for flights on American, American Eagle and certain other participating airlines, or by utilizing services of other program participants, including hotels, car rental companies and bank credit card issuers. American sells mileage credits and related services to the other companies participating in the program. American reserves the right to change the AAdvantage program rules, regulations, travel awards and special offers at any time without notice. American may initiate changes impacting, for example, participant affiliations, rules for earning mileage credit, mileage levels and awards, blackout dates and limited seating for travel awards, and the features of special offers. American reserves the right to end the AAdvantage program with six months notice.

Mileage credits can be redeemed for free, discounted or upgraded travel on American, American Eagle or participating airlines, or for other travel industry awards. Once a member accrues sufficient mileage for an award, the member may request an award certificate from American. Award certificates may be redeemed up to one year after issuance. Most travel awards are subject to blackout dates and capacity controlled seating. Most miles earned after July 1989 must be redeemed within three years or they expire.

American accounts for its frequent flyer obligation on an accrual basis using the incremental cost method. American's frequent flyer liability is accrued each time a member accumulates sufficient mileage in his or her account to claim the lowest level of free travel award (25,000 miles) and such award is expected to be used for free travel. American includes fuel, food, and reservations/ticketing costs, but not a contribution to overhead or profit, in the calculation of incremental cost. The cost for fuel is estimated based on total fuel consumption tracked by various categories of markets, with an amount allocated to each passenger. Food costs are tracked by market category, with an amount allocated to each passenger. Reservation/ticketing costs are based on the total number of passengers, including those traveling on free awards, divided into American's total expense for these costs. American defers the portion of revenues received from companies participating in the AAdvantage program related to the sale of mileage credits and recognizes such revenues over a period approximating the period during which the mileage credits are used.

At December 31, 1998 and 1997, American estimated that approximately 4.9 million and 4.8 million free travel awards, respectively, were expected to be redeemed for free travel. In making this estimate of free travel awards, American has excluded mileage in inactive accounts, mileage related to accounts that has not yet reached the lowest level of free travel award, and mileage in active accounts that has reached the lowest level of free travel award but which is not expected to ever be redeemed for free travel. The liability for the program mileage that has reached the lowest level of free travel award and is expected to be redeemed for free travel and deferred revenues for mileage credits sold to others participating in the program was $695 million and $628 million, representing 13.0 percent and 11.7 percent of American's total current liabilities at December 31, 1998 and 1997, respectively.

The number of free travel awards used for travel on American was 2.3 million in 1998 and 2.2 million in 1997 and 1996, respectively, representing 8.8 percent of total revenue passenger miles in 1998, 8.6 percent in 1997, and 8.4 percent in 1996. American believes displacement of revenue passengers is minimal given American's load factors, its ability to manage frequent flyer seat inventory, and the relatively low ratio of free award usage to revenue passenger miles.

OTHER MATTERS

SEASONALITY AND OTHER FACTORS American's results of operations for any interim period are not necessarily indicative of those for the entire year, since the air transportation business is subject to seasonal fluctuations. Higher demand for air travel has traditionally resulted in more favorable operating results for the second and third quarters of the year than for the first and fourth quarters.

The results of operations in the air transportation business have also significantly fluctuated in the past in response to general economic conditions. In addition, fare initiatives, fluctuations in fuel prices, labor actions and other factors could impact this seasonal pattern. Unaudited quarterly financial data for the two-year period ended December 31, 1998, is included in Note 12 to the consolidated financial statements.

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

INSURANCE American carries insurance for public liability, passenger liability, property damage and all-risk coverage for damage to its aircraft, in amounts which, in the opinion of management, are adequate.

OTHER GOVERNMENT MATTERS In time of war or during an unlimited national emergency or civil defense emergency, American and other major air carriers may be required to provide airlift services to the Military Airlift Command under the Civil Reserve Air Fleet program.

ITEM 2. PROPERTIES

FLIGHT EQUIPMENT

Owned and leased aircraft operated by American at December 31, 1998, included:

Equipment Type	Current Seating Capacity	Owned	Capital Leased	Operating Leased	Total	Weighted-Average Age (Years)
Airbus A300-600R	192/266/267	10	-	25	35	9
Boeing 727-200	150	64	14	-	78	22
Boeing 757-200	188	51	14	31	96	6
Boeing 767-200	172	8	-	-	8	16
Boeing 767-200 Extended Range	165	9	13	-	22	13
Boeing 767-300 Extended Range	207	20	15	10	45	7
Fokker 100	97	66	5	4	75	6
McDonnell Douglas DC-10-10	237/290/297	13	-	-	13	21
McDonnell Douglas DC-10-30	271/282	4	-	1	5	24
McDonnell Douglas MD-11	238/255	11	-	-	11	6
McDonnell Douglas MD-80	133/139	119	25	116	260	11
Total		375	86	187	648	11

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

In April 1995, American announced an agreement to sell 12 of its McDonnell Douglas MD-11 aircraft to Federal Express Corporation (FedEx). In addition, in March 1998, the Company exercised its option to sell its remaining seven MD-11 aircraft to FedEx. Eight aircraft had been delivered as of December 31, 1998. The remaining 11 aircraft will be delivered between 2000 and 2002.

Lease expirations for the leased aircraft included in the above table as of December 31, 1998, were:

Equipment Type	1999	2000	2001	2002	2003	2004 and Thereafter
Airbus A300-600R	-	-	-	-	-	25
Boeing 727-200	2	4	8	-	-	-
Boeing 757-200	-	2	2	2	-	39
Boeing 767-200 Extended Range	-	-	-	-	-	13
Boeing 767-300 Extended Range	-	8	-	1	-	16
Fokker 100	-	-	2	3	-	4
McDonnell Douglas DC-10-30	-	-	1	-	-	-
McDonnell Douglas MD-80	-	3	9	14	-	115
	2	17	22	20	-	212

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

GROUND PROPERTIES

American leases, or has built as leasehold improvements on leased property, most of its airport and terminal facilities; certain corporate office, maintenance and training facilities in Fort Worth, Texas; its principal overhaul and maintenance base at Tulsa International Airport, Tulsa, Oklahoma; its regional reservation offices; and local ticket and administration offices throughout the system. American has entered into agreements with the Tulsa Municipal Airport Trust; the Alliance Airport Authority, Fort Worth, Texas; and the Dallas/Fort Worth, Chicago O'Hare, Raleigh/Durham, Nashville, San Juan, New York, and Los Angeles airport authorities to provide funds for constructing, improving and modifying facilities and acquiring equipment which are or will be leased to American. American also utilizes public airports for its flight operations under lease or use arrangements with the municipalities or governmental agencies owning or controlling them and leases certain other ground equipment for use at its facilities. In January 1999, the Company announced its plans to construct a new terminal facility at New York's John F. Kennedy International Airport, which is expected to cost approximately $1 billion. The Company expects to begin construction on this facility in the latter half of 1999.

For information concerning the estimated lives and residual values for owned ground properties, lease terms and amortization relating to ground properties under capital leases, and acquisitions of ground properties, see Notes 1, 4 and 5 to the consolidated financial statements.

ITEM 3. LEGAL PROCEEDINGS

In January 1985, American announced a new fare category, the "Ultimate SuperSaver," a discount, advance purchase fare that carried a 25 percent penalty upon cancellation. On December 30, 1985, a class action lawsuit was filed in Circuit Court, Cook County, Illinois entitled Johnson vs. American Airlines, Inc. The Johnson plaintiff alleges that the 10 percent federal excise transportation tax should have been excluded from the "fare" upon which the 25 percent penalty was assessed. Summary judgment was granted in favor of American but subsequently reversed and vacated by the Illinois Appellate Court. In August 1997, the Court denied the plaintiffs' motion for class certification. American is vigorously defending the lawsuit.

In connection with its frequent flyer program, American was sued in two purported class action cases (Wolens et al v. American Airlines, Inc. and Tucker v. American Airlines, Inc.) that were consolidated and are currently pending in the Circuit Court of Cook County, Illinois. The litigation arises from certain changes made to American's AAdvantage frequent flyer program in May 1988 which limited the number of seats available to participants traveling on certain awards. In the consolidated action, the plaintiffs seek to represent all persons who joined the AAdvantage program before May 1988 and accrued mileage credits before the seat limitations were introduced and allege that these changes breached American's contract with AAdvantage members. Plaintiffs seek money damages and attorney's fees. The complaint originally asserted several state law claims, however only the plaintiffs' breach of contract claim remains after the U. S. Supreme Court ruled that the Airline Deregulation Act preempted the other claims. Although the case has been pending for numerous years, it still is in its preliminary stages. The court has not ruled on the plaintiffs' motion for class certification. American is vigorously defending the lawsuit.

Gutterman et al. v. American Airlines, Inc. is also pending in the Circuit Court of Cook County, Illinois. In December 1993, American announced that the number of miles required to claim a certain travel award under American's AAdvantage frequent flyer program would be increased effective February 1, 1995, giving rise to the Gutterman litigation filed on that same date. The Gutterman plaintiffs claim that the increase in award mileage level violated the terms and conditions of the agreement between American and AAdvantage members. On June 23, 1998, the Court certified the case as a class action, although to date no notice has been sent to the class. The class consists of all members who earned miles between January 1, 1992 and February 1, 1995 (the date the change became effective). On July 13, 1998, the Court denied American's motion for summary judgment as to the claims brought by plaintiff Steven Gutterman. On July 30, 1998, the plaintiffs filed a motion for summary judgment as to liability, which motion has not been ruled upon. American is vigorously defending the lawsuit.

A federal grand jury in Miami is investigating whether American and American Eagle handled hazardous materials and processed courier shipments, cargo and excess baggage in accordance with applicable laws and regulations. In connection with this investigation, federal agents executed a search warrant at American's Miami facilities on October 22, 1997. Since that time, a number of employees have testified before the grand jury. In addition, American has been served with three subpoenas calling for the production of documents relating to the handling of courier shipments, cargo, excess baggage and hazardous materials handling and spills. American produced documents responsive to the first two subpoenas and is in the process of responding to the third subpoena. American intends to cooperate fully with the government's investigation.

On August 7, 1998, a purported class action was filed against American Airlines in state court in Travis County, Texas (Boon Ins. Agency v. American Airlines, Inc., et al.) claiming that the $75 reissuance fee for changes to non-refundable tickets is an unenforceable liquidated damages clause and seeking a refund of the fee on behalf of all passengers who paid it, as well as interest and attorneys' fees. On September 23, 1998, Continental, Delta and America West were added as defendants to the lawsuit. On February 2, 1999, prior to any discovery being taken and a class being certified, the court granted the defendants' motion for summary judgment holding that Plaintiff's claims are preempted by the Airline Deregulation Act. Plaintiff has filed an appeal of the dismissal of the lawsuit. American intends to vigorously defend the granting of the summary judgment on appeal.

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

Omitted under the reduced disclosure format pursuant to General Instruction I(2)(c) of Form 10-K.

PART II

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

American is a wholly-owned subsidiary of AMR Corporation and there is no market for the Registrant's Common Stock.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

Omitted under the reduced disclosure format pursuant to General Instruction I(2)(a) of Form 10-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Abbreviated pursuant to General Instruction I(2)(a) of Form 10-K).

RESULTS OF OPERATIONS

American recorded net earnings in 1998 of $1.1 billion. These earnings represent the strongest net earnings ever reported by American for a fiscal year. American's net earnings in 1997 were $780 million. The Company's 1997 results were adversely affected by (i) a brief strike and the strike threat from members of the Allied Pilots Association (APA) during the first quarter of 1997, which negatively impacted the Company's net earnings by an estimated $70 million, and (ii) the reinstatement of the airline transportation tax in March of 1997.

REVENUES

1998 COMPARED TO 1997 American's operating revenues of $16.3 billion in 1998 were up $443 million, or 2.8 percent, versus 1997. American's passenger revenues increased 2.7 percent, or $385 million. The increase in passenger revenues resulted from a 0.9 percent increase in passenger yield (the average amount one passenger pays to fly one mile) from 13.37 to 13.49 cents, and a 1.8 percent increase in passenger traffic. For the year, domestic yields increased 3.1 percent while Latin American, Pacific and European yields decreased 5.8 percent, 3.9 percent and 1.0 percent, respectively. The decrease in international yields was due primarily to an increase in industry capacity and a decline in economic conditions. In 1998, American derived approximately 70 percent of its passenger revenues from domestic operations and approximately 30 percent from international operations.

American's domestic traffic increased 0.7 percent to 74.9 billion revenue passenger miles (RPMs), while domestic capacity, as measured by available seat miles (ASMs), decreased 1.4 percent. International traffic grew 4.3 percent to 34.1 billion RPMs on a capacity increase of 6.4 percent. The increase in international traffic was led by a 17.1 percent increase in the Pacific on capacity growth of 29.3 percent, a 4.9 percent increase in Latin America on capacity growth of 6.6 percent and a 1.8 increase in Europe on capacity growth of 2.7 percent.

American's other revenues increased $87 million, or 10.0 percent, primarily as a result of increased administrative service charges, higher employee travel service charges and increased service contracts, primarily related to ramp and consulting services.

OPERATING EXPENSES

1998 COMPARED TO 1997 American's operating expenses of $14.5 billion in 1998 were up $122 million, or 0.8 percent, versus 1997. American's cost per ASM decreased 0.2 percent to 9.25 cents. Wages, salaries and benefits increased $262 million, or 5.0 percent, due primarily to an increase in the average number of equivalent employees, contractual wage rate and seniority increases that are built into the Company's labor contracts and an increase in the provision for profit sharing. Fuel expense decreased $309 million, or 16.6 percent, due to a 18.2 percent decrease in American's average price per gallon, including taxes, partially offset by a 1.9 percent increase in American's fuel consumption. Commissions to agents decreased 4.4 percent, or $53 million, despite a 2.7 percent increase in passenger revenues, due to the continued benefit from the commission rate reduction initiated during September 1997. Maintenance materials and repairs expense increased 9.1 percent, or $67 million, due to an increase in airframe and engine maintenance volumes at American's maintenance bases as a result of the maturing of its fleet. Other operating expenses increased $173 million, or 7.1 percent, due primarily to spending on the Company's Year 2000 readiness program, an increase in outsourced services and higher costs, such as credit card fees, resulting from higher passenger revenues.

OTHER INCOME (EXPENSE)

1998 COMPARED TO 1997 Interest capitalized increased $78 million, to $97 million, due primarily to the increase in the average balance during the year of purchase deposits for flight equipment. Related party interest - net decreased $73 million, or 86.9 percent, due primarily to the decline in the American's intercompany balance with affiliates.

OTHER INFORMATION

STRATEGIC PLAN During 1998, AMR created and began implementing a new strategic plan. American's objectives as they relate to this new strategic plan are (i) to invest in and grow the Company - consistent with market conditions - to preserve and enhance the Company's leadership in the U.S. airline industry; (ii) to offer the Company's customers the world's most comprehensive and powerful airline network through a combination of the industry's strongest domestic route system, increased international flying and the broadest and best-executed set of airline alliances; and (iii) to create a corporate culture within the Company that involves and excites every employee. During 1999, American will continue to focus on the objectives of the new strategic plan.

YEAR 2000 READINESS

STATE OF READINESS In 1995, the Company, in conjunction with The Sabre Group, a majority owned subsidiary of AMR which operates and maintains substantially all of the computer systems and applications utilized by the Company, implemented a project (the Year 2000 Project) intended to ensure that hardware and software systems operated by the Company are designed to operate and properly manage dates beyond December 31, 1999 (Year 2000 Readiness). The Company has assessed (i) the Company's over 1,000 information technology and operating systems that will be utilized after December 31, 1999 (IT Systems); (ii) non-information technology systems, including embedded technology, facilities, and other systems (Non-IT Systems); and (iii) the Year 2000 Readiness of its critical third party service providers. The Year 2000 Project consists of six phases: (i) awareness, (ii) assessment, (iii) analysis, design and remediation, (iv) testing and validation, (v) quality assurance review (to ensure consistency throughout the Year 2000 Project) and (vi) creation of business continuity strategy, including plans in the event of Year 2000 failures. In developing the Company's proprietary software analysis, remediation and testing methodology for Year 2000 Readiness, it studied the best practices of the Institute of Electrical and Electronics Engineers and the British Standards Institution.

IT Systems The Company has completed the first three phases of the Year 2000 Project for all of its IT Systems. The Company has completed the testing and validation phase and quality assurance review phase for 99 percent of its IT Systems, including its computer reservations and flight operating systems that perform such "mission critical" functions as passenger bookings, ticketing, passenger check-in, aircraft weight and balance, flight planning and baggage and cargo processing. As of February 28, 1999, approximately 33 percent of the IT Systems (including the computer reservations systems) are already processing Year 2000 dates correctly.

Using dedicated testing environments and applying rigorous test standards, the Company is actively testing its other IT Systems to determine if they are Year 2000 ready or if further remediation is necessary. The Company expects to complete the testing and validation phase and quality assurance review phase for its remaining IT Systems, and the upgrading of certain hardware and software that supports its IT Systems by June 30, 1999.

Non-IT Systems The Company has substantially completed the testing and validation of its critical Non-IT Systems, such as aircraft avionics and flight simulators, and expects to complete the remainder of the testing and validation phase and the quality assurance review phase by June 30, 1999. In addition, the Company expects to complete the quality assurance review phase for substantially all of its other Non-IT Systems by June 30, 1999. The Company believes that its business, financial condition, and results of operations would not be materially adversely affected, and that it has adequate contingency plans to ensure business continuity if its other Non-IT Systems are not Year 2000 ready.

Third Party Services The Company relies on third party service providers for many items, such as the Federal Aviation Administration, the Department of Transportation, airport authorities, telecommunications, electrical power, and data and credit card transaction processing. Those service providers depend on their hardware and software systems and on interfaces with the Company's IT Systems. The Company has polled its critical service providers regarding their Year 2000 plans and state of readiness. The Company has received responses from approximately 68 percent of its critical service providers, other than providers of discretionary services that will not materially adversely affect the Company's business, financial condition, and results of operations. Most of the respondees assured the Company that their software and hardware is or will be Year 2000 ready. To the extent practical, the Company intends to seek alternatives for third party service providers that have not responded to their Year 2000 Readiness by June 30, 1999.

COSTS OF YEAR 2000 PROJECT The Company expects to incur significant hardware, software and labor costs, as well as consulting and other expenses, in its Year 2000 Project. The Company's total estimated cost of the project is approximately $125 to $160 million, of which approximately $108 million was incurred as of December 31, 1998. Costs associated with the Year 2000 Project are expensed as incurred, other than capitalized hardware costs, and have been funded through cash from operations.

RISKS OF YEAR 2000 NON-READINESS The economy in general, and the travel and transportation industries in particular, may be adversely affected by risks associated with the Year 2000. The Company's business, financial condition, and results of operations could be materially adversely affected if systems that it operates or systems that are operated by third party service providers upon which the Company relies are not Year 2000 ready in time. There can be no assurance that these systems will continue to properly function and interface and will otherwise be Year 2000 ready. Management believes that its most likely Year 2000 risks relate to the failure of third parties with whom it has material relationships to be Year 2000 ready.

BUSINESS CONTINUITY PLANS To the extent practical, the Company is identifying the most likely Year 2000 failures in an effort to develop and refine plans to continue its business in the event of failures of the Company's or third parties' systems to be Year 2000 ready. These plans include performing certain processes manually; maintaining dedicated staff to be available at crucial dates to remedy unforeseen problems; installing defensive code to protect real-time systems from improperly formatted date data supplied by third parties; repairing or obtaining replacement systems; and reducing or suspending certain aspects of the Company's services or operations. Because of the pervasiveness and complexity of the Year 2000 issue, and in particular the uncertainty concerning the efforts and success of third parties to be Year 2000 ready, the Company will continue to refine its contingency plans during 1999.

The costs of the project and the date on which the Company plans to complete the Year 2000 Readiness program are based on management's best estimates, which were derived utilizing numerous assumptions of future events including the continued availability of certain resources, third party modification plans and other factors. However, there can be no guarantee that these estimates will be achieved, and actual results could differ materially from these estimates. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, the failure of third parties to be Year 2000 ready and similar uncertainties.

NEW EUROPEAN CURRENCY In January 1999, certain European countries established fixed conversion rates between their currencies and a new common currency unit called the "euro". The transition period for the introduction of the euro is between January 1, 1999 and June 30, 2002. In 1997, the Company implemented a project intended to ensure that software systems operated by the Company's businesses are designed to properly handle the euro. The Sabre Group, which operates and maintains substantially all of the software systems utilized by the Company, also implemented a euro project. The Company and The Sabre Group completed the project in 1998.

DALLAS LOVE FIELD In 1968, as part of an agreement between the cities of Fort Worth and Dallas to build and operate Dallas/Fort Worth Airport (DFW), a bond ordinance was enacted by both cities (the Bond Ordinance). The Bond Ordinance required both cities to direct all scheduled interstate passenger operations to DFW and was an integral part of the bonds issued for the construction and operation of DFW. In 1979, as part of a settlement to resolve litigation with Southwest Airlines, the cities agreed to expand the scope of operations allowed under the Bond Ordinance at Dallas' Love Field. Congress enacted the Wright Amendment to prevent the federal government from acting inconsistent with this agreement. The Wright Amendment limited interstate operations at Love Field to the four states contiguous to Texas (New Mexico, Oklahoma, Arkansas and Louisiana) and prohibited through ticketing to any destination outside that perimeter. In 1997, without the consent of either city, Congress amended the Wright Amendment by (i) adding three states (Kansas, Mississippi and Alabama) to the perimeter and (ii) removing some federal restrictions on large aircraft configured with 56 seats or less (the 1997 Amendment). In October 1997, the City of Fort Worth filed suit in state district court against the City of Dallas and others seeking to enforce the Bond Ordinance. Fort Worth contends that the 1997 Amendment does not preclude the City of Dallas from exercising its proprietary rights to restrict traffic at Love Field in a manner consistent with the Bond Ordinance and, moreover, that Dallas has an obligation to do so. American joined in this litigation. On October 15, 1998, the state district court granted summary judgment in favor of Fort Worth and American, which summary judgment is being appealed to the Fort Worth Court of Appeals. In the same lawsuit, DFW filed claims alleging that irrespective of whether the Bond Ordinance is enforceable, the DFW Use Agreement prohibits American and other DFW signatory airlines from moving any interstate operations to Love Field. These claims remain unresolved. Dallas filed a separate declaratory judgment action in federal district court seeking to have the court declare that, as a matter of law, the 1997 Amendment precludes Dallas from exercising any restrictions on operations at Love Field. Further, in May 1998, Continental Airlines and Continental Express filed a lawsuit in federal court seeking a judicial declaration that the Bond Ordinance cannot be enforced to prevent them from operating flights from Love Field to Cleveland using regional jets. In December 1998, the Department of Transportation (DOT) issued an order on the federal law questions concerning the Bond Ordinance, local proprietary powers, DFW's Use Agreement with DFW carriers such as American, and the Wright and 1997 Amendments, and concluded that the Bond Ordinance was preempted by federal law and was therefore, not enforceable. The DOT also found that the DFW Use Agreement did not preclude American from conducting interstate operations at Love Field. Fort Worth and American have appealed the DOT's order to the Fifth Circuit Court of Appeals.

As a result of the foregoing, the future of interstate flight operations at Love Field and American's DFW hub are uncertain. An increase in operations at Love Field to new interstate destinations could adversely impact American's business.

In the second half of 1998, American initiated limited intrastate jet service to Austin from Love Field.

ENVIRONMENTAL MATTERS American has been notified of potential liability with regard to several environmental cleanup sites and certain airport locations. At sites where remedial litigation has commenced, potential liability is joint and several. American's alleged volumetric contributions at these sites are minimal. American does not expect these matters, individually or collectively, to have a significant impact on its results of operations, financial position or liquidity. Additional information is included in Note 4 to the consolidated financial statements.

WORKING CAPITAL American historically operates with a working capital deficit as do most other airline companies. The existence of such a deficit has not in the past impaired the Company's ability to meet its obligations as they become due and is not expected to do so in the future.

CREDIT FACILITIES American has a $1.0 billion credit facility agreement which expires December 19, 2001. At American's option, interest on the agreement can be calculated on one of several different bases. For most borrowings, American would anticipate choosing a floating rate based upon the London Interbank Offered Rate (LIBOR). At December 31, 1998, no borrowings were outstanding under the agreement. On March 17, 1999, the Company and The Sabre Group Holdings, Inc. entered into a short-term Credit Agreement pursuant to which American may borrow from The Sabre Group Holdings, Inc. up to a maximum of $300 million. The interest rate to be charged to American is The Sabre Group's average portfolio rate for each month in which the borrowing is outstanding plus an additional spread based upon American's credit risk. The Sabre Group Holdings, Inc. has the option to call the note with ten-business day's notice to American. The principal amount is due no later than June 30, 1999. On March 18, 1999, American borrowed $200 million from The Sabre Group Holdings, Inc. Upon entering into this short-term Credit Agreement with The Sabre Group Holdings, Inc., American's ability to borrow up to $100 million from The Sabre Group under a separate credit agreement entered into on July 1, 1996 was terminated.

AIRCRAFT COMMITMENTS At December 31, 1998, the Company had commitments to acquire the following aircraft: 100 Boeing 737-800s, 34 Boeing 777-200IGWs, six Boeing 757-200s and four Boeing 767-300ERs. Deliveries of these aircraft commence in 1999 and will continue through 2004. Future payments, including estimated amounts for price escalation through anticipated delivery dates for these aircraft and related equipment, will approximate $2.2 billion in 1999, $1.7 billion in 2000, $1.1 billion in 2001 and an aggregate of approximately $750 million in 2002 through 2004.

CHANGE IN ESTIMATE Effective January 1, 1999, in order to more accurately reflect the expected useful life of its aircraft, the Company changed its estimate of the depreciable lives of certain aircraft types from 20 to 25 years and increased the residual value from five to 10 percent. The impact of the aircraft depreciation changes is expected to result in an approximate $165 million decrease in 1999 depreciation expense. In addition, the Company will depreciate its new Boeing 737-800s and Boeing 777-200IGWs over a period of 25 and 30 years, respectively, with a 10 percent residual value.

APA ACTIONS In early February 1999, some members of the APA engaged in certain activities (increased sick time and declining to fly additional trips) that resulted in numerous cancellations across American's system. These actions were taken in response to the acquisition of Reno Air in December 1998. On February 10, 1999, American obtained a temporary restraining order prohibiting the union from unilaterally taking actions outside the terms allowed under the collective bargaining agreement. Because of certain actions by the APA and its leaders, American filed a motion to have the APA and its leaders held in contempt of the court's temporary restraining order. The court granted that motion on February 13, 1999, and the airline's operations thereafter returned to normal. In an attempt to resolve the dispute, the Company and the APA have agreed to non-binding mediation. The Company estimates that the illegal pilot job action resulted in a pre-tax earnings impact of approximately $200 to $225 million during the first quarter of 1999.

FORWARD-LOOKING INFORMATION

The preceding discussions under Business and Management's Discussion and Analysis of Financial Condition and Results of Operations contain various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which represent the Company's expectations or beliefs concerning future events. When used in this document and in documents incorporated herein by reference, the words "expects," "plans," "anticipates," and similar expressions are intended to identify forward-looking statements. Forward-looking statements include, without limitation, projections relating to results of operations and financial condition, including changes in capacity, revenues and unit costs, Year 2000 and euro readiness, overall economic projections and the Company's plans and objectives for future operations, including plans to develop future code-sharing programs and to evaluate new alliances. All forward-looking statements in this report are based upon information available to the Company on the date of this report. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Forward-looking statements are subject to a number of factors that could cause actual results to differ materially from our expectations. The following factors, in addition to other possible factors not listed, could cause the Company's actual results to differ materially from those expressed in forward-looking statements:

UNCERTAINTY OF FUTURE COLLECTIVE BARGAINING AGREEMENTS AND EVENTS The Company's operations could be adversely affected by failure of the Company to reach agreement with any labor union representing the Company's employees or by an agreement with a labor union representing the Company's employees that contains terms which prevent the Company from competing effectively with other airlines. In addition, a dispute between the Company and an employee work group (outside the confines of a collective bargaining agreement) could adversely impact the Company's operations.

ECONOMIC AND OTHER CONDITIONS The airline industry is affected by changes in national, regional and local economic conditions, inflation, war or political instability (or the threat thereof), consumer preferences and spending patterns, demographic trends, consumer perceptions of airline safety, costs of safety and security measures, and weather.

COMMODITY PRICES Due to the competitive nature of the airline industry, in the event of any increase in the price of jet fuel, there can be no assurance that American would be able to pass on increased fuel prices to its customers by increasing fares.

COMPETITION IN THE AIRLINE INDUSTRY Service over almost all of American's routes is highly competitive. On most of its non-stop routes, American competes with at least one, and usually more than one, major domestic airline, as well as low-cost carriers. American also competes with national, regional, all-cargo and charter carriers and, particularly on shorter segments, ground transportation. Pricing decisions are affected by competition from other airlines. Fare discounting by competitors has historically had a negative effect on American's financial results because American is generally required to match competitors' fares to maintain passenger traffic. No assurance can be given that any future fare reduction would be offset by increases in passenger traffic, cost reductions or changes in the mix of traffic that improves yields.

CHANGING BUSINESS STRATEGY Although it has no current plan to do so, the Company may change its business strategy in the future and may not pursue some of the goals stated herein.

GOVERNMENT REGULATION Future results of the Company's operations may vary based upon any actions which the governmental agencies with jurisdiction over the Company's operations may take, including the granting and timing of certain governmental approvals needed for code-sharing alliances and other arrangements with other airlines, restrictions on competitive practices (e.g., new regulations which would curtail an airline's ability to respond to a competitor), the adoption of regulations that impact customer service standards, and the adoption of more restrictive locally-imposed noise restrictions.

UNCERTAINTY IN INTERNATIONAL OPERATIONS The Company's current international activities and prospects could be adversely affected by factors such as reversals or delays in the opening of foreign markets, exchange controls, currency and political risks, taxation and changes in international government regulation of the Company's operations.

YEAR 2000 READINESS The Company's operations could be adversely affected to the extent its systems or the systems of third parties fail to process Year 2000 dates correctly.

ITEM 7(A). QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK SENSITIVE INSTRUMENTS AND POSITIONS

The risk inherent in the Company's market risk sensitive instruments and positions is the potential loss arising from adverse changes in the price of fuel, foreign currency exchange rates and interest rates as discussed below. The sensitivity analyses presented do not consider the effects that such adverse changes may have on overall economic activity, nor do they consider additional actions management may take to mitigate its exposure to such changes. Actual results may differ. See Note 7 to the consolidated financial statements for accounting policies and additional information.

AIRCRAFT FUEL The Company's earnings are affected by changes in the price and availability of aircraft fuel. In order to provide a measure of control over price and supply, the Company trades and ships fuel and maintains fuel storage facilities to support its flight operations. The Company also manages the price risk of fuel costs primarily utilizing fuel swap and fuel option contracts. Market risk is estimated as a hypothetical 10 percent increase in the December 31, 1998 cost per gallon of fuel. Based on projected 1999 fuel usage, such an increase would result in an increase to aircraft fuel expense of approximately $73 million in 1999, net of fuel hedge instruments outstanding at December 31, 1998. As of December 31, 1998, the Company had hedged approximately 48 percent of its 1999 fuel requirements and approximately 19 percent of its 2000 fuel requirements.

FOREIGN CURRENCY The Company is exposed to the effect of foreign exchange rate fluctuations on the U.S. dollar value of foreign currency-denominated operating revenues and expenses. The Company's largest exposure comes from the British pound, Japanese yen, and various Latin and South American currencies. The Company uses options to hedge a portion of its anticipated foreign currency-denominated net cash flows. The result of a uniform 10 percent strengthening in the value of the U.S. dollar from December 31, 1998 levels relative to each of the currencies in which the Company has foreign currency exposure would result in a decrease in operating income of approximately $22 million for the year ending December 31, 1999, net of hedge instruments outstanding at December 31, 1998, due to the Company's foreign-denominated revenues exceeding its foreign-denominated expenses. This sensitivity analysis was prepared based upon projected 1999 foreign currency-denominated revenues and expenses as of December 31, 1998. Furthermore, this calculation assumes that each exchange rate would change in the same direction relative to the U.S. dollar.

INTEREST The Company's earnings are also affected by changes in interest rates due to the impact those changes have on its interest income from cash and short-term investments and its interest expense from variable-rate debt instruments. The Company has variable-rate debt instruments representing approximately 15 percent of its total long-term debt, and interest rate swaps on notional amounts of approximately $1.1 billion at December 31, 1998. If interest rates average 10 percent more in 1999 than they did during 1998, the Company's interest expense would increase by approximately $6 million and interest income from cash and short-term investments would increase by approximately $9 million. These amounts are determined by considering the impact of the hypothetical interest rates on the Company's variable-rate long-term debt, interest rate swap agreements, and cash and short-term investment balances at December 31, 1998.

Market risk for fixed-rate long-term debt is estimated as the potential increase in fair value resulting from a hypothetical 10 percent decrease in interest rates, and amounts to approximately $34 million as of December 31, 1998. The fair values of the Company's long-term debt were estimated using quoted market prices or discounted future cash flows based on the Company's incremental borrowing rates for similar types of borrowing arrangements.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholder
American Airlines, Inc.

We have audited the accompanying consolidated balance sheets of American Airlines, Inc. as of December 31, 1998 and 1997, and the related consolidated statements of operations, stockholder's equity, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Airlines, Inc. at December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

2121 San Jacinto
Dallas, Texas 75201
January 18, 1999, except for the last
paragraph of Note 3 and the
last paragraph of Note 4,
for which the date is February 22, 1999.

AMERICAN AIRLINES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions)

	Year Ended December 31,		
	1998	1997	1996
REVENUES			
Passenger	$ 14,695	$ 14,310	$ 13,645
Cargo	649	678	672
Other	955	868	819
Total operating revenues	16,299	15,856	15,136
EXPENSES			
Wages, salaries and benefits	5,482	5,220	4,934
Aircraft fuel	1,551	1,860	1,866
Commissions to agents	1,159	1,212	1,182
Depreciation and amortization	941	950	930
Maintenance, materials and repairs	803	736	560
Other rentals and landing fees	778	787	762
Food service	671	672	667
Aircraft rentals	532	531	562
Other operating expenses	2,614	2,441	2,342
Total operating expenses	14,531	14,409	13,805
OPERATING INCOME	1,768	1,447	1,331
OTHER INCOME (EXPENSE)			
Interest income	109	109	4
Interest expense	(197)	(213)	(213)
Interest capitalized	97	19	10
Related party interest - net	(11)	(84)	(157)
Miscellaneous - net	(22)	9	(19)
	(24)	(160)	(375)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	1,744	1,287	956
Income tax provision	681	507	387
INCOME FROM CONTINUING OPERATIONS	1,063	780	569
INCOME FROM DISCONTINUED OPERATIONS, NET OF APPLICABLE INCOME TAXES OF $82	--	--	136
NET EARNINGS	$ 1,063	$ 780	$ 705

The accompanying notes are an integral part of these financial statements.

AMERICAN AIRLINES, INC.
CONSOLIDATED BALANCE SHEETS
(in millions)

	December 31, 1998	December 31, 1997
ASSETS		
CURRENT ASSETS		
Cash	$ 85	$ 47
Short-term investments	1,398	1,762
Receivables, less allowance for uncollectible accounts (1998- $17; 1997 - $8)	1,152	1,057
Receivable from affiliates	884	--
Inventories, less allowance for obsolescence (1998 - $196; 1997 - $189)	520	555
Deferred income taxes	426	360
Other current assets	167	201
Total current assets	4,632	3,982
EQUIPMENT AND PROPERTY		
Flight equipment, at cost	12,389	11,981
Less accumulated depreciation	4,691	4,191
	7,698	7,790
Purchase deposits for flight equipment	1,536	695
Other equipment and property, at cost	2,898	2,729
Less accumulated depreciation	1,605	1,497
	1,293	1,232
	10,527	9,717
EQUIPMENT AND PROPERTY UNDER CAPITAL LEASES		
Flight equipment	2,750	2,570
Other equipment and property	146	139
	2,896	2,709
Less accumulated amortization	1,070	965
	1,826	1,744
OTHER ASSETS		
Route acquisition costs, less accumulated amortization (1998 - $240; 1997 - $211)	916	945
Airport operating and gate lease rights, less accumulated amortization (1998 - $139; 1997 - $123)	278	289
Prepaid pension cost	304	382
Other	741	694
	2,239	2,310
TOTAL ASSETS	$ 19,224	$ 17,753

The accompanying notes are an integral part of these financial statements.

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

	December 31, 1998	December 31, 1997
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 940	$ 855
Payables to affiliates	--	595
Accrued salaries and wages	892	805
Accrued liabilities	1,178	915
Air traffic liability	2,163	2,044
Current maturities of long-term debt	23	21
Current obligations under capital leases	129	112
Total current liabilities	5,325	5,347
LONG-TERM DEBT, LESS CURRENT MATURITIES	920	937
OBLIGATIONS UNDER CAPITAL LEASES, LESS CURRENT OBLIGATIONS	1,542	1,382
OTHER LIABILITIES AND CREDITS		
Deferred income taxes	1,301	999
Deferred gains	573	610
Postretirement benefits	1,598	1,524
Other liabilities and deferred credits	1,537	1,600
	5,009	4,733
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDER'S EQUITY		
Common stock - $1 par value; 1,000 shares authorized, issued and outstanding	--	--
Additional paid-in capital	1,743	1,732
Accumulated other comprehensive income	(3)	(3)
Retained earnings	4,688	3,625
	6,428	5,354
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$ 19,224	$ 17,753

The accompanying notes are an integral part of these financial statements.

AMERICAN AIRLINES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	Year Ended December 31, 1998	1997	1996
CASH FLOW FROM OPERATING ACTIVITIES:			
Net earnings	$ 1,063	$ 780	$ 705
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	722	744	815
Amortization	219	206	198
Deferred income taxes	243	286	215
Gain on disposition of equipment and property	(18)	(24)	--
Change in assets and liabilities:			
Decrease (increase) in receivables	(95)	30	(354)
Increase in inventories	(24)	(30)	(61)
Increase in accounts payable and accrued liabilities	525	60	174
Increase in air traffic liability	119	155	422
Other, net	89	35	25
Net cash provided by operating activities	2,843	2,242	2,139
CASH FLOW FROM INVESTING ACTIVITIES:			
Capital expenditures, including purchase deposits	(1,942)	(973)	(409)
Net decrease (increase) in short-term investments	364	(450)	(496)
Proceeds from sale of equipment and property	225	282	268
Acquisition of Reno Air	(110)	--	--
Net cash used for investing activities	(1,463)	(1,141)	(637)
CASH FLOW FROM FINANCING ACTIVITIES:			
Funds transferred to affiliates, net	(1,479)	(933)	(399)
Sale-leaseback transactions	270	--	--
Payments on long-term debt and capital lease obligations	(133)	(158)	(1,136)
Net cash used for financing activities	(1,342)	(1,091)	(1,535)
Net increase (decrease) in cash	38	10	(33)
Cash at beginning of year	47	37	70
Cash at end of year	$ 85	$ 47	$ 37
FINANCING ACTIVITIES NOT AFFECTING CASH			
Capital lease obligations incurred	$ 270	$ --	$ --

The accompanying notes are an integral part of these financial statements.

AMERICAN AIRLINES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY
(in millions)

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at January 1, 1996	$ --	$ 1,699	$ (1)	$ 1,948	$ 3,646
Net earnings	--	--	--	705	705
Adjustment for minimum pension liability, net of tax benefit of $13	--	--	(21)	--	(21)
Total comprehensive income					684
Reorganization of The Sabre Group:					
Dividend of assets of The Sabre Group to Parent	--	18	--	(669)	(651)
Transfer of debenture to Parent	--	--	--	850	850
Other	--	--	--	(1)	(1)
Balance at December 31, 1996	--	1,717	(22)	2,833	4,528
Net earnings	--	--	--	780	780
Adjustment for minimum pension liability, net of tax expense of $13	--	--	19	--	19
Total comprehensive income					799
Transfer of net pension obligation of The Sabre Group to Parent	--	--	--	12	12
Other	--	15	--	--	15
Balance at December 31, 1997	--	1,732	(3)	3,625	5,354
Net earnings and total comprehensive income	--	--	--	1,063	1,063
Other	--	11	--	--	11
Balance at December 31, 1998	$ --	$ 1,743	$ (3)	$ 4,688	$ 6,428

The accompanying notes are an integral part of these financial statements.

1. SUMMARY OF ACCOUNTING POLICIES

BASIS OF PRESENTATION American Airlines, Inc. (American or the Company) is a wholly-owned subsidiary of AMR Corporation (AMR). The consolidated financial statements include the accounts of American and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated. Certain amounts from prior years have been reclassified to conform with the 1998 presentation.

USE OF ESTIMATES The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

INVENTORIES Spare parts, materials and supplies relating to flight equipment are carried at average acquisition cost and are expensed when incurred in operations. Allowances for obsolescence are provided, over the estimated useful life of the related aircraft and engines, for spare parts expected to be on hand at the date aircraft are retired from service, plus allowances for spare parts currently identified as excess. These allowances are based on management estimates, which are subject to change.

EQUIPMENT AND PROPERTY The provision for depreciation of operating equipment and property is computed on the straight-line method applied to each unit of property, except major rotable parts, avionics and assemblies are depreciated on a group basis. The depreciable lives and residual values used for the principal depreciable asset classifications are:

	Depreciable Life	Residual Value
Boeing 727-200 (Stage II)	December 31, 1999[1]	None
Boeing 727-200 (to be converted to Stage III)	December 31, 2003[1]	None
DC-10	December 31, 2002[1]	None
Other aircraft	20 years	5%
Major rotable parts, avionics and assemblies	Life of equipment to which applicable	0-10%
Improvements to leased flight equipment	Term of lease	None
Buildings and improvements (principally on leased land)	10-30 years or term of lease	None
Furniture, fixtures and other equipment	3-20 years	None
Capitalized software	3-10 years	None

(1) Approximate common retirement date.

Effective January 1, 1999, in order to more accurately reflect the expected useful life of its aircraft, the Company changed its estimate of the depreciable lives of certain American aircraft types from 20 to 25 years and increased the residual value from five to 10 percent. In addition, the Company will depreciate its new Boeing 737-800s and Boeing 777-200IGWs over a period of 25 and 30 years, respectively, with a 10 percent residual value.

Equipment and property under capital leases are amortized over the term of the leases or, in the case of certain aircraft, over their expected useful lives, and such amortization is included in depreciation and amortization. Lease terms vary but are generally 10 to 25 years for aircraft and seven to 40 years for other leased equipment and property.

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

MAINTENANCE AND REPAIR COSTS Maintenance and repair costs for owned and leased flight equipment are charged to operating expense as incurred.

INTANGIBLE ASSETS Route acquisition costs and airport operating and gate lease rights represent the purchase price attributable to route authorities, airport take-off and landing slots and airport gate leasehold rights acquired. These assets are being amortized on a straight-line basis over 40 years for route authorities, 25 years for airport take-off and landing slots, and over the term of the lease for airport gate leasehold rights.

CAPITALIZED SOFTWARE In March 1998, the American Institute of Certified Public Accountants issued Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" (SOP 98-1), effective for fiscal years beginning after December 15, 1998. SOP 98-1 requires the capitalization of certain costs incurred during an internal-use development project. The adoption of SOP 98-1 is not expected to have a material impact on the Company's financial position or results of operations.

PASSENGER REVENUES Passenger ticket sales are initially recorded as a component of air traffic liability. Revenue derived from ticket sales is recognized at the time transportation is provided. However, due to various factors, including the complex pricing structure and interline agreements throughout the industry, certain amounts are recognized in revenue using estimates regarding both the timing of the revenue recognition and the amount of revenue to be recognized. Actual results could differ from those estimates.

ADVERTISING COSTS The Company expenses the costs of advertising as incurred. Advertising expense was $191 million, $178 million, and $183 million for the years ended December 31, 1998, 1997, and 1996, respectively.

FREQUENT FLYER PROGRAM The estimated incremental cost of providing free travel awards is accrued when such award levels are reached. American sells mileage credits and related services to companies participating in its frequent flyer program. The portion of the revenue related to the sale of mileage credits is deferred and recognized over a period approximating the period during which the mileage credits are used.

STATEMENTS OF CASH FLOWS Short-term investments, without regard to remaining maturity at acquisition, are not considered as cash equivalents for purposes of the statements of cash flows.

2. REORGANIZATION OF THE SABRE GROUP AND TRANSACTIONS WITH RELATED PARTIES

On July 2, 1996, AMR completed the reorganization of its information technology businesses known as The Sabre Group into a separate, wholly-owned subsidiary of AMR known as The Sabre Group Holdings, Inc. (the Reorganization). Prior to the Reorganization, most of The Sabre Group's business units were divisions of American. As part of the Reorganization, all of the businesses of The Sabre Group, including American's Sabre Travel Information Network, Sabre Computer Services, Sabre Development Services, and Sabre Interactive divisions (collectively, the Information Services Group), and certain buildings, equipment, and American's leasehold interest in certain other buildings used by The Sabre Group were combined in subsidiaries of American, which were then dividended to AMR. Also as part of the Reorganization, $850 million of American's long-term debt owed to AMR was repaid through the transfer by American to AMR of an $850 million debenture issued by The Sabre Group Holdings, Inc. to American. Thus, the results of operations of American's Information Services Group have been reflected in the 1996 consolidated statement of operations as income from discontinued operations. Revenues from the operations of the Information Services Group were $754 million for the period January 1, 1996 through July 1, 1996.

In connection with the Reorganization, the Company entered into various agreements with The Sabre Group, the primary ones of which are discussed below. The parties agreed to apply the financial terms of such agreements as of January 1, 1996.

2. REORGANIZATION OF THE SABRE GROUP AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

INFORMATION TECHNOLOGY SERVICES AGREEMENT The Company is party to the Information Technology Services Agreement with The Sabre Group dated July 1, 1996 (the Technology Services Agreement), whereby The Sabre Group provides American with certain information technology services, including data center and data network services, services relating to client server operations and distributed systems and voice network services. The base term of the Technology Services Agreement expires June 30, 2006; however, the terms of the specific services to be provided by The Sabre Group to American expire at various dates beginning in June 2001. The Technology Services Agreement provides for annual price adjustments. For certain prices, adjustments are made according to formulas which, commencing in 1998, are reset every two years and which may take into account the market for similar services provided by other companies. The resulting rates may reflect an increase or decrease over the previous rates.

With limited exceptions, under the Technology Services Agreement, The Sabre Group will continue to be the exclusive provider of all information technology services that were provided by The Sabre Group to American immediately prior to the execution of the Technology Services Agreement. Any new information technology services, including most new application development services, requested by the Company can be outsourced pursuant to competitive bidding by the Company or performed by the Company on its own behalf.

American paid The Sabre Group approximately $523 million, $499 million and $458 million in 1998, 1997 and 1996, respectively, for services contemplated under the Technology Services Agreement, as well as airline booking fees, for which American is billed by The Sabre Group at rates similar to those charged to other carriers.

MARKETING COOPERATION AGREEMENT The Sabre Group and American are parties to the Marketing Cooperation Agreement dated as of July 1, 1996 (the Marketing Cooperation Agreement), pursuant to which American will provide marketing support for The Sabre Group's products targeted to travel agencies until June 30, 2006. For such support, The Sabre Group will pay American a fee based upon booking volumes. That fee was approximately $17 million, $22 million and $20 million in 1998, 1997 and 1996, respectively. Additionally, American will support The Sabre Group's promotion of certain other products until 2001, for which The Sabre Group will pay American a marketing fee based upon booking volume. With limited exceptions, the Marketing Cooperation Agreement does not restrict American from distributing its airline products and services directly to corporate or individual consumers. Additionally, The Sabre Group has guaranteed to American certain cost savings in the fifth year of the Marketing Cooperation Agreement. If American does not achieve those savings, The Sabre Group will pay American any shortfall, up to a maximum of $50 million.

TRAVEL AGREEMENTS American and The Sabre Group are parties to travel agreements dated July 1, 1996, pursuant to which The Sabre Group is entitled to purchase personal travel for its employees and retirees at reduced fares, and business travel at a discount for certain flights on American. The Travel Privileges Agreement expires on June 30, 2008 and the Corporate Travel Agreement expired on June 30, 1998. On July 1, 1998, the Company and The Sabre Group entered into a new Corporate Travel Agreement, which expires on June 30, 2001, with substantially the same terms as the original Corporate Travel Agreement. The Sabre Group paid American approximately $45 million, $48 million and $43 million in 1998, 1997 and 1996, respectively, pursuant to these agreements.

2. REORGANIZATION OF THE SABRE GROUP AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

CREDIT AGREEMENT On July 1, 1996, The Sabre Group and American entered into a Credit Agreement pursuant to which The Sabre Group is required to borrow from American, and American is required to lend to The Sabre Group, amounts required by The Sabre Group to fund its daily cash requirements. In addition, American may, but is not required to, borrow from The Sabre Group to fund its daily cash requirements. The maximum amount The Sabre Group may borrow at any time from American under the Credit Agreement is $300 million. The maximum amount that American may borrow at any time from The Sabre Group under the Credit Agreement is $100 million. The interest rate to be charged to The Sabre Group is a function of American's cost of capital and The Sabre Group's credit rating. The interest rate to be charged to American is The Sabre Group's average portfolio rate for the months in which borrowing occurred plus an additional spread based upon American's credit risk. At the end of each quarter, American must pay all amounts owed under the Credit Agreement to The Sabre Group. No borrowings occurred by either The Sabre Group or American during 1998, 1997 or 1996.

INDEMNIFICATION AGREEMENTS Airline Management Services Holdings, Inc. (AMS), a subsidiary of AMR, and Canadian Airlines International Limited (Canadian) have entered into an agreement pursuant to which AMR and American supply to Canadian various services, including technology services. American has subsequently entered into the Canadian Technical Services Subcontract (the Canadian Subcontract), which expires in 2006, with The Sabre Group to provide data processing and network distributed systems services to Canadian. Under the terms of the Canadian Subcontract, American has guaranteed full payment for services actually performed by The Sabre Group and deferred costs associated with the installation and implementation of certain systems. Additionally, AMS has guaranteed full payment to American for any services actually performed by American in connection with the Canadian services agreement, certain deferred costs incurred by American, and any amounts paid by American to The Sabre Group under the indemnification provisions of the Canadian Subcontract. In connection with these guarantees, AMS reimbursed American $40 million for amounts paid by American to The Sabre Group in December 1996 and $5 million in 1996 for certain deferred costs previously incurred by American.

OTHER AGREEMENTS WITH THE SABRE GROUP American and The Sabre Group are also parties to a Management Services Agreement dated July 1, 1996, pursuant to which American performs various management services for The Sabre Group, including treasury, risk management and other administrative services that American has historically provided to The Sabre Group, for a fee approximating American's cost of providing the services plus a margin. The Sabre Group paid American approximately $10 million, $11 million and $17 million in 1998, 1997 and 1996, respectively, pursuant to the Management Services Agreement.

AMR, American and The Sabre Group have also entered into a Non-Competition Agreement dated July 1, 1996, pursuant to which AMR and American, on behalf of themselves and certain of their subsidiaries, have agreed to limit their competition with The Sabre Group's businesses of (i) electronic travel distribution; (ii) development, maintenance, marketing and licensing of software for travel agency, travel, transportation and logistics management; (iii) computer system integration; (iv) development, maintenance and operation of a data processing center providing data processing services to third parties; and (v) travel industry, transportation and logistics consulting services relating primarily to computer technology and automation. The Non-Competition Agreement expires on December 31, 2001.

OTHER RELATED PARTY TRANSACTIONS American invests funds, including funds of certain affiliates, in a combined short-term investment portfolio and passes through interest income on such funds at the average rate earned on the portfolio. To the extent funds transferred to American exceed the invested portfolio, such amounts are converted from Payables to Affiliates to Long-Term Debt Due to Parent under a subordinated note agreement with AMR. The subordinated promissory note bears interest based on the weighted-average rate on AMR's long-term debt, the interest rate is reset every six months, and is due September 30, 2004, unless extended. American may prepay the note without penalty at any time. No amounts were outstanding under the subordinated note to AMR as of December 31, 1998 or 1997.

2. REORGANIZATION OF THE SABRE GROUP AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

American issues tickets for flights on its American Eagle affiliate regional carriers, owned by AMR Eagle Holding Corporation, a subsidiary of AMR. As a result, the revenue collected for such tickets is prorated between American and the AMR Eagle carriers based on the segments flown by the respective carriers. The aggregate amount prorated for the segments flown by the AMR Eagle carriers was approximately $956 million, $853 million and $851 million for 1998, 1997 and 1996, respectively. In 1998, 1997 and 1996, American paid fees of $165 million, $164 million and $196 million, respectively, recorded as a reduction in passenger revenues, to AMR Eagle primarily for passengers connecting with American flights. In addition, American provides each of the regional carriers, among other things, communication and reservation services and other services, including yield management and participation in American's frequent flyer program. In consideration for certain services provided, each regional carrier pays American a service charge, based primarily on passengers boarded, which approximated $66 million for 1998 and $63 million for 1997 and 1996.

American paid subsidiaries of AMR approximately $113 million, $121 million and $120 million in 1998, 1997 and 1996, respectively, for ground handling services provided at selected airports, consulting services and investment management and advisory services with respect to short-term investments and the assets of its retirement benefit plans.

American recognizes compensation expense associated with certain AMR common stock-based awards for employees of American (See Note 9).

3. INVESTMENTS

Short-term investments consisted of (in millions):

	December 31, 1998	December 31, 1997
Overnight investments and time deposits	$ 133	$ 322
Corporate notes	705	678
Asset backed securities	353	320
U. S. Government agency mortgages	102	232
Other	105	210
	$ 1,398	$ 1,762

Short-term investments at December 31, 1998, by contractual maturity included (in millions):

Due in one year or less	$ 296
Due after one year through three years	1,087
Due after three years	15
	$ 1,398

All short-term investments are classified as available-for-sale and stated at fair value. Net unrealized gains and losses, net of deferred taxes, are reflected as an adjustment to stockholder's equity.

At December 31, 1998, the Company owned approximately 3.1 million depository certificates convertible, subject to certain restrictions, into the common stock of Equant N.V. (Equant), which completed an initial public offering in July 1998. Approximately 1.7 million of the certificates are held for the benefit of The Sabre Group. As of December 31, 1998, the estimated fair value of the depository certificates, excluding the value of the certificates held for the benefit of The Sabre Group, was approximately $100 million, based upon the publicly-traded market value of Equant common stock. The estimated fair value of the certificates was not readily determinable as of December 31, 1997. The carrying value (cost basis) of the Company's investment in the depository certificates as of December 31, 1998 and 1997 was de minimis.

3. INVESTMENTS (CONTINUED)

In connection with a secondary offering of Equant, the Company sold approximately 410,000 depository certificates in February 1999 for net proceeds of $31 million, excluding sales made on behalf of The Sabre Group. The remaining depository certificates are subject to a final reallocation between the owners of the certificates during 1999 and thus, the number of certificates owned by the Company is subject to change.

4. COMMITMENTS AND CONTINGENCIES

At December 31, 1998, the Company had commitments to acquire the following aircraft: 100 Boeing 737-800s, 34 Boeing 777-200IGWs, six Boeing 757-200s and four Boeing 767-300ERs. Deliveries of these aircraft commence in 1999 and will continue through 2004. Future payments, including estimated amounts for price escalation through anticipated delivery dates for these aircraft and related equipment, will approximate $2.2 billion in 1999, $1.7 billion in 2000, $1.1 billion in 2001 and an aggregate of approximately $750 million in 2002 through 2004. In addition to these commitments for aircraft, the Company's Board of Directors has authorized expenditures of approximately $1.6 billion over the next five years related to modifications to aircraft, renovations of, and additions to, airport and office facilities, and the acquisition of various other equipment and assets. American expects to spend approximately $400 million of this authorized amount in 1999.

The Miami International Airport Authority is currently remediating various environmental conditions at the Miami International Airport (the Airport) and funding the remediation costs through landing fee revenues. Future costs of the remediation effort may be borne by carriers operating at the Airport, including American, through increased landing fees and/or other charges since certain of the potentially responsible parties are no longer in business. The future increase in landing fees and/or other charges may be material but cannot be reasonably estimated due to various factors, including the unknown extent of the remedial actions that may be required, the proportion of the cost that will ultimately be recovered from the responsible parties, and uncertainties regarding the environmental agencies that will ultimately supervise the remedial activities and the nature of that supervision.

In April 1995, American announced an agreement to sell 12 of its McDonnell Douglas MD-11 aircraft to Federal Express Corporation (FedEx). In addition, in March 1998, the Company exercised its option to sell its remaining seven MD-11 aircraft to FedEx. No gain or loss is expected to be recognized as a result of these transactions. Eight aircraft had been delivered as of December 31, 1998. The remaining 11 aircraft will be delivered between 2000 and 2002. The carrying value of the 11 remaining aircraft American has committed to sell was approximately $711 million as of December 31, 1998.

American has included an event risk covenant in approximately $2.8 billion of debt and lease agreements. The covenant permits the holders of such instruments to receive a higher rate of return (between 50 and 700 basis points above the stated rate) if a designated event, as defined, should occur and the credit rating of the debentures or the debt obligations underlying the lease agreements is downgraded below certain levels.

Special facility revenue bonds have been issued by certain municipalities, primarily to purchase equipment and improve airport facilities which are leased by American. In certain cases, the bond issue proceeds were loaned to American and are included in long-term debt. Certain bonds have rates that are periodically reset and are remarketed by various agents. In certain circumstances, American may be required to purchase up to $437 million of the special facility revenue bonds prior to scheduled maturity, in which case American has the right to resell the bonds or to use the bonds to offset its lease or debt obligations. American may borrow the purchase price of these bonds under standby letter of credit agreements. At American's option, these letters of credit are secured by funds held by bond trustees and by approximately $519 million of short-term investments.

4. COMMITMENTS AND CONTINGENCIES (CONTINUED)

In early February 1999, some members of the APA engaged in certain activities (increased sick time and declining to fly additional trips) that resulted in numerous cancellations across American's system. These actions were taken in response to the acquisition of Reno Air in December 1998. In an attempt to resolve the dispute, the Company and the APA have agreed to non-binding mediation. These actions adversely impacted the Company's first quarter 1999 net earnings.

5. LEASES

American leases various types of equipment and property, including aircraft, passenger terminals, equipment and various other facilities. The future minimum lease payments required under capital leases, together with the present value of net minimum lease payments, and future minimum lease payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 1998, were (in millions):

Year Ending December 31,	Capital Leases	Operating Leases
1999	$ 228	$ 942
2000	298	896
2001	280	907
2002	231	871
2003	149	888
2004 and subsequent	1,140	12,358
	2,326(1)	$ 16,862(2)
Less amount representing interest	655	
Present value of net minimum lease payments	$ 1,671	

(1) Future minimum payments required under capital leases include $192 million guaranteed by AMR relating to special facility revenue bonds issued by municipalities.

(2) Future minimum payments required under operating leases include $6.1 billion guaranteed by AMR relating to special facility revenue bonds issued by municipalities.

At December 31, 1998, the Company had 187 aircraft under operating leases and 86 aircraft under capital leases. The aircraft leases can generally be renewed at rates based on fair market value at the end of the lease term for one to five years. Most aircraft leases have purchase options at or near the end of the lease term at fair market value, but generally not to exceed a stated percentage of the defined lessor's cost of the aircraft or at a predetermined fixed amount.

Rent expense, excluding landing fees, was $1.1 billion in 1998, 1997 and 1996.

6. INDEBTEDNESS

Long-term debt (excluding amounts maturing within one year) consisted of (in millions):

	December 31, 1998	December 31, 1997
Secured debt due through 2015 (6.317% - 9.957% at December 31, 1998)	$ 626	$ 645
6.0% - 7.1% bonds due through 2031	176	176
Variable rate indebtedness due through 2024 (3.55% at December 31, 1998)	86	86
Other	32	30
Long-term debt, less current maturities	$ 920	$ 937

Maturities of long-term debt (including sinking fund requirements) for the next five years are: 1999 - $23 million; 2000 - $26 million; 2001 - $31 million; 2002 - $26 million; 2003 - $29 million.

American has a $1.0 billion credit facility agreement which expires December 19, 2001. At American's option, interest on the agreement can be calculated on one of several different bases. For most borrowings, American would anticipate choosing a floating rate based upon the London Interbank Offered Rate (LIBOR). At December 31, 1998, no borrowings were outstanding under the agreement.

Certain debt is secured by aircraft, engines, equipment and other assets having a net book value of approximately $687 million. In addition, certain of American's debt and credit facility agreements contain restrictive covenants, including a minimum net worth requirement, which could limit American's ability to pay dividends. At December 31, 1998, under the most restrictive provisions of those debt and credit facility agreements, approximately $2.6 billion of the retained earnings of American were available for payment of dividends to AMR.

Cash payments for interest, net of capitalized interest, were $145 million, $300 million and $367 million for 1998, 1997 and 1996, respectively.

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As part of the Company's risk management program, American uses a variety of financial instruments, including interest rate swaps, fuel swap and option contracts and currency exchange agreements. The Company does not hold or issue derivative financial instruments for trading purposes.

NOTIONAL AMOUNTS AND CREDIT EXPOSURES OF DERIVATIVES

The notional amounts of derivative financial instruments summarized in the tables which follow do not represent amounts exchanged between the parties and, therefore, are not a measure of the Company's exposure resulting from its use of derivatives. The amounts exchanged are calculated based on the notional amounts and other terms of the instruments, which relate to interest rates, exchange rates or other indices.

The Company is exposed to credit losses in the event of non-performance by counterparties to these financial instruments, but it does not expect any of the counterparties to fail to meet its obligations. The credit exposure related to these financial instruments is represented by the fair value of contracts with a positive fair value at the reporting date, reduced by the effects of master netting agreements. To manage credit risks, the Company selects counterparties based on credit ratings, limits its exposure to a single counterparty under defined guidelines, and monitors the market position of the program and its relative market position with each counterparty. The Company also maintains industry-standard security agreements with the majority of its counterparties which may require the Company or the counterparty to post collateral if the value of these instruments falls below certain mark-to-market thresholds. As of December 31, 1998, no collateral was required under these agreements, and the Company does not expect to post collateral in the near future.

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

INTEREST RATE RISK MANAGEMENT

American enters into interest rate swap contracts to effectively convert a portion of its fixed-rate obligations to floating-rate obligations. These agreements involve the exchange of amounts based on a floating interest rate for amounts based on fixed interest rates over the life of the agreement without an exchange of the notional amount upon which the payments are based. The differential to be paid or received as interest rates change is accrued and recognized as an adjustment of interest expense related to the obligation. The related amount payable to or receivable from counterparties is included in current liabilities or assets. The fair values of the swap agreements are not recognized in the financial statements. Gains and losses on terminations of interest rate swap agreements are deferred as an adjustment to the carrying amount of the outstanding obligation and amortized as an adjustment to interest expense related to the obligation over the remaining term of the original contract life of the terminated swap agreement. In the event of the early extinguishment of a designated obligation, any realized or unrealized gain or loss from the swap would be recognized in income coincident with the extinguishment.

The following table indicates the notional amounts and fair values of the Company's interest rate swap agreements (in millions):

	December 31,			
	1998		1997	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate swap agreements	$ 1,054	$ 38	$ 1,410	$ 12

The fair values represent the amount the Company would receive if the agreements were terminated at December 31, 1998 and 1997, respectively.

At December 31, 1998, the weighted-average remaining duration of the interest rate swap agreements in effect was 4.2 years. The weighted-average floating rates and fixed rates on the contracts outstanding were:

	December 31,	
	1998	1997
Average floating rate	5.599%	5.844%
Average fixed rate	6.277%	5.901%

Floating rates are primarily based on LIBOR and may change significantly, affecting future cash flows.

FUEL PRICE RISK MANAGEMENT

American enters into fuel swap and option contracts to protect against increases in jet fuel prices. Under the fuel swap agreements, American receives or makes payments based on the difference between a fixed price and a variable price for certain fuel commodities. Under the fuel option agreements, American pays a premium to cap prices at a fixed level. The changes in market value of such agreements have a high correlation to the price changes of the fuel being hedged. Gains or losses on fuel hedging agreements are recognized as a component of fuel expense when the underlying fuel being hedged is used. Any premiums paid to enter into option contracts are recorded as a prepaid expense and amortized to fuel expense over the respective contract periods. Gains and losses on fuel hedging agreements would be recognized immediately should the changes in the market value of the agreements cease to have a high correlation to the price changes of the fuel being hedged. At December 31, 1998, American had fuel hedging agreements with broker-dealers on approximately two billion gallons of fuel products, which represents approximately 48 percent of its expected 1999 fuel needs and approximately 19 percent of its expected 2000 fuel needs. The fair value of the Company's fuel hedging agreements at December 31, 1998, representing the amount the Company would pay to terminate the agreements, totaled $108 million.

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

FOREIGN EXCHANGE RISK MANAGEMENT

To hedge against the risk of future exchange rate fluctuations on a portion of American's foreign cash flows, the Company enters into various currency put option agreements on a number of foreign currencies. The option contracts are denominated in the same foreign currency in which the projected foreign cash flows are expected to occur. These contracts are designated and effective as hedges of probable quarterly foreign cash flows for various periods through December 31, 1999, which otherwise would expose the Company to foreign currency risk. Realized gains on the currency put option agreements are recognized as a component of passenger revenues. At December 31, 1998, the notional amount related to these options totaled approximately $597 million and the fair value, representing the amount American would receive to terminate the agreements, totaled approximately $10 million.

The Company has entered into Japanese yen currency exchange agreements to effectively convert certain lease obligations into dollar-based obligations. Changes in the value of the agreements due to exchange rate fluctuations are offset by changes in the value of the yen-denominated lease obligations translated at the current exchange rate. Discounts or premiums are accreted or amortized as an adjustment to interest expense over the lives of the underlying lease obligations. The related amounts due to or from counterparties are included in other liabilities or other assets. The net fair values of the Company's currency exchange agreements, representing the amount American would pay to terminate the agreements, were (in millions):

	December 31,			
	1998		1997	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Japanese yen	33.7 billion	$ (5)	24.5 billion	$ (15)

The exchange rates on the Japanese yen agreements range from 66.50 to 118.35 yen per U.S. dollar.

FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of the Company's long-term debt were estimated using quoted market prices where available. For long-term debt not actively traded, fair values were estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. The carrying amounts and fair values of the Company's long-term debt, including current maturities, were (in millions):

	December 31,			
	1998		1997	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Secured debt	645	751	661	766
6.0% - 7.1 % bonds	176	189	176	194
Variable rate indebtedness	86	86	86	86
Other	36	36	35	36
	$ 943	$ 1,062	$ 958	$ 1,082

All other financial instruments, except for the investment in Equant, are either carried at fair value or their carrying value approximates fair value.

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), which is required to be adopted in years beginning after June 15, 1999. SFAS 133 permits early adoption as of the beginning of any fiscal quarter after its issuance. SFAS 133 will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company is currently evaluating the impact of SFAS 133 to the Company's financial condition or results of operations.

8. INCOME TAXES

American, as a wholly-owned subsidiary, is included in AMR's consolidated tax return. Under the terms of American's tax sharing agreement with AMR, American's provision for income taxes has been computed on the basis that American files separate consolidated income tax returns with its subsidiaries.

The significant components of the income tax provision were (in millions):

	Year Ended December 31,		
	1998	1997	1996
Current	$ 438	$ 221	$ 208
Deferred	243	286	179
	$ 681	$ 507	$ 387

The income tax provision includes a federal income tax provision of $602 million, $447 million and $342 million and a state income tax provision of $73 million, $54 million and $41 million for the years ended December 31, 1998, 1997 and 1996, respectively.

The income tax provision differed from amounts computed at the statutory federal income tax rate as follows (in millions):

	Year Ended December 31,		
	1998	1997	1996
Statutory income tax provision	$ 611	$ 451	$ 335
State income tax provision, net	47	35	27
Meal expense	16	18	16
Change in valuation allowance	3	--	--
Other, net	4	3	9
Income tax provision	$ 681	$ 507	$ 387

The change in the valuation allowance relates to the use of foreign tax credits.

8. INCOME TAXES (CONTINUED)

The components of American's deferred tax assets and liabilities were (in millions):

	December 31, 1998	December 31, 1997
Deferred tax assets:		
Postretirement benefits other than pensions	$ 594	$ 561
Alternative minimum tax credit carryforwards	437	732
Rent expense	315	271
Frequent flyer obligation	258	232
Gains from lease transactions	223	235
Other	340	319
Valuation allowance	--	(3)
Total deferred tax assets	2,167	2,347
Deferred tax liabilities:		
Accelerated depreciation and amortization	(2,757)	(2,665)
Pensions	(68)	(91)
Other	(217)	(230)
Total deferred tax liabilities	(3,042)	(2,986)
Net deferred tax liability	$ (875)	$ (639)

At December 31, 1998, American had available under the terms of its tax sharing agreement with AMR approximately $437 million of alternative minimum tax credit carryforwards which are available for an indefinite period.

Cash payments for income taxes were $434 million, $350 million and $191 million for 1998, 1997 and 1996, respectively.

9. STOCK AWARDS AND OPTIONS

The Company participates in AMR's 1998 and 1988 Long Term Incentive Plans, as amended, (collectively, the Plans) whereby officers and key employees of AMR and its subsidiaries may be granted stock options, stock appreciation rights, restricted stock, deferred stock, stock purchase rights, other stock-based awards and/or performance-related awards, including cash bonuses. The Company also participates in AMR's Pilot Stock Option Plan (The Pilot Plan). The Pilot Plan granted members of the APA the option to purchase 11.5 million shares of AMR stock at $41.69 per share, $5 less than the average fair market value of the stock on the date of grant, May 5, 1997. These shares were exercisable immediately.

The Company accounts for participation in AMR's stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations. In 1998, 1997 and 1996, the total charge for stock compensation expense included in wages, salaries and benefits expense was $51 million, $66 million and $46 million, respectively. No compensation expense was recognized for stock option grants under the Plans since the exercise price was the fair market value of the underlying stock on the date of grant.

The Company has adopted the pro forma disclosure features of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). As required by SFAS 123, pro forma information regarding net earnings has been determined as if the Company had accounted for employee stock options and awards granted by AMR subsequent to December 31, 1994 using the fair value method prescribed by SFAS 123. The fair value for the stock options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1998, 1997 and 1996: risk-free interest rates of 5.01% to 6.31%; dividend yields of 0%; expected stock volatility ranging from 25.4% to 29.9%; and a weighted-average expected life of the options of 4.5 years, with the exception of The Pilot Plan which was 1.5 years.

9. STOCK AWARDS AND OPTIONS (CONTINUED)

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. In addition, because SFAS 123 is applicable only to options and stock-based awards granted subsequent to December 31, 1994, its pro forma effect will not be fully reflected until 1999.

The Company's pro forma net earnings assuming the Company had accounted for employee stock options issued by AMR to employees of American using the fair value method would have resulted in 1998, 1997 and 1996 net earnings of $1,063 million, $755 million and $706 million, respectively.

10. RETIREMENT BENEFITS

Substantially all employees of American and employees of certain other subsidiaries are eligible to participate in pension plans. The defined benefit plans provide benefits for participating employees based on years of service and average compensation for a specified period of time before retirement. Airline pilots and flight engineers also participate in defined contribution plans for which Company contributions are determined as a percentage of participant compensation.

In October 1997, the portion of American's defined benefit pension plan applicable to employees of The Sabre Group was spun-off to The Sabre Group. At the date of the spin-off, the net obligation attributable to The Sabre Group employees participating in American's plan of approximately $20 million, net of deferred taxes of approximately $8 million, was credited to retained earnings.

In addition to pension benefits, other postretirement benefits, including certain health care and life insurance benefits, are also provided to retired employees. The amount of health care benefits is limited to lifetime maximums as outlined in the plan. Substantially all employees of American and employees of certain other subsidiaries may become eligible for these benefits if they satisfy eligibility requirements during their working lives.

Certain employee groups make contributions toward funding a portion of their retiree health care benefits during their working lives. AMR funds benefits as incurred and makes contributions to match employee prefunding.

10. RETIREMENT BENEFITS (CONTINUED)

The following table provides a reconciliation of the changes in the plans' benefit obligations and fair value of assets for the years ended December 31, 1998 and 1997, and a statement of funded status as of December 31, 1998 and 1997 (in millions):

	Pension Benefits		Other Benefits	
	1998	1997	1998	1997
Reconciliation of benefit obligation				
Obligation at January 1	$ 5,666	$ 5,046	$ 1,355	$ 1,178
Service cost	179	159	48	42
Interest cost	352	350	91	88
Actuarial loss	400	519	97	114
Benefit payments	(464)	(408)	(65)	(67)
Settlements	(16)	--	--	--
Obligation at December 31	$ 6,117	$ 5,666	$ 1,526	$ 1,355
Reconciliation of fair value of plan assets				
Fair value of plan assets at January 1	$ 5,127	$ 4,539	$ 49	$ 35
Actual return on plan assets	850	963	4	7
Employer contributions	70	34	74	74
Benefit payments	(464)	(408)	(65)	(67)
Settlements	(16)	--	--	--
Transfer to affiliates	(3)	(1)	--	--
Fair value of plan assets at December 31	$ 5,564	$ 5,127	$ 62	$ 49
Funded status				
Accumulated benefit obligation (ABO)	$ 5,073	$ 4,790	$ 1,526	$ 1,355
Projected benefit obligation (PBO)	6,117	5,666	--	--
Fair value of assets	5,564	5,127	62	49
Funded status at December 31	(553)	(539)	(1,464)	(1,306)
Unrecognized loss (gain)	651	755	(89)	(170)
Unrecognized prior service cost	68	63	(45)	(48)
Unrecognized transition asset	(11)	(20)	--	--
Prepaid (accrued) benefit cost	$ 155	$ 259	$ (1,598)	$ (1,524)

10. RETIREMENT BENEFITS (CONTINUED)

The following tables provide the components of net periodic benefit cost for the years ended December 31, 1998, 1997 and 1996 (in millions):

	Pension Benefits		
	1998	1997	1996
Components of net periodic benefit cost			
Defined benefit plans:			
Service cost	$ 179	$ 159	$ 193
Interest cost	352	350	356
Expected return on assets	(403)	(375)	(400)
Amortization of:			
Transition asset	(11)	(12)	(12)
Prior service cost	4	4	4
Unrecognized net loss	20	25	16
Settlement loss	6	--	--
Net periodic benefit cost for defined benefit plans	147	151	157
Defined contribution plans	158	142	132
Total	$ 305	$ 293	$ 289

	Other Benefits		
	1998	1997	1996
Components of net periodic benefit cost			
Service cost	$ 48	$ 42	$ 55
Interest cost	91	88	98
Expected return on assets	(5)	(4)	(3)
Amortization of:			
Prior service cost	(5)	(5)	(5)
Unrecognized net gain	(2)	(8)	--
Net periodic benefit cost	$ 127	$ 113	$ 145

The following table provides the amounts recognized in the consolidated balance sheets as of December 31, 1998 and 1997 (in millions):

	Pension Benefits		Other Benefits	
	1998	1997	1998	1997
Prepaid benefit cost	$ 297	$ 377	$ --	$ --
Accrued benefit liability	(142)	(118)	(1,598)	(1,524)
Additional minimum liability	(13)	(11)	--	--
Intangible asset	7	5	--	--
Accumulated other comprehensive income	6	6	--	--
Net amount recognized	$ 155	$ 259	$ (1,598)	$ (1,524)

10. RETIREMENT BENEFITS (CONTINUED)

The following assumptions were used by the Company in the measurement of the benefit obligation as of December 31:

	Pension Benefits		Other Benefits	
	1998	1997	1998	1997
Weighted-average assumptions				
Discount rate	7.00%	7.25%	7.00%	7.25%
Salary scale	4.26	4.20	--	--
Expected return on plan assets	9.50	9.50	9.50	9.50

The assumed health care cost trend rate was five percent in 1998 and 1997, decreasing gradually to an ultimate rate of four percent by 2001.

A one percentage point change in the assumed health care cost trend rates would have the following effects (in millions):

	One percent increase	One percent decrease
Impact on 1998 service and interest cost	$ 22	$ (23)
Impact on postretirement benefit obligation as of December 31, 1998	$ 134	$ (140)

11. SEGMENT REPORTING

American is one of the largest scheduled passenger airlines in the world. At the end of 1998, American provided scheduled jet service to more than 180 destinations throughout North America, the Caribbean, Latin America, Europe and the Pacific. American is also one of the largest scheduled air freight carriers in the world, providing a full range of freight and mail services to shippers throughout its system.

In 1998, American adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131). SFAS 131 supersedes SFAS 14, "Financial Reporting for Segments of a Business Enterprise," and requires that a public company report annual and interim financial and descriptive information about its reportable operating segments pursuant to criteria that differ from current accounting practice. Operating segments, as defined, are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. American has one reportable segment.

American's operating revenues by geographic region are summarized below (in millions):

	Year Ended December 31,		
	1998	1997	1996
Domestic	$ 11,166	$ 10,749	$ 10,395
Latin America	2,709	2,716	2,438
Europe	2,039	2,035	1,967
Pacific	385	356	336
Total operating revenues	$ 16,299	$ 15,856	$ 15,136

The Company attributes operating revenues by geographic region based upon the origin and destination of each flight segment.

The Company's tangible assets consist primarily of flight equipment which is mobile across geographic markets and, therefore, has not been allocated.

12. QUARTERLY FINANCIAL DATA (UNAUDITED)

Unaudited summarized financial data by quarter for 1998 and 1997 (in millions):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1998				
Operating revenues	$ 3,960	$ 4,193	$ 4,272	$ 3,874
Operating income	396	550	558	264
Net earnings	221	331	346	165
1997				
Operating revenues	$ 3,750	$ 4,029	$ 4,107	$ 3,970
Operating income	199	444	469	335
Net earnings	74	240	266	200

ITEM 9. DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Omitted under the reduced disclosure format pursuant to General Instruction I(2)(c) of Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

Omitted under the reduced disclosure format pursuant to General Instruction I(2)(c) of Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Omitted under the reduced disclosure format pursuant to General Instruction I(2)(c) of Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Omitted under the reduced disclosure format pursuant to General Instruction I(2)(c) of Form 10-K.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) (1) The following financial statements and Independent Auditors' Report are filed as part of this report:

	Page
Report of Independent Auditors	19
Consolidated Statements of Operations for the Years Ended December 31, 1998, 1997 and 1996	20
Consolidated Balance Sheets at December 31, 1998 and 1997	21-22
Consolidated Statements of Cash Flows for the Years Ended December 31, 1998, 1997 and 1996	23
Consolidated Statements of Stockholder's Equity for the Years Ended December 31, 1998, 1997 and 1996	24
Notes to Consolidated Financial Statements	25-41

(2) The following financial statement schedule and Independent Auditors' Report are filed as part of this report:

		Page
Report of Independent Auditors		45
Schedule II	Valuation and Qualifying Accounts and Reserves	46

Schedules not included have been omitted because they are not applicable or because the required information is included in the consolidated financial statements or notes thereto.

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

EXHIBIT

3.1 Composite of the Certificate of Incorporation of American, incorporated by reference to Exhibit 3(a) to American's report on Form 10-K for the year ended December 31, 1982.

10.3 Bylaws of American Airlines, Inc., amended November 18, 1998.

10.1 Aircraft Sales Agreement by and between American Airlines, Inc. and Federal Express Corporation, dated April 7, 1995, incorporated by reference to Exhibit 10(ee) to American's report on Form 10-K for the year ended December 31, 1995. Confidential treatment was granted as to a portion of this document.

10.2 Information Technology Services Agreement, dated July 1, 1996, between American and The Sabre Group, Inc., incorporated by reference to Exhibit 10.6 to The Sabre Group Holdings, Inc.'s Registration Statement on Form S-1, file number 333-09747. Confidential treatment was granted as to a portion of this document.

10.3 Aircraft Purchase Agreement by and between American Airlines, Inc. and The Boeing Company, dated October 31, 1997, incorporated by reference to Exhibit 10.48 to AMR Corporation's report on Form 10-K for the year ended December 31, 1997. Confidential treatment was granted as to a portion of this document.

12 Computation of ratio of earnings to fixed charges for the years ended December 31, 1994, 1995, 1996, 1997 and 1998.

23 Consent of Independent Auditors.

27 Financial Data Schedule.

(b) Reports on Form 8-K:

On November 19, 1998, American Airlines, Inc. filed a report on Form 8-K relative to a press release issued by American Airlines, Inc. to announce that American Airlines, Inc. has signed a definitive merger agreement with Reno Air, Inc. to acquire Reno Air, Inc. for a total cash consideration of $124 million.

On February 18, 1999, American filed a report on Form 8-K relative to a press release issued by American Airlines, Inc. to report certain of the estimated damages it had suffered as a consequence of the illegal job actions of the Allied Pilots Association.

On February 24, 1999, American filed a report on Form 8-K to announce the completion of the merger of American Airlines, Inc. and Reno Air, Inc.

On March 18, 1999, American filed a report on Form 8-K relative to a press release issued by AMR Corporation to report the estimated pre-tax earnings impact of the Allied Pilots Association illegal job action during the first quarter of 1999.

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, INC.

/s/ Donald J. Carty
- --
Donald J. Carty
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

/s/ Gerard J. Arpey
- --
Gerard J. Arpey
Senior Vice President - Finance and Planning and Chief
Financial Officer
(Principal Financial and Accounting Officer)

Date: March 19, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates noted:

Directors:

/s/ David L. Boren David L. Boren	/s/ Ann D. McLaughlin Ann D. McLaughlin
/s/ Edward A. Brennan Edward A. Brennan	/s/ Charles H. Pistor, Jr. Charles H. Pistor, Jr.
/s/ Armando M. Codina Armando M. Codina	/s/ Joe M. Rodgers Joe M. Rodgers
/s/ Earl G. Graves Earl G. Graves	/s/ Judith Rodin Judith Rodin
/s/ Dee J. Kelly Dee J. Kelly	/s/ Maurice Segall Maurice Segall

Date: March 19, 1999

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholder
American Airlines, Inc.

We have audited the consolidated financial statements of American Airlines, Inc. as of December 31, 1998 and 1997, and for each of the three years in the period ended December 31, 1998, and have issued our report thereon dated January 18, 1999, except for the last paragraph of Note 3 and the last paragraph of Note 4, for which the date is February 22, 1999. Our audits also included Schedule II - Valuation and Qualifying Accounts and Reserves. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this schedule based on our audits.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

2121 San Jacinto
Dallas, Texas 75201
January 18, 1999, except for the last
paragraph of Note 3 and the
last paragraph of Note 4, for
which the date is February 22, 1999.

AMERICAN AIRLINES, INC.
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
(IN MILLIONS)

	BALANCE AT BEGINNING OF YEAR	INCREASES CHARGED TO INCOME STATEMENT ACCOUNTS	PAYMENTS	WRITE-OFFS (NET OF RECOVERIES)	SALES, RETIRE-MENTS AND TRANSFERS	BALANCE AT END OF YEAR
YEAR ENDED DECEMBER 31, 1998						
Allowance for uncollectible accounts	$ 8	$ 12	$ --	$ (3)	$ --	$ 17
Allowance for obsolescence of inventories	189	35	--	--	(28)	196
Reserves for environmental remediation costs	14	12	(3)	--	--	23
YEAR ENDED DECEMBER 31, 1997						
Allowance for uncollectible accounts	6	11	--	(9)	--	8
Allowance for obsolescence of inventories	197	33	--	--	(41)	189
Reserves for environmental remediation costs	18	--	(4)	--	--	14
YEAR ENDED DECEMBER 31, 1996						
Allowance for uncollectible accounts	13	10	--	(14)	(3)	6
Allowance for obsolescence of inventories	228	20	--	--	(51)	197
Reserves for environmental remediation costs	21	3	(6)	--	--	18

EXHIBIT INDEX

Exhibit Number	Description
10.3	Bylaws of American Airlines, Inc., amended November 18, 1998.
12	Computation of ratio of earnings to fixed charges for the years ended December 31, 1994, 1995, 1996, 1997 and 1998.
23	Consent of Independent Auditors.
27	Financial Data Schedule.

EXHIBIT 10.3

AMERICAN AIRLINES, INC.

BYLAWS

(As amended November 18, 1998)

ARTICLE I

Offices

The registered office of the corporation in the State of Delaware is to be located in the City of Wilmington, County of New Castle. The corporation may have other offices within and without the State of Delaware.

ARTICLE II

Meetings of Stockholders

Section l. Annual Meetings. An annual meeting of stockholders to elect directors and to take action upon such other matters as may properly come before the meeting shall be held on the third Wednesday in May of each year, or on such other day, and at such time and at such place, within or without the State of Delaware, as the board of directors or the chairman of the board may from time to time fix.

Any stockholder wishing to bring a matter before an annual meeting must notify the secretary of the corporation of such fact not less than sixty nor more than ninety days before the date of the meeting. Such notice shall be in writing and shall set forth the business proposed to be brought before the meeting, shall identify the stockholder and shall disclose the stockholder's interest in the proposed business.

Section 2. Special Meetings. A special meeting of stockholders shall be called by the secretary upon receipt of a request in writing of the board of directors, the chairman of the board or the president. Any such meeting shall be held at the principal business office of the corporation unless the board shall name another place therefor, at the time specified by the body or persons calling such meeting.

Section 3. Nominees For Election As Director. Nominations for election as director, other than those made by or at the direction of the board of directors, must be made by timely notice to the secretary, setting forth as to each nominee the information required to be included in a proxy statement under the proxy rules of the Securities and Exchange Commission. If such election is to occur at an annual meeting of stockholders, notice shall be timely if it meets the requirements of such proxy rules for proposals of security holders to be presented at an annual meeting. If such election is to occur at a special meeting of stockholders, notice shall be timely if received not less than ninety days prior to such meeting.

Section 4. Notice of Meetings. Written notice of each meeting of stockholders shall be given which shall state the place, date and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Unless otherwise provided by law, such notice shall be mailed, postage prepaid, to each stockholder entitled to vote at such meeting, at his address as it appears on the records of the corporation, not less than ten nor more than sixty days before the date of the meeting. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken, unless the adjournment is for more than thirty days or a new record date is fixed for the adjourned meeting, in which case a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 5. Chairman and Secretary at Meetings. At any meeting of stockholders the chairman of the board, or in his absence, the president, or if neither such person is available, then a person designated by the board of directors, shall preside at and act as chairman of the meeting. The secretary, or in his absence a person designated by the chairman of the meeting, shall act as secretary of the meeting.

Section 6. Proxies. Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for him by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period.

Section 7. Quorum. At all meetings of the stockholders the holders of one-third of the number of shares of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum requisite for the election of directors and the transaction of other business, except as otherwise provided by law or by the certificate of incorporation or by any resolution of the board of directors creating any series of Preferred Stock.

If holders of the requisite number of shares to constitute a quorum shall not be present in person or represented by proxy at any meeting of stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have the power to adjourn the meeting from time to time until a quorum shall be present or represented. At any such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified.

Section 8. Voting. At any meeting of stockholders, except as otherwise provided by law or by the certificate of incorporation or by any resolution of the board of directors creating any series of Preferred Stock:

(a) Each holder of record of a share or shares of stock on the record date for determining stockholders entitled to vote at such meeting shall be entitled to one vote in person or by proxy for each share of stock so held.

(b) Directors shall be elected by a plurality of the votes cast by the holders of Common Stock, present in person or by proxy.

(c) Each other question properly presented to any meeting of stockholders shall be decided by a majority of the votes cast on the question entitled to vote thereon.

(d) Elections of directors shall be by ballot but the vote upon any other question shall be by ballot only if so ordered by the chairman of the meeting or if so requested by stockholders, present in person or represented by proxy, entitled to vote on the question and holding at least l0% of the shares so entitled to vote.

Section 9. Action By Written Consent. Any stockholder seeking to act by written consent of stockholders shall notify the secretary in writing of such intent and shall request the board of directors to fix a record date for determining the stockholders entitled to vote by consent. The notice shall specify the actions sought to be taken and, if the election of one or more individuals as director is sought, shall include as to each nominee the information required to be included in a proxy statement under the proxy rules of the Securities and Exchange Commission. Such record date shall be the fifteenth day following receipt of such request or such later date as may be specified by the requesting stockholder.

The date for determining whether an action has been consented to by the required number of stockholders shall be the thirty-first day after written consent forms were mailed to stockholders or, if no such material is required to be mailed, the thirty-first day following the record date.

Section l0. List of Stockholders. At least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder shall be prepared. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Section ll. Judges of Election. Whenever a vote at a meeting of stockholders shall be by ballot, or whenever written consent to action is sought, the proxies and ballots or consents shall be received and taken charge of, and all questions touching on the qualification of voters and the validity of proxies and consents and the acceptance and rejection of votes shall be decided by two judges of election. In the case of a meeting of stockholders, such judges of election shall be appointed by the board of directors before or at the meeting, and if no such appointment shall have been made, then by the stockholders at the meeting. In the case of a solicitation of consents, such judges of election shall be appointed by the board of directors on or before the record date for determining the stockholders entitled to vote by consent, and if no such appointment shall have been made, then by the chairman of the board or the president. If for any reason either of the judges of election previously appointed shall fail to attend or refuse or be unable to serve, a judge of election in place of any so failing to attend or refusing or unable to serve, shall be appointed by the board of directors, the stockholders at the meeting, the chairman of the board or the president.

ARTICLE III

Directors: Number, Election, Etc.

Section 1. Number. The board of directors shall consist of such number of members, not less than three, as the board of directors may from time to time determine by resolution, plus such additional persons as the holders of the Preferred Stock may be entitled from time to time, pursuant to the provisions of any resolution of the board of directors creating any series of Preferred Stock, to elect to the board of directors.

Section 2. Election, Term, Vacancies. Directors shall be elected each year at the annual meeting of stockholders, except as hereinafter provided, and shall hold office until the next annual election and until their successors are duly elected and qualified. Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, although less than a quorum.

Section 3. Resignation. Any director may resign at any time by giving written notice of such resignation to the board of directors, the chairman of the board, the president or the secretary. Any such resignation shall take effect at the time specified therein or, if no time be specified, upon the receipt thereof by the board of directors or one of the above-named officers and, unless specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 4. Removal. Any director may be removed from office at any time, with or without cause, by a vote of a majority of a quorum of the stockholders entitled to vote at any regular meeting or at any special meeting called for the purpose.

Section 5. Fees and Expenses. Directors shall receive such fees and expenses as the board of directors shall from time to time prescribe.

ARTICLE IV

Meetings of Directors

Section 1. Regular Meetings. Regular meetings of the board of directors shall be held at the principal office of the corporation, or at such other place (within or without the State of Delaware), and at such time, as may from time to time be prescribed by the board of directors or stockholders. A regular annual meeting of the board of directors for the election of officers and the transaction of other business shall be held on the same day as the annual meeting of the stockholders or on such other day and at such time and place as the board of directors shall determine. No notice need be given of any regular meeting.

Section 2. Special Meetings. Special meetings of the board of directors may be held at such place (within or without the State of Delaware) and at such time as may from time to time be determined by the board of directors or as may be specified in the call and notice of any meeting. Any such meeting shall be held at the call of the chairman of the board, the president, a vice president, the secretary, or two or more directors. Notice of a special meeting of directors shall be mailed to each director at least three days prior to the meeting date, provided that in lieu thereof, notice may be given to each director personally or by telephone, or dispatched by telegraph, at least one day prior to the meeting date.

Section 3. Waiver of Notice. In lieu of notice of meeting, a waiver thereof in writing, signed by the person or persons entitled to said notice whether before or after the time stated therein, shall be deemed equivalent thereto. Any director present in person at a meeting of the board of directors shall be deemed to have waived notice of the time and place of meeting.

Section 4. Action Without Meeting. Unless otherwise restricted by the certificate of incorporation, any action required or permitted to be taken at any meeting of the board of directors or of any committee thereof may be taken without a meeting if all members of the board of directors or of such committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of the proceedings of the board of directors or of such committee.

Section 5. Quorum. At all meetings of the board, one-third of the total number of directors shall constitute a quorum for the transaction of business. The act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors, except as may be otherwise specifically provided by law.

If at any meeting there is less than a quorum present, a majority of those present (or if only one be present, then that one), may adjourn the meeting from time to time without further notice other than announced at the meeting until a quorum is present. At such adjourned meeting at which a quorum is present, any business may be transacted which might have been transacted at the meeting as originally scheduled.

Section 6. Business Transacted. Unless otherwise indicated in the notice of meeting or required by law, the certificate of incorporation or bylaws of the corporation, any and all business may be transacted at any directors' meeting.

ARTICLE V

Powers of the Board of Directors

The management of all the property and business of the corporation and the regulation and government of its affairs shall be vested in the board of directors. In addition to the powers and authorities by these bylaws and the certificate of incorporation expressly conferred on them, the board of directors may exercise all such powers of the corporation and do all such lawful acts and things as are not by law, or by the certificate of incorporation or by these bylaws directed or required to be exercised or done by the stockholders.

ARTICLE VI

Committees

Section l. Executive Committee. The board of directors may, by resolution passed by a majority of the whole board, designate an executive committee, to consist of five or more members. The chief executive officer plus three other members of the executive committee shall constitute a quorum.

The executive committee shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the corporation, with the exception of such powers and authority as may be specifically reserved to the board of directors by law or by resolution adopted by the board of directors.

Section 2. Audit Committee. The board of directors may, by resolution passed by a majority of the whole board, designate an audit committee, to consist of two or more members, none of the members of which shall be employees or officers of the corporation. A majority of the members of the audit committee shall constitute a quorum.

The audit committee shall from time to time review and make recommendations to the board of directors with respect to the selection of independent auditors, the fees to be paid such auditors, the adequacy of the audit and accounting procedures of the corporation, and such other matters as may be specifically delegated to the committee by the board of directors. In this connection the audit committee shall, at its request, meet with representatives of the independent auditors and with the financial officers of the corporation separately or jointly.

Section 3. Compensation/Nominating Committee. The board of directors may, by resolution passed by a majority of the whole board, designate a compensation/nominating committee, to consist of each member of the board of directors, except that no member of the compensation/nominating committee may be an employee or officer of the corporation. A majority of the members of the compensation/nominating committee shall constitute a quorum.

The compensation/nominating committee shall from time to time review and make recommendations to the board of directors with respect to the management remuneration policies of the corporation including but not limited to salary rates and fringe benefits of elected officers, other remuneration plans such as incentive compensation, deferred compensation and stock option plans, directors' compensation and benefits and such other matters as may be specifically delegated to the committee by the board of directors.

In addition, the compensation/nominating committee shall make recommendations to the board of directors (i) concerning suitable candidates for election to the board, (ii) with respect to assignments to board committees, and (iii) with respect to promotions, changes and succession among the senior management of the corporation, and shall perform such other duties as may be specifically delegated to the committee by the board of directors.

Section 4. Committee Procedure, Seal.

(a) The executive, compensation/nominating, and audit committees shall keep regular minutes of their meetings, which shall be reported to the board of directors, and shall fix their own rules of procedures.

(b) The executive, compensation/nominating, and audit committees may each authorize the seal of the corporation to be affixed to all papers which may require it.

(c) In the absence or disqualification of a member of any committee, the members of that committee present at any meeting and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of such absent or disqualified member.

Section 5. Special Committees. The board of directors may, from time to time, by resolution passed by a majority of the whole board, designate one or more special committees. Each such committee shall have such duties and may exercise such powers as are granted to it in the resolution designating the members thereof. Each such committee shall fix its own rules of procedure.

ARTICLE VII

Indemnification

Section l. Nature of Indemnity. The corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the fact that he is or was or has agreed to become a director or officer of the corporation, or is or was serving or has agreed to serve at the request of the corporation as a director or officer, of another corporation, partnership, joint venture, trust or other enterprise, or by reason of any action alleged to have been taken or omitted in such capacity, and may indemnify any person who was or is a party or is threatened to be made a party to such an action by reason of the fact that he is or was or has agreed to become an employee or agent of the corporation, or is or was serving or has agreed to serve at the request of the corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or on his behalf in connection with such action, suit or proceeding and any appeal therefrom, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding had no reasonable cause to believe his conduct was unlawful; except that in the case of an action or suit by or in the right of the corporation to procure a judgment in its favor (l) such indemnification shall be limited to expenses (including attorneys' fees) actually and reasonably incurred by such person in the defense or settlement of such action or suit, and (2) no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper.

The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

Section 2. Successful Defense. To the extent that a director, officer, employee or agent of the corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section l hereof or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

Section 3. Determination That Indemnification Is Proper.

(a) Any indemnification of a director or officer of the corporation under Section l hereof (unless ordered by a court) shall be made by the corporation unless a determination is made that indemnification of the director or officer is not proper in the circumstances because he has not met the applicable standard of conduct set forth in Section l hereof. Such determination shall be made, with respect to a director or officer, (1) by a majority vote of the directors who are not parties to such action, suit or proceeding, even though less than a quorum, or (2) by a committee of such directors designated by a majority vote of such directors, even though less than a quorum, or (3) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (4) by the stockholders.

(b) Any indemnification of an employee or agent of the corporation (who is not also a director or officer of the corporation) under Section l hereof (unless ordered by a court) may be made by the corporation upon a determination that indemnification of the employee or agent is proper in the circumstances because such person has met the applicable standard of conduct set forth in Section l hereof. Such determination, in the case of an employee or agent, may be made (1) in accordance with the procedures outlined in the second sentence of Section 3(a), or (2) by an officer of the corporation, upon delegation of such authority by a majority of the Board of Directors.

Section 4. Advance Payment of Expenses. Expenses (including attorneys' fees) incurred by a director or officer in defending any civil, criminal, administrative or investigative action, suit or proceeding shall be paid by the corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the director or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the corporation as authorized in this Article. Such expenses (including attorneys' fees) incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the corporation deems appropriate. The board of directors may authorize the corporation's counsel to represent a director, officer, employee or agent in any action, suit or proceeding, whether or not the corporation is a party to such action, suit or proceeding.

Section 5. Procedure for Indemnification of Directors or Officers. Any indemnification of a director or officer of the corporation under Sections l and 2, or advance of costs, charges and expenses of a director or officer under Section 4 of this Article, shall be made promptly, and in any event within 60 days, upon the written request of the director or officer. If the corporation fails to respond within 60 days, then the request for indemnification shall be deemed to be approved. The right to indemnification or advances as granted by this Article shall be enforceable by the director or officer in any court of competent jurisdiction if the corporation denies such request, in whole or in part. Such person's costs and expenses incurred in connection with successfully establishing his right to indemnification, in whole or in part, in any such action shall also be indemnified by the corporation. It shall be a defense to any such action (other than an action brought to enforce a claim for the advance of costs, charges and expenses under Section 4 of this Article where the required undertaking, if any, has been received by the corporation) that the claimant has not met the standard of conduct set forth in Section l of this Article, but the burden of proving such defense shall be on the corporation. Neither the failure of the corporation (including its board of directors or a committee thereof, its independent legal counsel, and its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he has met the applicable standard of conduct set forth in Section l of this Article, nor the fact that there has been an actual determination by the corporation (including its board of directors or a committee thereof, its independent legal counsel, and its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

Section 6. Survival; Preservation of Other Rights.

The foregoing indemnification provisions shall be deemed to be a contract between the corporation and each director, officer, employee and agent who serves in such capacity at any time while these provisions as well as the relevant provisions of the Delaware Corporation Law are in effect and any repeal or modification thereof shall not affect any right or obligation then existing with respect to any state of facts then or previously existing or any action, suit, or proceeding previously or thereafter brought or threatened based in whole or in part upon any such state of facts. Such a "contract right" may not be modified retroactively without the consent of such director, officer, employee or agent.

The indemnification provided by this Article VII shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 7. Insurance. The corporation shall purchase and maintain insurance on behalf of any person who is or was or has agreed to become a director or officer of the corporation, or is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him or on his behalf in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under the provisions of this Article, provided that such insurance is available on acceptable terms, which determination shall be made by a vote of a majority of the entire board of directors.

Section 8. Savings Clause. If this Article or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the corporation shall nevertheless indemnify each director or officer and may indemnify each employee or agent of the corporation as to costs, charges and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative, including an action by or in the right of the corporation, to the full extent permitted by any applicable portion of this Article that shall not have been invalidated and to the full extent permitted by applicable law.

ARTICLE VIII

Officers

Section l. General. The officers of the corporation shall be the chairman of the board, president, one or more vice presidents (including executive vice presidents and senior vice presidents), a secretary, a controller, a treasurer, and such other subordinate officers as may from time to time be designated and elected by the board of directors.

Section 2. Other Offices. The chairman of the board shall be chosen by the board of directors from among their own number. The other officers of the corporation may or may not be directors.

Section 3. Term. Officers of the corporation shall be elected by the board of directors and shall hold their respective offices during the pleasure of the board and any officer may be removed at any time, with or without cause, by a vote of the majority of the directors. Each officer shall hold office from the time of his appointment and qualification until the next annual election of officers or until his earlier resignation or removal except that upon election thereof a shorter term may be designated by the board of directors. Any officer may resign at any time upon written notice to the corporation.

Section 4. Compensation. The compensation of officers of the corporation shall be fixed, from time to time, by the board of directors.

Section 5. Vacancy. In case any office becomes vacant by death, resignation, retirement, disqualification, removal from office, or any other cause, the board of directors may abolish the office (except that of president, secretary and treasurer) or elect an officer to fill such vacancy.

ARTICLE IX

Duties of Officers

Section l. Chairman of the Board, President. The chairman of the board shall be the chief executive officer of the corporation. He shall have general supervisory powers over all other officers, employees and agents of the corporation for the proper performance of their duties and shall otherwise have the general powers and duties of supervision and management usually vested in the chief executive officer of a corporation. The president shall have the general powers and duties of supervision and management of the corporation as the chairman shall assign. The chairman of the board shall preside at and act as chairman of all meetings of the board of directors. The president shall preside at any meeting of the board of directors in the event of the absence of the chairman of the board. The offices of chairman of the board and president may be filled by the same individual.

Section 2. Vice Presidents. Each vice president shall perform such duties as shall be assigned to him by the board of directors, the chairman of the board or the president.

Section 3. Secretary. The secretary shall record all proceedings of the meetings of the corporation, its stockholders and the board of directors and shall perform such other duties as shall be assigned to him by the board of directors, the chairman of the board, or the president. Any part or all of the duties of the secretary may be delegated to one or more assistant secretaries.

Section 4. Controller. The controller shall perform such duties as shall be assigned to him by the chairman of the board, the president or such vice president as may be responsible for financial matters. Any or all of the duties of the controller may be delegated to one or more assistant controllers.

Section 5. Treasurer. The treasurer shall, under the direction of the chairman of the board, the president or such vice president as may be responsible for financial matters, have the custody of the funds and securities of the corporation, subject to such regulations as may be imposed by the board of directors. He shall deposit, or have deposited, all monies and other valuable effects in the name and to the credit of the corporation in such depositories as may be designated by the board of directors or as may be designated by the appropriate officers pursuant to a resolution of the board of directors. He shall disburse, or have disbursed, the funds of the corporation as may be ordered by the board of directors or properly authorized officers, taking proper vouchers therefor. If required by the board of directors he shall give the corporation bond in such sum and in such form and with such security as may be satisfactory to the board of directors, for the faithful performance of the duties of his office. He shall perform such other duties as shall be assigned to him by the board of directors, the chairman of the board, the president or such vice president as may be responsible for financial matters. Any or all of the duties of the treasurer may be delegated to one or more assistant treasurers.

Section 6. Other Officers' Duties. Each other officer shall perform such duties and have such responsibilities as may be delegated to him by the superior officer to whom he is made responsible by designation of the chairman of the board or the president.

Section 7. Absence or Disability. The board of directors or the chairman of the board may delegate the powers and duties of any absent or disabled officer to any other officer or to any director for the time being. In the event of the absence or temporary disability of the chairman of the board, the president shall assume his powers and duties while he is absent or so disabled.

ARTICLE X

Stock

Section l. Certificates. Certificates of stock of the corporation shall be signed by, or in the name of the corporation by, the chairman of the board, the president or a vice president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary of the corporation. If such certificate is countersigned, (l) by a transfer agent other than the corporation or its employee, or (2) by a registrar other than the corporation or its employee, then any other signature on the certificate may be a facsimile. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he were such officer, transfer agent, or registrar at the date of issue.

Section 2. Transfers. Shares of stock shall be transferable on the books of the corporation by the holder of record thereof in person or by his attorney upon surrender of such certificate with an assignment endorsed thereon or attached thereto duly executed and with such proof of authenticity of signatures as the corporation may reasonably require. The board of directors may from time to time appoint such transfer agents or registrars as it may deem advisable and may define their powers and duties. Any such transfer agent or registrar need not be an employee of the corporation.

Section 3. Record Holder. The corporation may treat the holder of record of any shares of stock as the complete owner thereof entitled to receive dividends and vote such shares, and accordingly shall not be bound to recognize any interest in such shares on the part of any other person, whether or not it shall have notice thereof.

Section 4. Lost and Damaged Certificates. The corporation may issue a new certificate of stock to replace a certificate alleged to have been lost, stolen, destroyed or mutilated upon such terms and conditions as the board of directors may from time to time prescribe.

Section 5. Fixing Record Date. In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the board of directors may fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action.

ARTICLE XI

Miscellaneous

Section 1. Fiscal Year. The fiscal year of the corporation shall begin upon the first day of January and terminate upon the 31st day of December, in each year.

Section 2. Stockholder Inspection of Books and Records. The board of directors from time to time shall determine whether and to what extent and at what times and places and under what conditions and regulations the accounts and books of the corporation, or any of them, shall be open to the inspection of a stockholder and no stockholder shall have any right to inspect any account, book or document of the corporation except as conferred by statute or authorized by resolution of the board of directors.

Section 3. Seal. The corporate seal shall be circular in form and have inscribed thereon the name of the corporation and the words "Corporate Seal, Delaware."

ARTICLE XII

Amendments to Bylaws

Subject to the provisions of any resolution of the board of directors creating any series of Preferred Stock, the board of directors shall have power from time to time to make, alter or repeal bylaws, but any bylaws made by the board of directors may be altered, amended or repealed by the stockholders at any annual meeting of stockholders, or at any special meeting provided that notice of such proposed alteration, amendment or repeal is included in the notice of such special meeting.

EXHIBIT 12

AMERICAN AIRLINES, INC.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(IN MILLIONS)

	1994	1995	1996	1997	1998
Earnings:					
Earnings from continuing operations before income taxes and extraordinary loss	$ 100	$ 20	$ 956	$ 1,287	$ 1,744
Add: Total fixed charges (per below)	1,181	1,282	1,075	995	906
Less: Interest capitalized	21	14	10	19	97
Total earnings	$ 1,260	$ 1,288	$ 2,021	$ 2,263	$ 2,553
Fixed charges:					
Interest	$ 441	$ 546	$ 370	$ 297	$ 208
Portion on rental expense representative of the interest factor	736	733	704	697	697
Amortization of debt expense	4	3	1	1	1
Total fixed charges	$ 1,181	$ 1,282	$ 1,075	$ 995	$ 906
Ratio of earnings to fixed charges	1.07	1.00	1.88	2.27	2.82

Exhibit 23

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in Post Effective Amendment No. 2 to the Registration Statement (Form S-3 No. 33-42998) of American Airlines, Inc., and in the related Prospectus, of our reports dated January 18, 1999, except for the last paragraph of Note 3 and the last paragraph of Note 4, for which the date is February 22, 1999, with respect to the consolidated financial statements and schedule of American Airlines, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 1998.

ERNST & YOUNG LLP

Dallas, Texas
March 17, 1999

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YEAR
DEC-31-1998
JAN-01-1998
DEC-31-1998
85
1,398
1,169
17
520
4,632
19,719
7,366
19,224
5,325
2,462
0
0
1,743
4,685
19,224
0
16,299
0
14,531
0
0
197
1,744
681
1,063
0
0
0
1,063
0
0