

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

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 1-8400.

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AMR CORPORATION

-----  
(Exact name of registrant as specified in its charter)

Delaware

75-1825172

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(State or other jurisdiction of incorporation or organization)

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(I.R.S. Employer Identification No.)

4333 Amon Carter Blvd.  
Fort Worth, Texas

76155

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(Address of principal executive offices)

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(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

-----  
Common stock, \$1 par value per share  
9.00% Debentures due 2016

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New York Stock Exchange  
New York Stock Exchange

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

NONE

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(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 .  
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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]

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 12, 1999, was approximately \$10,572,168,428. As of March 12, 1999, 182,278,766 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates by reference certain information from the Proxy Statement for the Annual Meeting of Stockholders to be held May 19, 1999.

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## PART I

## ITEM 1. BUSINESS

AMR Corporation (AMR or the Company) was incorporated in October 1982. AMR's principal subsidiary, American Airlines, Inc. (American), was founded in 1934. Following the announcement of AMR's plans to sell the companies that comprised the majority of what was previously the Management Services Group, AMR's operations fall within two major lines of business: the Airline Group and The Sabre Group.

## AIRLINE GROUP

The Airline Group consists primarily of American and AMR Eagle Holding Corporation (AMR Eagle), a separate subsidiary of AMR. 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. AMR Eagle owns three regional airlines which operate as "American Eagle" -- American Eagle Airlines, Inc., Executive Airlines, Inc. and Business Express Airlines, Inc. The American Eagle carriers provide connecting service from seven of American's high-traffic cities to smaller markets throughout the United States, Canada, the Bahamas and the Caribbean.

## THE SABRE GROUP

The Sabre Group, in which AMR holds an 82.4 percent economic and 97.9 percent voting interest, is the world leader in the electronic distribution of travel through its Sabre(R) computer reservations system (Sabre). Through Sabre, travel agencies, corporate travel departments and individual consumers can access information on - and book reservations with - airlines and other providers of travel and travel-related products and services. In addition, The Sabre Group is a leading provider of information technology solutions to the travel and transportation industry and fulfills substantially all of the data processing, network and distribution systems needs of American and AMR's other subsidiaries, Canadian Airlines International Limited (Canadian), US Airways, Inc. (US Airways) and certain other customers. The Sabre Group also employs its airline technology expertise to offer technology solutions to other clients that face similar complex operations issues, including companies in the airport, railroad, trucking and hospitality industries. The services offered by The Sabre Group include software development and product sales, transactions processing, consulting and comprehensive information technology outsourcing.

In December 1997, The Sabre Group executed a 25 year, multi-billion dollar technology agreement with US Airways to provide substantially all of US Airways' information technology services. The agreement covers the management and operation of US Airways' systems and information technology services. In February 1998, The Sabre Group signed long-term agreements with ABACUS International Holdings Ltd. which created a Singapore-based joint venture company to manage travel distribution in the Asia-Pacific region. The Sabre Group owns 35 percent of the joint venture company, called ABACUS International Ltd., and provides it with transaction processing and product development on the Sabre system.

## OTHER

In September 1998, AMR announced plans to sell three of the companies which were previously part of the Management Services Group and accounted for a substantial portion of that group's revenues and operating income: AMR Services, AMR Combs and TeleService Resources. As of December 31, 1998, the Company had reached agreements to sell all three companies. The sale of TeleService Resources was completed on January 31, 1999 and the sale of AMR Combs was completed on March 4, 1999. The Company expects to complete the sale of AMR Services by the end of the first quarter or early part of the second quarter of 1999. See Note 12 to the consolidated financial statements for additional information regarding discontinued operations.

The remaining companies are the AMR Training Group, Americas Ground Services, Inc. (AGS), AMR Investment Services, Inc. and Airline Management Services, Inc. (AMS). The AMR Training Group operates the American Airlines Training & Conference Center and provides a variety of training services to American and a

number of other corporate clients. AGS provides airline ground and cabin service handling at nine locations in seven countries in the Caribbean and Central and South America. AMR Investment Services, Inc. serves as an investment advisor to AMR and other institutional investors. It also manages the American AAdvantage Funds, which have both institutional shareholders - including pension funds, financial advisors, corporations and banks - and individual shareholders. As of December 31, 1998, AMR Investment Services was responsible for management of approximately \$20.4 billion in assets, including direct management of approximately \$7.3 billion in short-term investments. AMS was formed in 1994 to manage the Company's service contracts with other airlines such as the agreement to provide a variety of management, technical and administrative services to Canadian, which the Company signed in 1994.

Additional information regarding business segments is included in Note 15 to the consolidated financial statements.

#### COMPETITION

**AIRLINE GROUP** 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 increase the number of markets the Airline Group serves by providing connections to American 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's John F. Kennedy International Airport. American's competitors also own or have marketing agreements with regional carriers which provide similar services 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 15 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.

During 1998, the Company acquired a 10 percent minority equity interest in the Argentine holding company Interinvest, S.A., which owns a controlling interest in the Argentine carriers Aerolineas Argentinas and Austral Lineas Aereas. In February 1999, the Company agreed to acquire a one percent stake in Iberia, S.A., which is owned by Sociedad Estatal de Participaciones Industriales (SEPI), pending regulatory approval.

In September 1998, American, British Airways, Canadian Airlines, Cathay Pacific Airways and Qantas Airways announced the formation of the global alliance oneworld(TM). 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.

The Airline Group 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 Advantage frequent flyer program, which is the largest program in the industry, and its superior service also give it a competitive advantage.

THE SABRE GROUP The Sabre Group competes in electronic travel distribution primarily against other large and well-established global distribution systems. Sabre's principal competitors in marketing to travel agents include Amadeus, Galileo and Worldspan. Each of these competitors offers many products and services substantially similar to those of The Sabre Group.

Although certain barriers exist for any new provider of electronic commerce -- barriers such as the need for significant capital investment to acquire or develop the hardware, software and network facilities necessary to operate a global distribution system -- The Sabre Group is faced with the potential of new competitors, particularly as new channels for travel distribution develop.

The global market to attract and retain agency subscribers is intensely competitive. Factors affecting competitive success of global distribution systems include depth and breadth of information, ease of use, reliability, service and incentives to travel agents and range of products available to travel providers, travel agents and consumers.

Although distribution through travel agents continues to be the primary method of travel distribution, new channels of direct distribution to businesses, consumers and airlines through computer on-line services, the Internet and private networks are developing rapidly. The adoption of these tools is currently quite low, but it is growing rapidly. The Sabre Group believes that it has positioned its Sabre Business Travel Solutions(TM) system and Travelocity.com(sm) website products to effectively compete in these emerging distribution channels.

The Sabre Group also competes both against solutions companies and full-service providers of technology outsourcing, some of which have considerably greater financial resources than The Sabre Group, and against smaller companies that offer a limited range of products. Among The Sabre Group's full-service competitors are Electronic Data Systems, IBM Global Services, Unisys, Andersen Consulting and Lufthansa Systems. Some of these competitors have formed strategic alliances with large companies in the travel industry and The Sabre Group's access to these potential customers is thus limited. The Sabre Group believes that its competitive position in the travel and transportation industries is enhanced by its experience in developing systems for American and other airlines, and by its ability to offer not only software applications but also systems development, integration and maintenance and transactions processing services.

#### 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 the Airline Group's financial results because the Airline Group 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, the Airline Group's operating results will be negatively impacted.

**ELECTRONIC TRAVEL DISTRIBUTION** Electronic travel distribution is subject to regulation in the United States, the European Union, Canada, Australia and New Zealand. These regulations address the relationships among computer reservation systems (CRS), airline associates and travel agency subscribers. These regulations do not currently address relationships with non-airline associates, but future regulations in the European Union may include rail associates. In general, these regulations are directed at ensuring fair competition among travel providers. Among the principles addressed in the current regulations are: unbiased CRS displays of airline information, fair treatment of airline associates by CRSs, equal participation by airlines in non-owned CRSs and fair competition for subscribers. The CRS regulations in the United States and the European Union are currently being revised, but The Sabre Group does not expect the revisions to materially adversely affect its operations.

**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 the Airline Group 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 or American Eagle 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 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 and Executive Airlines, Inc., along with other tenants at the Luis Munoz Marin International Airport in San Juan, Puerto Rico have been named as PRPs for environmental claims at the airport.

American Eagle Airlines, Inc. has been notified of its potential liability under New York law at an inactive hazardous waste site in Poughkeepsie, New York.

AMR 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. Approximately 79 percent of AMR's employees work in the Airline Group. Wages, salaries and benefits represented approximately 39 percent of AMR'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.



The Air Line Pilots Association (ALPA), which represents AMR Eagle pilots, reached agreement with AMR Eagle effective September 1, 1997, to have all of the pilots of the Eagle carriers covered by a single collective bargaining agreement. This agreement lasts until October 31, 2013. The parties have the right to seek limited changes in 2000, 2004, 2008 and 2012. If the parties are unable to agree on the limited changes, they also agreed that the issues would be resolved by interest arbitration, without the exercise of self-help (such as a strike). The Association of Flight Attendants (AFA), which represents the flight attendants of the Eagle carriers, reached agreement with AMR Eagle effective March 2, 1998, to have all flight attendants of the AMR Eagle carriers covered by a single contract. The agreement becomes amendable on March 2, 2002. The other union employees at the AMR Eagle carriers are covered by separate agreements with the TWU; certain of those agreements are currently in negotiation.

As of December 31, 1998, The Sabre Group had approximately 10,800 full-time employees, excluding contractors. The Sabre Group considers its current employee relations to be good. None of The Sabre Group employees based in the United States are represented by a labor union.

#### FUEL

The Airline Group'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 Taxes (in cents)	Percent of AMR's Operating Expenses
1996	2,734	1,866	68.2	63.3	12.0
1997	2,773	1,860	67.1	62.1	11.4
1998	2,826	1,551	54.9	50.1	9.2

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 the 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 12.3 percent and 11.3 percent of AMR'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** The Airline Group'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 16 to the consolidated financial statements.

No material part of the business of AMR and its subsidiaries 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 AMR.

**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 and AMR Eagle at December 31, 1998, included:

Equipment Type	Current Seating Capacity	Owned	Capital Leased	Operating Leased	Total	Weighted-Average Age (Years)
<b>AMERICAN AIRCRAFT</b>						
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
<b>Total</b>		<b>375</b>	<b>86</b>	<b>187</b>	<b>648</b>	<b>11</b>
<b>AMR EAGLE AIRCRAFT</b>						
ATR 42	46	18	2	15	35	9
Embraer 145	50	20	--	--	20	1
Super ATR	64/66	40	--	3	43	4
Saab 340B	34	29	61	--	90	7
Saab 340B Plus	34	--	--	21	21	3
<b>Total</b>		<b>107</b>	<b>63</b>	<b>39</b>	<b>209</b>	<b>6</b>

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 4 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 preceding table as of December 31, 1998, were:

Equipment Type	1999	2000	2001	2002	2003	2004 and Thereafter
<b>AMERICAN AIRCRAFT</b>						
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
	====	====	====	====	====	====
<b>AMR EAGLE AIRCRAFT</b>						
ATR 42	3	4	7	--	3	--
Super ATR	--	--	3	--	--	--
Saab 340B	--	--	--	--	--	61
Saab 340B Plus	--	--	--	--	--	21
	----	----	----	----	----	----
	3	4	10	--	3	82
	====	====	====	====	====	====

The table includes leases for 21 Saab 340B Plus aircraft, seven ATR 42 aircraft and three Super ATR aircraft which can be canceled with twelve months or less notice with certain restrictions.

Substantially all of the Airline Group'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.

The Company's data center (the Data Center) is located in an underground facility in Tulsa, Oklahoma. The land on which the Data Center is located is leased from the Tulsa Airport Improvements Trust. Sabre and the Company's data processing services are dependent on the central computer operations and information processing facility located in the Data Center.

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, 3 and 4 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

No matters were submitted to a vote of the Company's security holders during the last quarter of its fiscal year ended December 31, 1998.

## EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of AMR as of December 31, 1998, were:

Donald J. Carty	Mr. Carty was elected Chairman, President and Chief Executive Office of AMR and American in May 1998. He has been President of American since March 1995. Prior to that, he served as Executive Vice President of AMR since October 1989. Except for two years service as President of Canadian Pacific Air between March 1985 and March 1987, he has been with the Company in various finance and planning positions since 1978. Age 52.
Gerard J. Arpey	Mr. Arpey was elected Chief Financial Officer in March 1995 and Senior Vice President in April 1992. Prior to that, he served as Vice President of American since October 1989. Age 40.
Anne H. McNamara	Mrs. McNamara was elected Senior Vice President and General Counsel in June 1988. She had served as Vice President - Personnel Resources of American from January 1988 through May 1988. She was elected Corporate Secretary of AMR in 1982 and American in 1979 and held those positions through 1987. Age 51.
Charles D. MarLett	Mr. MarLett was elected Corporate Secretary in January 1988. He joined American as an attorney in June 1984. Age 44.

There are no family relationships among the executive officers of the Company named above.

There have been no events under any bankruptcy act, no criminal proceedings, and no judgments or injunctions material to the evaluation of the ability and integrity of any director or executive officer during the past five years.

## PART II

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

The Company's common stock is traded on the New York Stock Exchange (symbol AMR). The approximate number of record holders of the Company's common stock at March 12, 1999, was 13,950.

The range of closing market prices for AMR's common stock on the New York Stock Exchange was:

	1998		1997	
	High	Low	High	Low
QUARTER ENDED				
March 31	\$ 73 1/8	\$ 61 13/16	\$ 44 1/16	\$ 39 3/8
June 30	83 1/4	68 15/16	51	40 1/2
September 30	89 1/4	50	58 1/8	46 5/16
December 31	69 15/16	47 1/8	65 15/16	55 1/4

No cash dividends on common stock were declared for any period during 1998 or 1997. Payment of dividends is subject to the restrictions described in Note 5 to the consolidated financial statements.

In April 1998, the Company's Board of Directors approved a two-for-one stock split in the form of a stock dividend, effective on June 9, 1998 for shareholders of record on May 26, 1998. All share information, including the market price per share information disclosed above, and earnings per share amounts have been presented, and where applicable, restated to give effect to the stock split.

## ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

(in millions, except per share amounts)

	1998	1997	1996	1995	1994
Total operating revenues	\$19,205	\$18,184	\$17,364	\$16,553	\$15,649
Operating income	2,338	1,907	1,807	984	975
Income from continuing operations					
before extraordinary loss	1,306	973	1,083	175	230
Net earnings	1,314	985	1,016	162	228
Earnings per common share from					
continuing operations before					
extraordinary loss and effect of					
preferred stock exchange:(1/2)					
Basic	7.73	5.45	6.29	1.15	1.14
Diluted	7.48	5.32	5.95	1.14	1.14
Net earnings per common share:(2)					
Basic	7.78	5.52	5.90	1.06	2.25
Diluted	7.52	5.39	5.59	1.05	2.25
Total assets	22,303	20,859	20,451	19,462	19,338
Long-term debt, less current					
maturities	2,436	2,248	2,737	4,967	5,585
Obligations under capital leases,					
less current obligations	1,764	1,629	1,790	2,069	2,275
Obligation for postretirement benefits	1,649	1,573	1,524	1,434	1,253

(1) The earnings per share computation for the year ended December 31, 1994 includes a \$171 million non-cash increase in additional paid-in-capital resulting from the exchange of outstanding convertible preferred stock into subordinated convertible debt.

(2) The earnings per share amounts prior to 1998 have been restated to give effect to the stock split on June 9, 1998.

No dividends were declared on common shares during any of the periods above.

Information on the comparability of results is included in Management's Discussion and Analysis and the notes to the consolidated financial statements.



ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

AMR Corporation (AMR or the Company) was incorporated in October 1982. AMR's principal subsidiary, American Airlines, Inc. (American), was founded in 1934. Following the announcement of AMR's plans to sell the companies that comprised the majority of what was previously the Management Services Group, AMR's operations fall within two major lines of business: the Airline Group and The Sabre Group. Additional segment information is included in Note 15 to the consolidated financial statements.

RESULTS OF OPERATIONS

AMR's net earnings in 1998 were \$1.3 billion, or \$7.78 per common share (\$7.52 diluted). These results represent the strongest net earnings ever reported by AMR for a fiscal year. AMR's net earnings in 1997 were \$985 million, or \$5.52 per common share (\$5.39 diluted). 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.

AIRLINE GROUP  
 FINANCIAL HIGHLIGHTS
 

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(dollars in millions)	Year Ended December 31,		
	1998	1997	1996
<b>REVENUES</b>			
Passenger - American Airlines, Inc.	\$ 14,695	\$ 14,310	\$ 13,645
- AMR Eagle	1,121	1,017	1,047
Cargo	656	687	682
Other	977	889	837
	-----	-----	-----
	17,449	16,903	16,211
<b>OPERATING EXPENSES</b>			
Wages, salaries and benefits	5,763	5,480	5,191
Aircraft fuel	1,604	1,923	1,936
Commissions to agents	1,226	1,278	1,252
Depreciation and amortization	1,038	1,038	1,018
Maintenance, materials and repairs	934	861	686
Other operating expenses	4,933	4,754	4,686
	-----	-----	-----
Total operating expenses	15,498	15,334	14,769
<b>OPERATING INCOME</b>			
	1,951	1,569	1,442
<b>OTHER EXPENSE</b>			
	(160)	(266)	(428)
	-----	-----	-----
<b>EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY LOSS</b>			
	\$ 1,791	\$ 1,303	\$ 1,014
	=====	=====	=====
Average number of equivalent employees	92,000	90,600	88,900
<b>OPERATING STATISTICS</b>			
<b>AMERICAN AIRLINES JET OPERATIONS</b>			
Revenue passenger miles (millions)	108,955	107,026	104,710
Available seat miles (millions)	155,297	153,917	152,886
Cargo ton miles (millions)	1,974	2,032	2,028
Passenger load factor	70.2%	69.5%	68.5%
Breakeven load factor	59.9%	61.0%	60.2%
Passenger revenue yield per passenger mile (cents)	13.49	13.37	13.03
Passenger revenue per available seat mile (cents)	9.46	9.30	8.92
Cargo revenue yield per ton mile (cents)	32.85	33.78	33.14
Operating expenses per available seat mile (cents)	9.25	9.27	8.91
Operating aircraft at year-end	648	641	642
<b>AMR EAGLE</b>			
Revenue passenger miles (millions)	2,788	2,553	2,590
Available seat miles (millions)	4,471	4,218	4,431
Passenger load factor	62.4%	60.5%	58.5%
Operating aircraft at year-end	209	199	205

## REVENUES

1998 COMPARED TO 1997 Airline Group revenues of \$17.4 billion in 1998 were up \$546 million, or 3.2 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 percent increase in Europe on capacity growth of 2.7 percent.

AMR Eagle's revenues increased \$104 million, or 10.2 percent. The increase in passenger revenues resulted from a 0.9 percent increase in passenger yield and a 9.2 percent increase in traffic. AMR Eagle's traffic increased to 2.8 billion RPMs while capacity increased 4.5 billion ASMs, up 6.0 percent.

The Airline Group's other revenues increased \$88 million, or 9.9 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.

1997 COMPARED TO 1996 Airline Group revenues of \$16.9 billion in 1997 were up \$692 million, or 4.3 percent, versus 1996. American's passenger revenues increased 4.9 percent, or \$665 million. The increase in passenger revenues resulted from a 2.6 percent increase in passenger yield from 13.03 to 13.37 cents, and a 2.2 percent increase in passenger traffic. For the year, domestic yields increased 1.8 percent, Latin American yields increased 4.5 percent, European yields increased 3.8 percent and Pacific yields increased 1.0 percent. In 1997, American derived 69 percent of its passenger revenues from domestic operations and 31 percent from international operations.

American's domestic traffic increased 2.0 percent to 74.3 billion RPMs, while domestic capacity increased 0.8 percent. International traffic grew 2.6 percent to 32.7 billion RPMs on a capacity increase of 0.4 percent. The increase in international traffic was led by a 7.2 percent increase in Latin America on capacity growth of 5.5 percent. This increase was partially offset by a 1.7 percent decrease in the Pacific on a capacity decline of 2.9 percent and a 1.5 percent decrease in Europe on a capacity decline of 5.3 percent, primarily due to the cancellation of several routes during 1997.

The Airline Group benefited from several external factors in 1997. First, a healthy U.S. economy produced strong demand for air travel. Second, industry capacity grew at a more modest rate than demand, which led to higher industry load factors and a healthy pricing environment. However, these benefits were adversely impacted by a brief strike and the strike threat by members of the APA during the first quarter of 1997, which negatively impacted the Company's net earnings by an estimated \$70 million.

## OPERATING EXPENSES

1998 COMPARED TO 1997 Airline Group operating expenses of \$15.5 billion in 1998 were up \$164 million, or 1.1 percent, versus 1997. American's Jet Operations cost per ASM decreased 0.2 percent to 9.25 cents. Wages, salaries and benefits increased \$283 million, or 5.2 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 \$319 million, or 16.6 percent, due to an 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 4.1 percent, or \$52 million, despite a 3.2 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 8.5 percent, or \$73 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 \$179 million, or 3.8 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.

1997 COMPARED TO 1996 Airline Group operating expenses of \$15.3 billion in 1997 were up \$565 million, or 3.8 percent, versus 1996. American's Jet Operations cost per ASM increased 4.0 percent to 9.27 cents. Wages, salaries and benefits increased \$289 million, or 5.6 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, including a three percent rate increase granted to pilots effective August 31, 1997, and an increase in the provision for profit sharing. Fuel expense decreased \$13 million, or 0.7 percent, due to a 1.6 percent decrease in American's average price per gallon, including taxes, partially offset by a 1.4 percent increase in American's fuel consumption. Commissions to agents increased 2.1 percent, or \$26 million, due primarily to increased passenger revenues. This increase was offset by changes in the Company's travel agency commission payment structure implemented in September 1997 which lowered the base commission paid to travel agents from 10 percent to eight percent on all tickets purchased in the U.S. and Canada for both domestic and international travel. Maintenance, materials and repairs expense increased 25.5 percent, or \$175 million, due to an increase in airframe and engine maintenance check volumes at American's maintenance bases as a result of the maturing of its fleet. Other operating expenses increased \$68 million, or 1.5 percent, due primarily to an increase in outsourced services, additional airport security requirements, and higher costs, such as credit card fees, resulting from higher passenger revenues. Other operating expenses in 1996 included a \$26 million charge to write down the value of aircraft interiors.

## OTHER EXPENSE

Other expense consists of interest income and expense, interest capitalized and miscellaneous - net.

1998 COMPARED TO 1997 Interest expense decreased \$48 million, or 11.3 percent, due primarily to scheduled debt repayments of approximately \$400 million in 1998. Interest capitalized increased \$84 million, to \$104 million, due primarily to the increase in purchase deposits for flight equipment.

1997 COMPARED TO 1996 Interest expense decreased 18.3 percent, or \$95 million, due primarily to scheduled debt repayments and the repurchase and/or retirement prior to scheduled maturity of approximately \$469 million and \$1.1 billion of long-term debt in 1997 and 1996, respectively, and a reduction of \$850 million of American's long-term debt owed to AMR as part of the reorganization of The Sabre Group. Also, in 1996, the Company's convertible debentures were converted into AMR common stock, resulting in an \$834 million decrease in long-term debt. Interest capitalized increased \$10 million due to additional aircraft purchase deposits. Interest income increased approximately 29.1 percent, or \$30 million, due primarily to higher investment balances. Miscellaneous - net for 1996 included a \$21 million provision for a cash payment representing American's share of a multi-carrier travel agency class action litigation settlement.

THE SABRE GROUP  
FINANCIAL HIGHLIGHTS

(dollars in millions)	Year Ended December 31,		
	1998	1997	1996
REVENUES	\$ 2,306	\$ 1,789	\$ 1,625
OPERATING EXPENSES	1,956	1,476	1,295
OPERATING INCOME	350	313	330
OTHER INCOME (EXPENSE)	21	11	(24)
EARNINGS BEFORE INCOME TAXES	\$ 371	\$ 324	\$ 306
Average number of equivalent employees	11,400	8,500	7,900

REVENUES

1998 COMPARED TO 1997 Revenues for The Sabre Group increased \$517 million, or 28.9 percent. Electronic travel distribution revenues increased approximately \$120 million, or 10.0 percent, due to growth in bookings and an overall increase in the average price per booking. Revenues from information technology solutions increased approximately \$397 million, or 68.4 percent, primarily due to the services performed under the information technology services agreement with US Airways, and Year 2000 testing and readiness enhancements for certain AMR units and Canadian Airlines International Limited (Canadian).

1997 COMPARED TO 1996 Revenues for The Sabre Group increased 10.1 percent, or \$164 million. Electronic travel distribution revenues increased approximately \$99 million, or 8.9 percent, primarily due to growth in booking fees. The growth in booking fees was due to an increase in booking volumes primarily attributable to international expansion in Europe and Latin America and an overall increase in the price per booking charged to associates. Revenues from information technology solutions increased approximately \$65 million, or 12.1 percent. Revenues from unaffiliated customers increased approximately \$39 million due to an increase in software development, consulting and software license fee revenues. Revenues from other AMR units increased \$24 million due to an increase in software development revenue and data processing volumes, offset by a decrease in data network revenue from the sale, in July 1996, of data network equipment to a third party which began direct billing certain items to American.

OPERATING EXPENSES

1998 COMPARED TO 1997 Operating expenses increased 32.5 percent, or \$480 million, due primarily to increases in salaries, benefits and employee-related costs, subscriber incentive expenses, depreciation and amortization expense and other operating expenses. Salaries, benefits and employee-related costs increased due to an increase in the average number of employees necessary to support The Sabre Group's business growth, and wage and salary increases for existing employees. Subscriber incentive expenses increased in order to maintain and expand The Sabre Group's travel agency subscriber base. The increase in depreciation and amortization expense is primarily due to the acquisition of information technology assets to support the US Airways' contract, and normal additions. Other operating expenses increased primarily due to equipment maintenance costs, other software development expenses related to The Sabre Group's Year 2000 readiness program, and increased data processing costs, other services purchased and facility costs.

1997 COMPARED TO 1996 Operating expenses increased 14.0 percent, or \$181 million, due primarily to increases in salaries, benefits and employee-related costs and subscriber incentive expenses. Salaries, benefits and employee-related costs increased due to an increase in the average number of equivalent employees necessary to support The Sabre Group's revenue growth, and wage and salary increases for existing employees. Subscriber incentive expenses increased in order to maintain and expand The Sabre Group's travel agency subscriber base.

## OTHER INCOME (EXPENSE)

1998 COMPARED TO 1997 Other income (expense) increased \$10 million due primarily to a favorable court judgment.

1997 COMPARED TO 1996 Other income (expense) increased \$35 million due to an increase in interest income of \$17 million due to higher investment balances, an increase in other income of \$13 million primarily due to losses in 1996 from a subsidiary of The Sabre Group not active in 1997, and a decrease in interest expense of approximately \$6 million primarily due to a lower principal balance outstanding on the subordinated debenture payable to AMR and lower interest rates.

## LIQUIDITY AND CAPITAL RESOURCES

Operating activities provided net cash of \$3.2 billion in 1998, \$2.9 billion in 1997 and \$2.7 billion in 1996. The \$326 million increase from 1997 to 1998 resulted primarily from an increase in net earnings. The \$181 million increase from 1996 to 1997 resulted primarily from an increase in the air traffic liability due to higher advanced sales.

Capital expenditures in 1998 totaled \$2.7 billion, compared to \$1.4 billion in 1997 and \$523 million in 1996, and included purchase deposits on new aircraft orders of \$870 million, aircraft acquisitions of approximately \$850 million, and purchases of computer-related equipment totaling approximately \$360 million. In 1998, American took delivery of 10 jet aircraft - six Boeing 757-200s and four Boeing 767-300ERs. American Eagle took delivery of 20 Embraer EMB-145s and five Super ATR aircraft. These expenditures, as well as the expansion of certain airport facilities, were funded primarily with internally generated cash, except for (i) the Embraer aircraft acquisitions which were funded through secured debt agreements, and (ii) five Boeing 757-200 aircraft which were financed through sale-leaseback transactions. During 1998, The Sabre Group invested approximately \$140 million for a 35 percent interest in ABACUS International Ltd. The Company made acquisitions and other investments of \$137 million, which relate primarily to the acquisition of Reno Air in December 1998. Proceeds from the sale of equipment and property of \$293 million in 1998 include proceeds received upon the delivery of two of American's McDonnell Douglas MD-11 aircraft to Federal Express Corporation (FedEx) in accordance with the 1995 agreement between the two parties, 10 ATR 42 aircraft, and other aircraft equipment sales.

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, four Boeing 767-300ERs, 75 Embraer EMB-135s, 30 Embraer EMB-145s and 25 Bombardier CRJ-700s. Deliveries of these aircraft commence in 1999 and will continue through 2005. Future payments, including estimated amounts for price escalation through anticipated delivery dates for these aircraft and related equipment, will approximate \$2.7 billion in 1999, \$2.0 billion in 2000, \$1.6 billion in 2001 and an aggregate of approximately \$1.5 billion in 2002 through 2005. In addition to these commitments for aircraft, the Company expects to spend approximately \$1.5 billion related to modifications to aircraft, renovations of -- and additions to -- airport and office facilities, and the acquisition of various other equipment and assets in 1999, of which approximately \$625 million has been authorized by the Company's Board of Directors. The Company expects to fund its 1999 capital expenditures from the Company's existing cash and short-term investments, internally generated cash, and some new financing depending upon capital market conditions and the Company's evolving view of its long-term needs.

For the year ended December 31, 1998, a total of approximately 14.3 million shares of the Company's common stock were purchased by the Company under three separate share repurchase programs at a total cost of approximately \$945 million. The Company expects to spend approximately \$400 million by the end of the first quarter of 1999 to complete the \$500 million share repurchase program initiated in October 1998. On March 17, 1999, the Company's Board of Directors authorized management to repurchase up to an additional \$500 million of the Company's outstanding common stock. Share repurchases may be made from time to time, depending on market conditions, and may be discontinued at any time.

In 1997, the Board of Directors of The Sabre Group approved a stock repurchase program for The Sabre Group, under which The Sabre Group will repurchase, subject to certain business and market conditions, up to 1.5 million shares of The Sabre Group's Class A common stock. During 1998, a total of approximately 1.4 million shares were purchased by The Sabre Group at a total cost of approximately \$49 million. In addition, on March 16, 1999, the Board of Directors of The Sabre Group approved an additional stock repurchase program for The Sabre Group, under which The Sabre Group will repurchase, subject to certain business and market conditions, up to one million shares of The Sabre Group's Class A common stock.

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. As of December 31, 1998, the estimated fair value of these depository certificates was approximately \$210 million, based upon the publicly-traded market value of Equant common stock. In connection with a secondary offering of Equant, the Company sold approximately 900,000 depository certificates in February 1999 for net proceeds of \$66 million. 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.

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.

AMR (principally American Airlines) 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.

#### OTHER INFORMATION

**ENVIRONMENTAL MATTERS** Subsidiaries of AMR have 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. AMR's alleged volumetric contributions at these sites are minimal. AMR does not expect these matters, individually or collectively, to have a material impact on its results of operations, financial position or liquidity. Additional information is included in Note 3 to the consolidated financial statements.

#### YEAR 2000 READINESS

**STATE OF READINESS** In 1995, the Company implemented a project (the Year 2000 Project) intended to ensure that hardware and software systems operated by the Company, including software licensed to or operated for third parties by The Sabre Group, 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 94 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 38 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 respondents 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 \$215 to \$250 million, of which approximately \$180 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 data 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 as well as software licensed to or operated for third parties by The Sabre Group were designed to properly handle the euro. The Company 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.

#### OUTLOOK FOR 1999

During 1998, the Company created and began implementing a new strategic framework based on four key objectives. The first objective is to invest in and grow American and American Eagle - consistent with market conditions - to preserve and enhance the Company's leadership in the U.S. airline industry. The second objective is 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, the premier regional carrier, increased international flying and the broadest and best-executed set of airline alliances. The third objective is to make The Sabre Group the world's leading provider of information technology for the travel and transportation industries. The fourth objective is to create a corporate culture within AMR that involves and excites every employee in all of the Company's businesses. During 1999, the Company is expected to continue to focus on these four key objectives of the new strategic plan.

**AIRLINE GROUP** The Company expects 1999 to be another good year for the Airline Group despite the economic uncertainties, primarily in the international markets, the deterioration in domestic yields experienced in the fourth quarter of 1998, the increase in industry capacity both domestically and internationally, and the activities of the APA in February 1999 that resulted in numerous cancellations across American's system. American expects that the downward pressure on domestic yields experienced in the fourth quarter of 1998, which was primarily due to heavier fare sale activity, a leveling off of the growth in full fare domestic traffic, and the impact of international yield decreases on domestic yields, may continue. In 1999, American's total system capacity is expected to increase by approximately four percent, which includes domestic growth of 2.5 percent and international growth of approximately 7.5 percent. The recently announced formation of oneworld(TM), the global alliance linking American's network and frequent flyer program with British Airways, Canadian Airlines, Cathay Pacific and Qantas - and later this year Finnair and Iberia - coupled with the expansion of other code-share alliances, the acquisitions of Reno Air and Business Express, which was completed by American Eagle in March of 1999, the broad marketing alliances created between American and US Airways and Alaska Airlines, and the delivery of new jet aircraft at both American and American Eagle will enable the Airline Group to further strengthen its network both domestically and internationally during 1999. However, the Company continues to evaluate the implications of further accelerating the retirement of certain aircraft in order to keep the Company's capacity growth in line with general economic conditions.

Pressure to reduce costs will continue, although the volatility of fuel prices makes any prediction of overall costs very difficult. Excluding fuel, the Company anticipates an increase in unit costs of about one percent, driven primarily by higher labor costs associated with the normal seniority and scale increases in the union contracts and an increase in training costs, landing fees, airport facility rent expense and various other inflationary pressures. The increase in costs is partially offset by expected savings in maintenance, materials and repairs expense on the Company's existing fleet, partially due to the Company's announcement in late 1998 that it will retire an additional eight McDonnell Douglas DC-10-10 and two additional Boeing 727-200 aircraft earlier than anticipated, which will save the Company approximately \$40 million during the next three years in aircraft maintenance and modification costs. The Company expects to also benefit from maintenance savings associated with new aircraft deliveries and commission expense savings as a result of changes made in late 1998 to the international commission structure and a decrease in the percentage of commissionable transactions. 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.

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.

**THE SABRE GROUP** The Company expects continued profitability and revenue growth for The Sabre Group in 1999. Revenues from The Sabre Group's existing outsourcing customers, including American, US Airways and Canadian, are expected to be the same as or less than 1998 revenues as The Sabre Group will have completed Year 2000 efforts for American and Canadian and most of the migration services for US Airways. The Company, however, expects strong revenue growth from outsourcing contracts signed in 1998, new contracts expected in 1999, and from software development and real-time processing services. Additionally, the Company expects overall revenue growth from the electronic travel distribution business to be consistent with prior years. While the Company anticipates a decline in domestic airline bookings growth in 1999, the Company expects to compensate for the decline with growth in international bookings, market share gains worldwide, price increases and revenues from new promotional and marketing products. The Company expects an improved operating margin for The Sabre Group in 1999 due to a reduction in its Year 2000 Readiness program activity as the Year

2000 Project is nearing completion. In addition, the Company expects improved margins on the US Airways contract as the migration services will be completed in early 1999 and the contract will be moving to steady state. The Company expects selling, general and administrative expenses for The Sabre Group will increase in 1999 as a result of sales growth initiatives and increased administrative requirements to support The Sabre Group's growth.

#### 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, expectations as to results of operations and financial condition, including changes in capacity, revenues and unit costs, expectations as to future financing needs, 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 the Airline Group 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 the Airline Group's routes is highly competitive. On most of its non-stop routes, the Airline Group competes with at least one, and usually more than one, major domestic airline, as well as low-cost carriers. The Airline Group 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 the Airline Group'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, a reduction in costs or changes in the mix of traffic that would improve yields.

**COMPETITION FOR THE SABRE GROUP** The markets in which The Sabre Group's electronic travel distribution and information technology solution businesses competes in are highly competitive. The Sabre Group's electronic travel distribution business competes primarily against other large and well-established global distribution systems and is always faced with the potential of new competitors, particularly as new channels for distribution develop. The Sabre Group's information technology solutions business competes against solutions companies, full-service providers of technology outsourcing and against smaller companies that offer a limited range of products. Increased competition could cause The Sabre Group to reduce prices, to increase spending on marketing or product development or to otherwise take actions that might adversely affect its operating earnings.

**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 6 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 and 1997 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. Comparatively, based on projected 1998 fuel usage, such an increase would have resulted in an increase to aircraft fuel expense of approximately \$110 million in 1998, net of fuel hedge instruments outstanding at December 31, 1997. The change in market risk is due primarily to the Company having more hedge instruments outstanding at December 31, 1998 as compared to December 31, 1997. 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, compared to approximately 23 percent of its 1998 fuel requirements hedged at December 31, 1997.

**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 and 1997 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 and \$24 million for the years ending December 31, 1999 and 1998, respectively, net of hedge instruments outstanding at December 31, 1998 and 1997, due to the Company's foreign-denominated revenues exceeding its foreign-denominated expenses. This sensitivity analysis was prepared based upon projected 1999 and 1998 foreign currency-denominated revenues and expenses as of December 31, 1998 and 1997. 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 six percent and five percent, respectively, of its total long-term debt, and interest rate swaps on notional amounts of approximately \$1.1 billion and \$1.4 billion, respectively, at December 31, 1998 and 1997. 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 \$12 million. In comparison, at December 31, 1997, the Company estimated that if interest rates averaged 10 percent more in 1998 than they did during 1997, the Company's interest expense would have increased by approximately \$10 million and interest income from cash and short-term investments would have increased by approximately \$14 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 and 1997.

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 \$96 million and \$105 million as of December 31, 1998 and 1997, respectively. 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.

INVESTMENTS The Company is subject to market risk related to its ownership of approximately 3.1 million depository certificates convertible, subject to certain restrictions, into the common stock of Equant. The estimated fair value of these depository certificates was approximately \$210 million as of December 31, 1998, based upon the market value of Equant common stock. In February 1999, in connection with a secondary offering of Equant, AMR sold approximately 900,000 depository certificates for net proceeds of \$66 million. 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.

In addition, the Company holds investments in certain other entities, primarily foreign airlines, which are subject to market risk. However, the impact of such market risk on earnings is not significant due to the immateriality of the carrying value and the geographically diverse nature of these holdings.

## ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS

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## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
AMR Corporation

We have audited the accompanying consolidated balance sheets of AMR Corporation as of December 31, 1998 and 1997, and the related consolidated statements of operations, stockholders' 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 AMR Corporation 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 2 and the  
last paragraph of Note 3, for  
which the date is February 22, 1999.



AMR CORPORATION  
 CONSOLIDATED STATEMENTS OF OPERATIONS  
 (in millions, except per share amounts)

	Year Ended December 31,		
	1998	1997	1996
<b>REVENUES</b>			
Airline Group:			
Passenger - American Airlines, Inc.	\$ 14,695	\$ 14,310	\$ 13,645
- AMR Eagle	1,121	1,017	1,047
Cargo	656	687	682
Other	977	889	837
	17,449	16,903	16,211
The Sabre Group	2,306	1,789	1,625
Other revenues	119	95	102
Less: Intersegment revenues	(669)	(603)	(574)
Total operating revenues	19,205	18,184	17,364
<b>EXPENSES</b>			
Wages, salaries and benefits	6,507	6,056	5,706
Aircraft fuel	1,604	1,923	1,936
Depreciation and amortization	1,287	1,225	1,185
Commissions to agents	1,226	1,278	1,252
Maintenance, materials and repairs	937	863	687
Other rentals and landing fees	875	876	874
Food service	675	677	672
Aircraft rentals	569	574	616
Other operating expenses	3,187	2,805	2,629
Total operating expenses	16,867	16,277	15,557
OPERATING INCOME	2,338	1,907	1,807
<b>OTHER INCOME (EXPENSE)</b>			
Interest income	140	140	82
Interest expense	(372)	(420)	(514)
Interest capitalized	104	20	10
Gain on sale of stock by subsidiary	--	--	497
Miscellaneous - net	(46)	(23)	(286)
	(174)	(283)	(211)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EXTRAORDINARY LOSS	2,164	1,624	1,596
Income tax provision	858	651	513
INCOME FROM CONTINUING OPERATIONS BEFORE EXTRAORDINARY LOSS	1,306	973	1,083
INCOME FROM DISCONTINUED OPERATIONS, NET OF APPLICABLE INCOME TAXES	8	12	22
INCOME BEFORE EXTRAORDINARY LOSS	1,314	985	1,105
EXTRAORDINARY LOSS, NET OF TAX BENEFIT	--	--	(89)
NET EARNINGS	\$ 1,314	\$ 985	\$ 1,016

Continued on next page.

AMR CORPORATION  
 CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)  
 (in millions, except per share amounts)

	Year Ended December 31,		
	1998	1997	1996
EARNINGS APPLICABLE TO COMMON SHARES	\$ 1,314	\$ 985	\$ 1,016
EARNINGS (LOSS) PER COMMON SHARE:			
BASIC			
Income from continuing operations before extraordinary loss	\$ 7.73	\$ 5.45	\$ 6.29
Discontinued operations	0.05	0.07	0.12
Extraordinary loss	--	--	(0.51)
Net earnings	\$ 7.78	\$ 5.52	\$ 5.90
DILUTED			
Income from continuing operations before extraordinary loss	\$ 7.48	\$ 5.32	\$ 5.95
Discontinued operations	0.04	0.07	0.12
Extraordinary loss	--	--	(0.48)
Net earnings	\$ 7.52	\$ 5.39	\$ 5.59

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

AMR CORPORATION  
 CONSOLIDATED BALANCE SHEETS  
 (in millions)

	December 31,	
	1998	1997
ASSETS		
CURRENT ASSETS		
Cash	\$ 95	\$ 62
Short-term investments	1,978	2,370
Receivables, less allowance for uncollectible accounts (1998 - \$31; 1997 - \$18)	1,543	1,301
Inventories, less allowance for obsolescence (1998 - \$214; 1997 - \$203)	596	626
Deferred income taxes	476	406
Other current assets	187	221
	-----	-----
Total current assets	4,875	4,986
EQUIPMENT AND PROPERTY		
Flight equipment, at cost	13,688	13,002
Less accumulated depreciation	4,976	4,459
	-----	-----
	8,712	8,543
Purchase deposits for flight equipment	1,624	754
Other equipment and property, at cost	4,243	3,966
Less accumulated depreciation	2,340	2,190
	-----	-----
	1,903	1,776
	-----	-----
	12,239	11,073
EQUIPMENT AND PROPERTY UNDER CAPITAL LEASES		
Flight equipment	3,159	2,980
Other equipment and property	267	273
	-----	-----
	3,426	3,253
Less accumulated amortization	1,279	1,167
	-----	-----
	2,147	2,086
OTHER ASSETS		
Route acquisition costs, less accumulated amortization (1998 - \$240; 1997 - \$211)	916	945
Airport operating and gate lease rights, less accumulated amortization (1998 - \$161; 1997 - \$143)	312	325
Prepaid pension cost	304	382
Other	1,510	1,062
	-----	-----
	3,042	2,714
	-----	-----
TOTAL ASSETS	\$22,303	\$20,859
	=====	=====

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

AMR CORPORATION  
 CONSOLIDATED BALANCE SHEETS  
 (in millions, except shares and par value)

	December 31,	
	1998	1997
<hr/>		
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 1,152	\$ 1,028
Accrued salaries and wages	991	879
Accrued liabilities	1,131	1,091
Air traffic liability	2,163	2,044
Current maturities of long-term debt	48	395
Current obligations under capital leases	154	135
	-----	-----
Total current liabilities	5,639	5,572
LONG-TERM DEBT, LESS CURRENT MATURITIES	2,436	2,248
OBLIGATIONS UNDER CAPITAL LEASES, LESS CURRENT OBLIGATIONS	1,764	1,629
OTHER LIABILITIES AND CREDITS		
Deferred income taxes	1,491	1,112
Deferred gains	573	610
Postretirement benefits	1,649	1,573
Other liabilities and deferred credits	2,053	1,899
	-----	-----
	5,766	5,194
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock - \$1 par value; shares authorized: 750,000,000; shares issued: 1998 and 1997 - 182,278,766	182	182
Additional paid-in capital	3,075	3,104
Treasury shares at cost: 1998 - 20,927,692; 1997 - 9,080,832	(1,288)	(485)
Accumulated other comprehensive income	(4)	(4)
Retained earnings	4,733	3,419
	-----	-----
	6,698	6,216
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 22,303	\$ 20,859
	=====	=====

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

AMR CORPORATION  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (in millions)

	Year Ended December 31,		
	1998	1997	1996
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>			
Net earnings	\$ 1,314	\$ 985	\$ 1,016
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	1,006	977	948
Amortization	281	248	237
Deferred income taxes	312	363	217
Gain on disposition of equipment and property	(19)	(24)	--
Gain on sale of stock by subsidiary	--	--	(497)
Provisions for losses	--	--	251
Extraordinary loss	--	--	136
Change in assets and liabilities:			
Decrease (increase) in receivables	(242)	12	(225)
Increase in inventories	(35)	(41)	(66)
Increase in accounts payable and accrued liabilities	268	117	261
Increase in air traffic liability	119	155	423
Other, net	191	77	(13)
Net cash provided by operating activities	3,195	2,869	2,688
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>			
Capital expenditures, including purchase deposits on flight equipment	(2,661)	(1,358)	(523)
Net decrease (increase) in short-term investments	392	(627)	(924)
Proceeds from sale of equipment and property	293	305	257
Acquisitions and other investments	(137)	--	--
Investment in joint ventures, net	(135)	--	--
Net cash used for investing activities	(2,248)	(1,680)	(1,190)
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>			
Payments on long-term debt and capital lease obligations	(547)	(648)	(2,130)
Repurchase of common stock	(994)	(740)	--
Proceeds from:			
Sale-leaseback transactions	270	--	--
Issuance of long-term debt	246	--	--
Exercise of stock options	111	200	25
Sale of stock by subsidiary	--	--	589
Net cash used for financing activities	(914)	(1,188)	(1,516)
Net increase (decrease) in cash	33	1	(18)
Cash at beginning of year	62	61	79
Cash at end of year	\$ 95	\$ 62	\$ 61
<b>FINANCING ACTIVITIES NOT AFFECTING CASH</b>			
Capital lease obligations incurred	\$ 270	\$ --	\$ --

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

## AMR CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(in millions, except shares and per share amounts)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at January 1, 1996	\$ 78	\$ 152	\$ 2,163	\$ --	\$ (91)	\$ 1,418	\$ 3,720
Net earnings	--	--	--	--	--	1,016	1,016
Adjustment for minimum pension liability, net of tax benefit of \$13	--	--	--	--	(21)	--	(21)
Unrealized loss on investments, net of tax benefit of \$1	--	--	--	--	(2)	--	(2)
Reversal of unrealized loss on investment in Canadian Airlines International Limited	--	--	--	--	91	--	91
Total comprehensive income							1,084
Issuance of 27,853,548 shares upon conversion of convertible subordinated debentures and preferred stock, net of conversion fees and issuance costs	(78)	28	867	--	--	--	817
Issuance of 1,403,656 shares pursuant to stock option, deferred stock and restricted stock incentive plans	--	2	45	--	--	--	47
Balance at December 31, 1996	--	182	3,075	--	(23)	2,434	5,668
Net earnings	--	--	--	--	--	985	985
Adjustment for minimum pension liability, net of tax expense of \$13	--	--	--	--	19	--	19
Total comprehensive income							1,004
Issuance of 312,140 shares pursuant to stock option, deferred stock and restricted stock incentive plans	--	--	13	--	--	--	13
Issuance of 11,500,000 stock options at \$5 below market value at date of grant	--	--	58	--	--	--	58
Repurchase of 14,086,750 common shares	--	--	--	(740)	--	--	(740)
Issuance of 5,005,918 shares from Treasury pursuant to stock option, deferred stock and restricted stock incentive plans, net of tax benefit of \$15	--	--	(42)	255	--	--	213
Balance at December 31, 1997	--	182	3,104	(485)	(4)	3,419	6,216
Net earnings and total comprehensive income	--	--	--	--	--	1,314	1,314
Repurchase of 14,342,008 common shares	--	--	--	(944)	--	--	(944)
Issuance of 2,495,148 shares from Treasury pursuant to stock option, deferred stock and restricted stock incentive plans, net of tax benefit of \$17	--	--	(29)	141	--	--	112
Balance at December 31, 1998	\$ --	\$ 182	\$ 3,075	\$ (1,288)	\$ (4)	\$ 4,733	\$ 6,698

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. SUMMARY OF ACCOUNTING POLICIES

**BASIS OF PRESENTATION** The consolidated financial statements include the accounts of AMR Corporation (AMR or the Company), its wholly-owned subsidiaries, including its principal subsidiary American Airlines, Inc. (American), and its majority-owned subsidiaries, including The Sabre Group Holdings, Inc. (The Sabre Group). All significant intercompany transactions have been eliminated. The results of operations for AMR Services, AMR Combs and TeleService Resources have been reflected in the consolidated statements of operations as discontinued operations. All share and per share amounts have been restated to give effect to the stock split on June 9, 1998, where appropriate. 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 that major rotatable 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 American jet aircraft	20 years	5%
Regional jet aircraft	16 years	(2)
Other regional aircraft and engines	17 years	10%
Major rotatable 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.

(2) Depreciated to guaranteed residual value.

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, except engine overhaul costs incurred by AMR Eagle, which are accrued on the basis of hours flown.

**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 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.

**ELECTRONIC TRAVEL DISTRIBUTION REVENUES** Revenues for airline travel reservations are recognized at the time of the booking of the reservation, net of estimated future cancellations. Revenues for car rental and hotel bookings and other travel providers are recognized at the time the reservation is used by the customer. Fees billed on service contracts are recognized as revenue in the month earned.

**INFORMATION TECHNOLOGY SOLUTIONS REVENUES** Revenues from information technology services are recognized in the period earned. Revenues from software license fees for standard software products are recognized when the software is delivered, fees are fixed and determinable, no undelivered elements are essential to the functionality of delivered software and collection is probable. Revenues on long-term software development and consulting contracts are recognized under the percentage of completion method of accounting. Losses, if any, on long-term contracts are recognized when the current estimate of total contract costs indicates a loss on a contract is probable. Fixed fees for software maintenance are recognized ratably over the life of the contract.

**ADVERTISING COSTS** The Company expenses the costs of advertising as incurred. Advertising expense was \$216 million, \$204 million and \$203 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.

**STOCK OPTIONS** The Company accounts for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations. Under APB 25, no compensation expense is recognized for stock option grants if the exercise price of the Company's stock option grants is at or above the fair market value of the underlying stock on the date of grant.



## 2. INVESTMENTS

Short-term investments consisted of (in millions):

	December 31,	
	1998	1997
Overnight investments and time deposits	\$ 133	\$ 322
Corporate notes	950	921
Asset backed securities	498	428
U. S. Government agency mortgages	169	305
Other	228	394
	-----	-----
	\$1,978	\$2,370
	=====	=====

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

Due in one year or less	\$ 494
Due after one year through three years	1,470
Due after three years	14
	-----
	\$1,978
	=====

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 stockholders' 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. As of December 31, 1998, the estimated fair value of these depository certificates was approximately \$210 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.

In connection with a secondary offering of Equant, the Company sold approximately 900,000 depository certificates in February 1999 for net proceeds of \$66 million. 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.

## 3. 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, four Boeing 767-300ERs, 75 Embraer EMB-135s, 30 Embraer EMB-145s and 25 Bombardier CRJ-700s. Deliveries of these aircraft commence in 1999 and will continue through 2005. Future payments, including estimated amounts for price escalation through anticipated delivery dates for these aircraft and related equipment, will approximate \$2.7 billion in 1999, \$2.0 billion in 2000, \$1.6 billion in 2001 and an aggregate of approximately \$1.5 billion in 2002 through 2005. In addition to these commitments for aircraft, the Company's Board of Directors has authorized expenditures of approximately \$2.1 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. AMR expects to spend approximately \$625 million of this authorized amount in 1999.

## 3. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 significant 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.

AMR and American have included an event risk covenant in approximately \$3.0 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.

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.

## 4. LEASES

AMR's subsidiaries lease 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	\$ 273	\$ 1,012
2000	341	951
2001	323	949
2002	274	904
2003	191	919
2004 and subsequent	1,261	12,480
	-----	-----
	2,663 (1)	\$17,215 (2)
		=====
Less amount representing interest	745	
	-----	
Present value of net minimum lease payments	\$ 1,918	
	=====	

- (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 jet aircraft and 39 turboprop aircraft under operating leases, and 86 jet aircraft and 63 turboprop 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 \$1.2 billion for 1998, 1997 and 1996.

## 5. INDEBTEDNESS

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

	December 31,	
	1998 -----	1997 -----
8.05% - 10.62% notes due through 2021	\$ 865	\$ 874
Secured debt due through 2015 (effective rates from 6.317% - 9.957% at December 31, 1998)	857	644
9.0% - 10.20% debentures due through 2021	437	437
6.0% - 7.10% bonds due through 2031	176	176
Variable rate indebtedness due through 2024 (3.55% at December 31, 1998)	86	86
Other	15	31
	-----	-----
Long-term debt, less current maturities	\$ 2,436	\$ 2,248
	=====	=====

Maturities of long-term debt (including sinking fund requirements) for the next five years are: 1999 - \$48 million; 2000 - \$244 million; 2001 - \$451 million; 2002 - \$83 million; 2003 - \$47 million.

## 5. INDEBTEDNESS (CONTINUED)

During 1996, AMR repurchased and/or retired prior to scheduled maturity approximately \$1.1 billion in face value of long-term debt and capital lease obligations. Cash from operations provided the funding for the repurchases and retirements. These transactions resulted in an extraordinary loss of \$136 million (\$89 million after tax) in 1996.

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 \$929 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 \$277 million, \$410 million and \$520 million for 1998, 1997 and 1996, respectively.

## 6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As part of the Company's risk management program, AMR 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.

## 6. 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 life 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 based primarily 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.

## 6. 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 AMR 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 the Company 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 estimated 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
8.05% - 10.62% notes	\$ 875	\$ 973	\$1,249	\$1,372
Secured debt	890	1,013	660	766
9.0% - 10.20% debentures	437	531	437	540
6.0% - 7.10% bonds	176	189	176	194
Variable rate indebtedness	86	86	86	86
Other	20	20	35	36
	-----	-----	-----	-----
	\$2,484	\$2,812	\$2,643	\$2,994
	=====	=====	=====	=====

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

## 6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

In June 1998, the Financial Accounting Standards Board 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.

## 7. INCOME TAXES

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

	Year Ended December 31,		
	1998	1997	1996
Current	\$ 546	\$ 288	\$ 296
Deferred	312	363	217
	\$ 858	\$ 651	\$ 513

The income tax provision includes a federal income tax provision of \$741 million, \$566 million and \$452 million and a state income tax provision of \$93 million, \$71 million and \$53 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	\$ 757	\$ 568	\$ 559
State income tax provision, net	60	46	35
Meal expense	19	21	18
Minority interest	14	12	1
Gain on sale of stock by subsidiary	--	--	(174)
Change in valuation allowance	(4)	--	67
Other, net	12	4	7
Income tax provision	\$ 858	\$ 651	\$ 513

The change in valuation allowance in 1998 relates to the utilization of foreign tax credits. The change in the valuation allowance in 1996 is primarily attributable to the write-off of AMR's investment in Canadian Airlines International Limited (Canadian) (see Note 14).

## 7. INCOME TAXES (CONTINUED)

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

	December 31,	
	1998	1997
	-----	-----
Deferred tax assets:		
Postretirement benefits other than pensions	\$ 616	\$ 580
Alternative minimum tax credit carryforwards	515	862
Rent expense	376	322
Frequent flyer obligation	258	232
Gains from lease transactions	223	234
Other	405	412
Valuation allowance	(68)	(72)
	-----	-----
Total deferred tax assets	2,325	2,570
	-----	-----
Deferred tax liabilities:		
Accelerated depreciation and amortization	(3,097)	(2,963)
Pensions	(54)	(94)
Other	(189)	(219)
	-----	-----
Total deferred tax liabilities	(3,340)	(3,276)
	-----	-----
Net deferred tax liability	\$(1,015)	\$ (706)
	=====	=====

At December 31, 1998, AMR had available for federal income tax purposes approximately \$515 million of alternative minimum tax credit carryforwards which are available for an indefinite period.

Cash payments for income taxes were \$560 million, \$423 million and \$194 million for 1998, 1997 and 1996, respectively.

## 8. COMMON AND PREFERRED STOCK

In April 1998, the Company's Board of Directors approved a two-for-one stock split in the form of a stock dividend, subject to shareholder approval of an amendment to the Company's Certificate of Incorporation to increase the number of authorized common shares. On May 20, 1998, the Company's shareholders approved the amendment, thereby increasing the total number of authorized shares of all classes of stock to 770 million, of which 20 million are shares of preferred stock (without par value) and 750 million are shares of common stock (\$1 par value). The stock split was effective on June 9, 1998 for shareholders of record on May 26, 1998. All prior period share and earnings per share amounts have been restated to give effect to the stock split.

## 9. STOCK AWARDS AND OPTIONS

Under the 1998 Long Term Incentive Plan, as amended, 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 total number of common shares authorized for distribution under the 1998 Long Term Incentive Plan is 10,000,000 shares. The 1998 Long Term Incentive Plan, the successor to the 1988 Long Term Incentive Plan which expired May 18, 1998, will terminate no later than May 21, 2008. Options granted under the 1988 and 1998 Long Term Incentive Plans (collectively, the Plans) are awarded with an exercise price equal to the fair market value of the stock on date of grant, become exercisable in equal annual installments over five years following the date of grant and expire 10 years from the date of grant. Stock appreciation rights may be granted in tandem with options awarded.



## 9. STOCK AWARDS AND OPTIONS (CONTINUED)

In 1998, 1997 and 1996, the total charge for stock compensation expense included in wages, salaries and benefits expense was \$65 million, \$75 million and \$49 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.

Stock option activity was:

	Year Ended December 31,					
	1998		1997		1996	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at January 1	3,506,774	\$ 38.77	3,663,590	\$ 33.59	4,645,560	\$ 31.42
Granted	1,216,720	63.01	895,480	52.28	784,950	39.21
Exercised	(470,810)	31.82	(985,776)	32.17	(1,161,600)	29.70
Canceled(1)	(105,560)	42.34	(66,520)	33.82	(605,320)	31.48
Outstanding at December 31	4,147,124	\$ 46.60	3,506,774	\$ 38.77	3,663,590	\$ 33.59

(1) Includes 471,900 options canceled upon conversion to The Sabre Group stock options for 1996.

The following table summarizes information about the stock options outstanding at December 31, 1998:

Range of Exercise Prices	Number of Options Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
\$22-\$33	842,424	4.24	\$ 30.11	731,564	\$ 30.45
\$34-\$42	1,251,060	6.94	37.81	603,810	37.66
\$43-\$52	1,072,080	9.19	50.61	182,760	48.67
\$58-\$73	981,560	9.27	67.58	68,840	58.11
	4,147,124	7.50	\$ 46.60	1,586,974	\$ 36.49

In May 1997, in conjunction with the labor agreement reached between American and members of the APA, the Company established the Pilots 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.

Pilot Plan option activity was:

	Year Ended December 31,	
	1998	1997
Outstanding at January 1	7,438,220	--
Granted	--	11,500,000
Exercised	(1,646,839)	(4,061,780)
Outstanding at December 31	5,791,381	7,438,220

The weighted-average grant date fair value of all stock option awards granted during 1998, 1997 and 1996 was \$21.15, \$11.00 and \$12.90, respectively.

## 9. STOCK AWARDS AND OPTIONS (CONTINUED)

Shares of deferred stock are awarded at no cost to officers and key employees under the Plans' Career Equity Program and will be issued upon the individual's retirement from AMR or, in certain circumstances, will vest on a pro rata basis. Deferred stock activity was:

	Year Ended December 31,		
	1998	1997	1996
Outstanding at January 1	2,457,190	2,394,662	2,848,116
Granted	185,812	175,500	205,300
Issued	(190,911)	(67,340)	(109,448)
Canceled(1)	(50,559)	(45,632)	(549,306)
Outstanding at December 31	<u>2,401,532</u>	<u>2,457,190</u>	<u>2,394,662</u>

(1) Includes 420,800 shares canceled upon conversion to The Sabre Group stock options and awards for 1996.

The weighted-average grant date fair value of career equity awards granted during 1998, 1997 and 1996 was \$57.77, \$54.98 and \$39.64, respectively.

A performance share plan was implemented in 1993 under the terms of which shares of deferred stock are awarded at no cost to officers and key employees under the Plans. The fair value of the performance shares granted is equal to the market price of the Company's stock at the date of grant. The shares vest over a three-year performance period based upon AMR's ratio of cash flow to adjusted gross assets. Performance share activity was:

	Year Ended December 31,		
	1998	1997	1996
Outstanding at January 1	1,737,274	1,679,460	1,648,822
Granted	644,680	808,736	764,614
Issued	(205,458)	(190,766)	(137,008)
Awards settled in cash	(522,234)	(513,064)	(356,176)
Canceled(1)	(88,646)	(47,092)	(240,792)
Outstanding at December 31	<u>1,565,616</u>	<u>1,737,274</u>	<u>1,679,460</u>

(1) Includes 181,102 shares canceled upon conversion to The Sabre Group stock awards for 1996.

The weighted-average grant date fair value of performance share awards granted during 1998, 1997 and 1996 was \$62.06, \$52.28 and \$39.41, respectively.

There were approximately 21 million shares of AMR's common stock at December 31, 1998 reserved for the issuance of stock upon the exercise of options and the issuance of stock awards.

The Sabre Group has established the 1996 Long Term Incentive Plan (1996 Plan), whereby its officers and other key employees may be granted stock options and other stock-based awards. Initially, 13 million shares of The Sabre Group's Class A Common Stock (Sabre Common Stock) were authorized to be issued under the 1996 Plan. At December 31, 1998, approximately five million options for Sabre Common Stock were outstanding under the 1996 Plan.

## 9. STOCK AWARDS AND OPTIONS (CONTINUED)

In January 1998, in connection with the information technology services agreement executed between The Sabre Group and US Airways, The Sabre Group granted two tranches of stock options to US Airways, each to acquire three million shares of Sabre Common Stock. During certain periods, US Airways may select an alternative vehicle of substantially equivalent value in place of receiving stock. The first tranche of options is exercisable during the six month period ending two years after the transfer of US Airways' information technology assets, which occurred in January 1998, has an exercise price of \$27 per share and is subject to a cap on share price of \$90. The second tranche of options is exercisable during the 10-year period beginning on the fifth anniversary of the asset transfer date, has an exercise price of \$27 per share and is subject to a cap on share price of \$127. During 1998, a long-term liability and a related deferred asset equal to the number of options outstanding multiplied by the difference between the exercise price of the options and the market price of Sabre Common Stock were recorded. The asset and liability are adjusted based on changes in the market price of Sabre Common Stock. As of December 31, 1998, the liability relating to these options was \$105 million. The deferred asset is being amortized over the 11-year non-cancelable portion of the agreement.

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 and earnings per share has been determined as if the Company and The Sabre Group had accounted for its employee stock options and awards granted 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 ranging from 5.01% to 6.70%; dividend yields of 0%; expected stock volatility ranging from 25.4% to 32.0%; and expected life of the options of 4.5 years for all Plans, with the exception of The Pilot Plan which was 1.5 years.

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 and earnings per share assuming the Company had accounted for its employee stock options using the fair value method would have resulted in 1998 net earnings of \$1,311 million and basic and diluted earnings per share of \$7.76 and \$7.51, respectively, and 1997 net earnings of \$960 million and basic and diluted earnings per share of \$5.38 and \$5.25, respectively. The pro forma impact of SFAS 123 on the Company's 1996 net earnings and earnings per share was not material.

## 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, American spun off the portion of its defined benefit pension plan applicable to employees of The Sabre Group to the Legacy Pension Plan, a defined benefit plan established by The Sabre Group effective January 1, 1997. At the date of the spin-off, the net obligation attributable to The Sabre Group employees participating in American's plan was approximately \$20 million. The Sabre Group also established The Sabre Group Retirement Plan (SGRP), a defined contribution plan. Upon establishment, substantially all employees of The Sabre Group under the age of 40 at December 31, 1996 and all new employees began participating in the SGRP. Costs for the SGRP were \$16 million and \$11 million in 1998 and 1997, respectively.

## 10. RETIREMENT BENEFITS (CONTINUED)

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.

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	\$ 5,825	\$ 5,166	\$ 1,398	\$ 1,213
Service cost	224	189	57	48
Interest cost	430	403	103	95
Actuarial loss	330	475	81	109
Benefit payments	(464)	(408)	(66)	(67)
Settlements	(16)	--	--	--
Obligation at December 31	\$ 6,329	\$ 5,825	\$ 1,573	\$ 1,398
Reconciliation of fair value of plan assets				
Fair value of plan assets at January 1	\$ 5,219	\$ 4,617	\$ 56	\$ 39
Actual return on plan assets	858	977	5	8
Employer contributions	78	33	76	76
Benefit payments	(464)	(408)	(66)	(67)
Settlements	(16)	--	--	--
Fair value of plan assets at December 31	\$ 5,675	\$ 5,219	\$ 71	\$ 56
Funded status				
Accumulated benefit obligation (ABO)	\$ 5,187	\$ 4,859	\$ 1,573	\$ 1,398
Projected benefit obligation (PBO)	6,329	5,825	--	--
Fair value of assets	5,675	5,219	71	56
Funded status at December 31	(654)	(606)	(1,502)	(1,342)
Unrecognized loss (gain)	709	788	(101)	(179)
Unrecognized prior service cost	68	63	(46)	(52)
Unrecognized transition asset	(11)	(20)	--	--
Prepaid (accrued) benefit cost	\$ 112	\$ 225	\$ (1,649)	\$ (1,573)

At December 31, 1998 and 1997, plan assets of approximately \$111 million and \$92 million, respectively, were invested in shares of mutual funds managed by a subsidiary of AMR.

## 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	\$ 224	\$ 189	\$ 204
Interest cost	430	403	375
Expected return on assets	(486)	(429)	(422)
Amortization of:			
Transition asset	(11)	(11)	(11)
Prior service cost	4	4	4
Unrecognized net loss	24	27	16
Settlement loss	6	--	--
	-----	-----	-----
Net periodic benefit cost for defined benefit plans	191	183	166
Defined contribution plans	174	153	132
	-----	-----	-----
Total	\$ 365	\$ 336	\$ 298
	=====	=====	=====

	Other Benefits		
	1998	1997	1996
Components of net periodic benefit cost			
Service cost	\$ 57	\$ 48	\$ 58
Interest cost	103	95	102
Expected return on assets	(6)	(4)	(3)
Amortization of:			
Prior service cost	(5)	(5)	(5)
Unrecognized net gain	(2)	(9)	--
	-----	-----	-----
Net periodic benefit cost	\$ 147	\$ 125	\$ 152
	=====	=====	=====

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	(185)	(152)	(1,649)	(1,573)
Additional minimum liability	(13)	(11)	--	--
Intangible asset	7	5	--	--
Accumulated other comprehensive income	6	6	--	--
	-----	-----	-----	-----
Net amount recognized	\$ 112	\$ 225	\$ (1,649)	\$ (1,573)
	=====	=====	=====	=====

## 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	4.32	4.19	--	--
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	\$ 23	\$ (24)
Impact on postretirement benefit obligation as of December 31, 1998	\$ 141	\$(148)

## 11. EARNINGS PER SHARE

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

	Year Ended December 31,		
	1998	1997	1996
NUMERATOR:			
Numerator for basic earnings per share			
-earnings from continuing operations before extraordinary loss	\$ 1,306	\$ 973	\$ 1,083
Effect of dilutive securities:			
Interest upon assumed conversion of convertible subordinated debentures, net of tax	--	--	14 (a)
Dividends upon assumed conversion of convertible preferred stock	--	--	1 (a)
	-----	-----	-----
	--	--	15
Numerator for diluted earnings per share - earnings from continuing operations before extraordinary loss	\$ 1,306	\$ 973	\$ 1,098
	=====	=====	=====
DENOMINATOR:			
Denominator for basic earnings per share - weighted-average shares	169	178	172
Effect of dilutive securities:			
Convertible subordinated debentures	--	--	8
Convertible preferred stock	--	--	1
Employee options and shares	13	14	7
Assumed treasury shares purchased	(7)	(9)	(4)
	-----	-----	-----
Dilutive potential common shares	6	5	12
Denominator for diluted earnings per share - adjusted weighted-average shares	175	183	184
	=====	=====	=====
Basic earnings per share from continuing operations before extraordinary loss	\$ 7.73	\$ 5.45	\$ 6.29
	=====	=====	=====
Diluted earnings per share from continuing operations before extraordinary loss	\$ 7.48	\$ 5.32	\$ 5.95
	=====	=====	=====

(a) Through date of actual conversion

## 12. DISCONTINUED OPERATIONS

In September 1998, the Company announced plans to sell three of the companies within the Management Services Group that accounted for a substantial portion of that group's revenues and operating income: AMR Services, AMR Combs and TeleService Resources. As of December 31, 1998, the Company had reached agreements to sell all three companies and expects to complete the sales by the end of the first quarter or early part of the second quarter of 1999. As a result of the sales, the Company expects to record a significant gain during the first quarter of 1999.

The results of operations for AMR Services, AMR Combs and TeleService Resources have been reflected in the consolidated statements of operations as discontinued operations. The amounts shown are net of income taxes of approximately \$6.7 million, \$9.7 million and \$14.8 million for 1998, 1997 and 1996, respectively. Revenues from the operations of AMR Services, AMR Combs and TeleService Resources were \$513 million, \$517 million and \$519 million for 1998, 1997 and 1996, respectively.

## 13. GAIN ON SALE OF STOCK BY SUBSIDIARY

During October 1996, The Sabre Group completed an initial public offering of 23,230,000 shares of Sabre Common Stock, representing 17.8 percent of its economic interest, at \$27 per share for net proceeds of approximately \$589 million. This transaction resulted in a reduction of the Company's economic interest in The Sabre Group from 100 percent to 82.2 percent. In accordance with the Company's policy of recognizing gains or losses on the sale of a subsidiary's stock based on the difference between the offering price and the Company's carrying amount of such stock, the Company recorded a \$497 million gain. The issuance of stock by The Sabre Group was not subject to federal income taxes. In accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," no income tax expense was recognized on the gain.

## 14. OTHER INCOME (EXPENSE) - MISCELLANEOUS

Other income (expense) - miscellaneous, net included the following (in millions):

	Year Ended December 31,		
	1998	1997	1996
Minority interest	\$ (40)	\$ (36)	\$ (2)
Canadian Airlines charges	--	--	(251)
Litigation settlement/judgment	14	--	(21)
Other, net	(20)	13	(12)
	-----	-----	-----
	\$ (46)	\$ (23)	\$ (286)
	=====	=====	=====

During 1996, the Company determined that the decline in the value of its investment in the cumulative mandatorily redeemable convertible preferred stock of Canadian was not temporary and, in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," recorded a \$192 million charge to write-off the investment. Additionally, the Company recorded a charge of \$59 million to write-off certain deferred costs relating to the Company's agreement to provide a variety of services to Canadian.



## 15. SEGMENT REPORTING

AMR's operations fall within two lines of business: the Airline Group and The Sabre Group. The Airline Group consists primarily of American, one of the largest scheduled passenger airlines and air freight carriers in the world, and AMR Eagle Holding Corporation (AMR Eagle), a separate subsidiary of AMR. At December 31, 1998, AMR Eagle owns two regional airlines which operate as "American Eagle", and provide connecting service to American. The Sabre Group provides electronic distribution of travel through its Sabre(R) computer reservations system and information technology solutions to the travel and transportation industries.

In 1998, the Company 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.

The Company evaluates performance and allocates resources based upon segment operating income, which is defined as income before interest, other non-operating income and expense and income taxes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. The Company accounts for substantially all intersegment transactions at amounts which approximate current market prices.

Financial information by reportable segment is as follows (in millions):

	Airline Group -----	The Sabre Group -----	Total -----
December 31, 1998			
Revenues from external customers	\$17,396	\$ 1,732	\$19,128
Intersegment revenues	53	574	627
Operating income	1,951	350	2,301
Depreciation and amortization expense	1,038	248	1,286
Capital expenditures	2,340	320	2,660
Segment assets	19,582	1,927	21,509
December 31, 1997			
Revenues from external customers	\$16,856	\$ 1,263	\$18,119
Intersegment revenues	47	526	573
Operating income	1,569	313	1,882
Depreciation and amortization expense	1,038	185	1,223
Capital expenditures	1,139	218	1,357
Segment assets	18,708	1,504	20,212
December 31, 1996			
Revenues from external customers	\$16,170	\$ 1,125	\$17,295
Intersegment revenues	41	500	541
Operating income	1,442	330	1,772
Depreciation and amortization expense	1,018	165	1,183
Capital expenditures	338	184	522
Segment assets	18,519	1,287	19,806

## 15. SEGMENT REPORTING (CONTINUED)

The following provides a reconciliation of reportable segment revenues, operating income and assets to the Company's consolidated financial statement totals (in millions):

	Year Ended December 31,		
	1998	1997	1996
<b>Revenues</b>			
Total external revenues for reportable segments	\$ 19,128	\$ 18,119	\$ 17,295
Intersegment revenues for reportable segments	627	573	541
Other revenues (1)	119	95	102
Elimination of intersegment revenues	(669)	(603)	(574)
	-----	-----	-----
Total consolidated revenues	\$ 19,205	\$ 18,184	\$ 17,364
	=====	=====	=====
<b>Operating income</b>			
Total operating income for reportable segments	\$ 2,301	\$ 1,882	\$ 1,772
Other operating income	37	25	35
	-----	-----	-----
Total consolidated operating income	\$ 2,338	\$ 1,907	\$ 1,807
	=====	=====	=====
<b>Assets</b>			
Total assets for reportable segments	\$ 21,509	\$ 20,212	\$ 19,806
Other assets	285	241	241
Unallocated amounts:			
Income tax assets	509	406	404
	-----	-----	-----
Total consolidated assets	\$ 22,303	\$ 20,859	\$ 20,451
	=====	=====	=====

(1) Revenues from segments below the quantitative threshold for determining reportable segments consist primarily of revenues from AMR Training Group, AMR Investment Services, Inc., Americas Ground Services and Airline Management Services.

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

	Year Ended December 31,		
	1998	1997	1996
	-----	-----	-----
Domestic	\$13,546	\$12,651	\$11,979
Latin America	2,968	2,915	2,884
Europe	2,247	2,214	2,134
Pacific	444	404	367
	-----	-----	-----
Total consolidated revenues	\$19,205	\$18,184	\$17,364
	=====	=====	=====

The Company attributes operating revenues by geographic region based upon the origin and destination of each flight segment for the Airline Group and location of customer for The Sabre Group.

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

## 16. QUARTERLY FINANCIAL DATA (UNAUDITED)

Unaudited summarized financial data by quarter for 1998 and 1997 (in millions, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	-----	-----	-----	-----
1998 (*)				
Operating revenues	\$ 4,634	\$ 4,924	\$ 5,046	\$ 4,601
Operating income	548	724	732	334
Income from continuing operations	285	408	431	182
Net earnings	290	409	433	182
Earnings per common share:				
Basic				
From continuing operations	1.65	2.37	2.56	1.12
Net earnings	1.68	2.38	2.57	1.12
Diluted				
From continuing operations	1.59	2.29	2.48	1.09
Net earnings	1.62	2.30	2.49	1.09
1997 (*)				
Operating revenues	\$ 4,323	\$ 4,614	\$ 4,706	\$ 4,541
Operating income	340	580	607	380
Income from continuing operations	146	297	322	208
Net earnings	152	302	323	208
Earnings per common share:				
Basic				
From continuing operations	0.81	1.63	1.83	1.20
Net earnings	0.84	1.66	1.83	1.20
Diluted				
From continuing operations	0.79	1.60	1.78	1.16
Net earnings	0.82	1.63	1.78	1.16

(\*) Results for 1997 and the first and second quarters of 1998 have been restated for discontinued operations. The impact of the restated amounts was not material to any given quarter.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Incorporated herein by reference from the Company's definitive proxy statement for the annual meeting of stockholders on May 19, 1999. Information concerning the executive officers is included in Part I of this report on page 13.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated herein by reference from the Company's definitive proxy statement for the annual meeting of stockholders on May 19, 1999.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated herein by reference from the Company's definitive proxy statement for the annual meeting of stockholders on May 19, 1999.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated herein by reference from the Company's definitive proxy statement for the annual meeting of stockholders on May 19, 1999.

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	31
Consolidated Statements of Operations for the Years Ended December 31, 1998, 1997 and 1996	32-33
Consolidated Balance Sheets at December 31, 1998 and 1997	34-35
Consolidated Statements of Cash Flows for the Years Ended December 31, 1998, 1997 and 1996	36
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 1998, 1997 and 1996	37
Notes to Consolidated Financial Statements	38-58

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

	Page
	----
Report of Independent Auditors	68
Schedule II Valuation and Qualifying Accounts and Reserves	69

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 AMR's long-term debt agreements does not exceed 10 percent of AMR's assets, pursuant to paragraph (b)(4) of Item 601 of Regulation S-K, in lieu of filing such as an exhibit, AMR hereby agrees to furnish to the Commission upon request a copy of any agreement with respect to such long-term debt.)

EXHIBIT

-----

- 3.1 Restated Certificate of Incorporation of AMR, incorporated by reference to AMR's Registration Statement on Form S-4, file number 33-55191.
- 3.2 Bylaws of AMR, amended as of November 18, 1998.
- 10.1 Employment Agreement among AMR, American Airlines and Robert L. Crandall, dated January 1, 1988, incorporated by reference to Exhibit 10(t) to AMR's report on Form 10-Q for the period ended March 31, 1988; amendments thereto incorporated by reference to Exhibit 10(ff) to AMR's report on Form 10-K for the year ended December 31, 1989, Exhibit 10(tt) to AMR's report on Form 10-K for the year ended December 31, 1990, Exhibit 10(uu) to AMR's report on Form 10-Q for the period ended June 30, 1992, and Exhibit 10(ooo) to AMR's report on Form 10-Q for the period ended March 31, 1995.
- 10.2 Amended and Restated Employment Agreement among AMR, American Airlines and Robert L. Crandall, dated January 21, 1998, incorporated by reference to Exhibit 10.2 to AMR's report on Form 10-K for the year ended December 31, 1997.
- 10.3 Compensation and Benefit Agreement relative to the retirement of Robert L. Crandall, between AMR and Robert L. Crandall, dated September 18, 1998.
- 10.4 Irrevocable Executive Trust Agreement, dated as of May 1, 1992, between AMR and Wachovia Bank of North Carolina N.A., incorporated by reference to Exhibit 10(vv) to AMR's report on Form 10-K for the year ended December 31, 1992.
- 10.5 Deferred Compensation Agreement, dated April 14, 1973, as amended March 1, 1975, between American and Robert L. Crandall, incorporated by reference to Exhibit 10(c)(7) to American's Registration Statement No. 2-76709.
- 10.6 Form of Executive's Termination Benefits Agreement incorporated by reference to Exhibit 10(p) to AMR's report on Form 10-K for the year ended December 31, 1985.
- 10.7 Management Severance Allowance, dated as of February 23, 1990, for levels 1-4 employees of American Airlines, Inc., incorporated by reference to Exhibit 10(oo) to AMR's report on Form 10-K for the year ended December 31, 1989.
- 10.8 Management Severance Allowance, dated as of February 23, 1990, for level 5 and above employees of American Airlines, Inc., incorporated by reference to Exhibit 10(pp) to AMR's report on Form 10-K for the year ended December 31, 1989.

- 10.9 Description of informal arrangement relating to deferral of payment of directors' fees, incorporated by reference to Exhibit 10(c)(11) to American's Registration Statement No. 2-76709.
- 10.10 Directors Stock Equivalent Purchase Plan, incorporated by reference to Exhibit 10(gg) to AMR's report on Form 10-K for the year ended December 31, 1989.
- 10.11 Directors Stock Incentive Plan dated May 18, 1994, as amended, incorporated by reference to Exhibit 10.9 to AMR's report on Form 10-K for the year ended December 31, 1996.
- 10.13 Deferred Compensation Agreement, dated as of December 27, 1995, between AMR and Howard P. Allen, incorporated by reference to Exhibit 10(sss) to AMR's report on Form 10-K for the year ended December 31, 1995.
- 10.14 Deferred Compensation Agreement, dated as of January 31, 1990, between AMR and Edward A. Brennan, incorporated by reference to Exhibit 10(hh) to AMR's report on Form 10-K for the year ended December 31, 1989.
- 10.15 Deferred Compensation Agreement, dated as of June 1, 1998, between AMR and Edward A. Brennan.
- 10.16 Deferred Compensation Agreement, dated as of February 7, 1996, between AMR and Armando M. Codina, incorporated by reference to Exhibit 10(ttt) to AMR's report on Form 10-K for the year ended December 31, 1995.
- 10.17 Deferred Compensation Agreement, dated as of February 10, 1997, between AMR and Armando M. Codina, incorporated by reference to Exhibit 10.13 to AMR's report on Form 10-K for the year ended December 31, 1996.
- 10.18 Deferred Compensation Agreement, dated as of February 19, 1998, between AMR and Armando M. Codina, incorporated by reference to Exhibit 10.15 to AMR's report on Form 10-K for the year ended December 31, 1997.
- 10.19 Deferred Compensation Agreement, dated as of January 13, 1999, between AMR and Armando M. Codina.
- 10.20 Deferred Compensation Agreement, dated as of February 9, 1996, between AMR and Charles T. Fisher, III, incorporated by reference to Exhibit 10(uuu) to AMR's report on Form 10-K for the year ended December 31, 1995.
- 10.21 Deferred Compensation Agreement, dated as of January 30, 1997, between AMR and Charles T. Fisher, III, incorporated by reference to Exhibit 10.15 to AMR's report on Form 10-K for the year ended December 31, 1996.
- 10.22 Deferred Compensation Agreement, dated as of February 19, 1998, between AMR and Charles T. Fisher, III, incorporated by reference to Exhibit 10.18 to AMR's report on Form 10-K for the year ended December 31, 1997.
- 10.23 Deferred Compensation Agreement, dated as of February 16, 1999, between AMR and Charles T. Fisher, III.

- 10.24 Deferred Compensation Agreement, dated as of February 23, 1996, between AMR and Charles H. Pistor, Jr., incorporated by reference to Exhibit 10(vvv) to AMR's report on Form 10-K for the year ended December 31, 1995.
- 10.25 Deferred Compensation Agreement, dated as of January 30, 1997, between AMR and Charles H. Pistor, Jr., incorporated by reference to Exhibit 10.17 to AMR's report on Form 10-K for the year ended December 31, 1996.
- 10.26 Deferred Compensation Agreement, dated as of February 19, 1998, between AMR and Charles H. Pistor, Jr., incorporated by reference to Exhibit 10.21 to AMR's report on Form 10-K for the year ended December 31, 1997.
- 10.27 Deferred Compensation Agreement, dated as of January 7, 1999, between AMR and Charles H. Pistor, Jr.
- 10.28 Deferred Compensation Agreement, dated as of July 16, 1997, between AMR and Judith Rodin, incorporated by reference to Exhibit 10.22 to AMR's report on Form 10-K for the year ended December 31, 1997.
- 10.29 Deferred Compensation Agreement, dated as of February 19, 1998, between AMR and Judith Rodin, incorporated by reference to Exhibit 10.23 to AMR's report on Form 10-K for the year ended December 31, 1997.
- 10.30 Deferred Compensation Agreement, dated as of January 7, 1999, between AMR and Judith Rodin.
- 10.31 Description of American's Split Dollar Insurance Program, dated December 28, 1977, incorporated by reference to Exhibit 10(c)(1) to American's Registration Statement No. 2-76709.
- 10.32 AMR Corporation 1988 Long-Term Incentive Plan, incorporated by reference to Exhibit 10(t) to AMR's report on Form 10-K for the year ended December 31, 1988.
- 10.33 Amendment to AMR's 1988 Long-term Incentive Plan dated May 18, 1994, incorporated by reference to Exhibit A to AMR's definitive proxy statement with respect to the annual meeting of stockholders held on May 18, 1994.
- 10.34 AMR Corporation 1998 Long-Term Incentive Plan, as amended.
- 10.35 Form of Stock Option Agreement for Corporate Officers under the AMR 1988 Long-Term Incentive Plan, incorporated by reference to Exhibit 10(rr) to AMR's report on Form 10-K for the year ended December 31, 1990.
- 10.36 Current form of Stock Option Agreement under the AMR 1988 Long-Term Incentive Plan, incorporated by reference to Exhibit 10.28 to AMR's report on Form 10-K for the year ended December 31, 1997.
- 10.37 Current form of Stock Option Agreement under the AMR 1998 Long-Term Incentive.
- 10.38 Form of Career Equity Program Agreement, incorporated by reference to Exhibit 10(nnn) to AMR's report on Form 10-K for the year ended December 31, 1994.
- 10.39 Current Form of Career Equity Program Deferred Stock Award Agreement for Corporate Officers under the AMR 1988 Long-Term Incentive Plan, incorporated by reference to Exhibit 10.30 to AMR's report on Form 10-K for the year ended December 31, 1997.

- 10.40 Current form of Career Equity Program Deferred Stock Award Agreement for non-officers under the AMR 1988 Long-Term Incentive Plan, incorporated by reference to Exhibit 10.31 to AMR's report on Form 10-K for the year ended December 31, 1997.
- 10.41 Current Form of Career Equity Program Deferred Stock Award Agreement for Corporate Officers under the AMR 1998 Long-Term Incentive Plan.
- 10.42 Current form of Career Equity Program Deferred Stock Award Agreement for non-officers under the AMR 1998 Long-Term Incentive Plan.
- 10.42(a) Current form of Career Equity Program Deferred Stock Award Agreement for Senior Officers under the AMR 1998 Long-Term Incentive Plan.
- 10.43 Form of Guaranty to Career Equity Program under the AMR 1988 Long-Term Incentive Plan, incorporated by reference to Exhibit 10(ccc) to AMR's report on Form 10-K for the year ended December 31, 1993.
- 10.44 Performance Share Program for the years 1994 to 1996 under the 1988 Long-term Incentive Program, incorporated by reference to Exhibit 10(111) to AMR's report on Form 10-K for the year ended December 31, 1994.
- 10.45 Performance Share Program for the years 1995 to 1997 under the 1988 Long-term Incentive Program, incorporated by reference to Exhibit 10(ooo) to AMR's report on Form 10-K for the year ended December 31, 1995.
- 10.46 Performance Share Program for the years 1996 to 1998 under the 1988 Long-term Incentive Program, incorporated by reference to Exhibit 10.26 to AMR's report on Form 10-K for the year ended December 31, 1996.
- 10.47 Performance Share Program for the years 1997 to 1999 under the 1988 Long-term Incentive Program, incorporated by reference to Exhibit 10.27 to AMR's report on Form 10-K for the year ended December 31, 1996.
- 10.48 Form of Performance Share Program for the years 1997 to 1999 under the 1988 Long-term Incentive Program, incorporated by reference to Exhibit 10.37 to AMR's report on Form 10-K for the year ended December 31, 1997.
- 10.49 Performance Share Program for the years 1998 to 2000 under the 1988 Long-term Incentive Program, incorporated by reference to Exhibit 10.38 to AMR's report on Form 10-K for the year ended December 31, 1997.
- 10.50 Performance Share Program for the years 1999 to 2001 under the 1998 Long-term Incentive Program
- 10.51 American Airlines, Inc. Supplemental Executive Retirement Program, as amended January 1997, incorporated by reference to Exhibit 10.28 to AMR's report on Form 10-K for the year ended December 31, 1996.
- 10.52 AMR Corporation 1987 Executive Deferral Plan, as amended through 1999.
- 10.53 American Airlines, Inc. 1996 Employee Profit Sharing Plan, incorporated by reference to Exhibit 10.29 to AMR's report on Form 10-K for the year ended December 31, 1996.
- 10.54 American Airlines, Inc. 1997 Employee Profit Sharing Plan, incorporated by reference to Exhibit 10.30 to AMR's report on Form 10-K for the year ended December 31, 1996.



- 10.55 American Airlines, Inc. 1998 Employee Profit Sharing Plan, incorporated by reference to Exhibit 10.43 to AMR's report on Form 10-K for the year ended December 31, 1997.
- 10.56 American Airlines, Inc. 1999 Employee Profit Sharing Plan.
- 10.57 American Airlines, Inc. 1996 Incentive Compensation Plan for Officers and Key Employees, incorporated by reference to Exhibit 10(qqq) to AMR's report on Form 10-K for the year ended December 31, 1995.
- 10.58 American Airlines, Inc. 1997 Incentive Compensation Plan for Officers and Key Employees, incorporated by reference to Exhibit 10.32 to AMR's report on Form 10-K for the year ended December 31, 1996.
- 10.59 American Airlines, Inc. 1998 Incentive Compensation Plan for Officers and Key Employees, incorporated by reference to Exhibit 10.46 to AMR's report on Form 10-K for the year ended December 31, 1997.
- 10.60 American Airlines, Inc. 1999 Incentive Compensation Plan for Officers and Key Employees.
- 10.61 Amended and Restated Executive Termination Benefits Agreement between AMR, American Airlines and Gerard J. Arpey, dated May 21, 1998.
- 10.62 Amended and Restated Executive Termination Benefits Agreement between AMR, American Airlines and Robert W. Baker, dated May 21, 1998.
- 10.63 Amended and Restated Executive Termination Benefits Agreement between AMR, American Airlines and Peter M. Bowler, dated May 21, 1998.
- 10.64 Amended and Restated Executive Termination Benefits Agreement between AMR, American Airlines and Donald J. Carty, dated May 21, 1998.
- 10.65 Amended and Restated Executive Termination Benefits Agreement between AMR, American Airlines and Peter J. Dolara, dated May 21, 1998.
- 10.66 Amended and Restated Executive Termination Benefits Agreement between AMR, American Airlines and Daniel P. Garton, dated May 21, 1998.
- 10.67 Amended and Restated Executive Termination Benefits Agreement between AMR, American Airlines and Michael W. Gunn, dated May 21, 1998.
- 10.68 Amended and Restated Executive Termination Benefits Agreement between AMR, American Airlines and Thomas J. Kiernan, dated May 21, 1998.
- 10.69 Amended and Restated Executive Termination Benefits Agreement between AMR, American Airlines and David L. Kruse, dated May 21, 1998.
- 10.70 Amended and Restated Executive Termination Benefits Agreement between AMR, American Airlines and Charles D. MarLett, dated May 21, 1998.
- 10.71 Amended and Restated Executive Termination Benefits Agreement between AMR, American Airlines and Anne H. McNamara, dated May 21, 1998.
- 10.72 Aircraft Sales Agreement by and between American Airlines, Inc. and Federal Express Corporation, dated April 7, 1995, incorporated by reference to Exhibit 10(rrr) to AMR's report on Form 10-K for the year ended December 31, 1995. Confidential treatment was granted as to a portion of this document.

- 10.73 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's report on Form 10-K for the year ended December 31, 1997. Confidential treatment was granted as to a portion of this document.
- 10.74 Aircraft Purchase Agreement by and between AMR Eagle Holding Corporation and Bombardier Inc., dated January 31, 1998, incorporated by reference to Exhibit 10.49 to AMR's report on Form 10-K for the year ended December 31, 1997. Confidential treatment was granted as to a portion of this document.
- 10.75 Aircraft Purchase Agreement by and between AMR Eagle, Inc. and Embraer-Empresa Brasileira de Aeronautica S.A., dated December 22, 1997, incorporated by reference to Exhibit 10.50 to AMR's report on Form 10-K for the year ended December 31, 1997. Confidential treatment was granted as to a portion of this document.
- 10.76 Aircraft Purchase Agreement by and between AMR Eagle Holding Corporation and Embraer-Empresa Brasileira de Aeronautica S.A., dated September 30, 1998. Confidential treatment has been requested as to a portion of this document.
- 10.77 The Sabre Group, Inc. Long-Term Incentive Plan, incorporated by reference to Exhibit 10.25 to The Sabre Group Holdings, Inc.'s Registration Statement on Form S-1, file number 333-09747.
- 10.78 The Sabre Group, Inc. Directors' Stock Incentive Plan, incorporated by reference to Exhibit 10.26 to The Sabre Group Holdings, Inc.'s Registration Statement on Form S-1, file number 333-09747.
- 10.79 Form of Executive Termination Benefits Agreement for The Sabre Group, Inc., incorporated by reference to Exhibit 10.27 to The Sabre Group Holdings, Inc.'s Registration Statement on Form S-1, file no. 333-09747.
- 12 Computation of ratio of earnings to fixed charges for the years ended December 31, 1994, 1995, 1996, 1997 and 1998
- 21 Significant subsidiaries of the registrant as of December 31, 1998.
- 23 Consent of Independent Auditors.
- 27.1 Financial Data Schedule as of December 31, 1998.
- 27.2 Restated Financial Data Schedule as of December 31, 1997.
- 27.3 Restated Financial Data Schedule as of December 31, 1996.

## (b) Reports on Form 8-K:

On October 22, 1998, AMR filed a report on Form 8-K relative to a press release issued to report the Company's third quarter 1998 earnings and to announce that the Company's board of directors authorized management to repurchase additional shares of the Company's outstanding common stock.

On November 19, 1998, AMR 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 January 21, 1999, AMR filed a report on Form 8-K relative to a press release issued to report the Company's fourth quarter and full year 1998 earnings.

On February 18, 1999, AMR 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, AMR 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, AMR filed a report on Form 8-K relative to a press release issued to announce that the Company's board of directors has authorized management to repurchase up to an additional \$500 million of its outstanding common stock and 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.

AMR CORPORATION

/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 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 Stockholders  
AMR Corporation

We have audited the consolidated financial statements of AMR Corporation 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 2 and the last paragraph of Note 3, 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 2 and the  
last paragraph of Note 3, for  
which the date is February 22, 1999.

AMR CORPORATION  
 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 obsolescence of inventories	\$203	\$ 40	\$ --	\$ --	\$(29)	\$214
Allowance for uncollectible accounts	18	24	--	(11)	--	31
Booking fee cancellation reserve	15	3	--	--	--	18
Reserves for environmental remediation costs	14	12	(3)	--	--	23
YEAR ENDED DECEMBER 31, 1997						
Allowance for obsolescence of inventories	212	36	--	--	(45)	203
Allowance for uncollectible accounts	11	23	--	(16)	--	18
Booking fee cancellation reserve	14	1	--	--	--	15
Reserves for environmental remediation costs	18	--	(4)	--	--	14
YEAR ENDED DECEMBER 31, 1996						
Allowance for obsolescence of inventories	249	23	--	--	(60)	212
Allowance for uncollectible accounts	16	17	--	(22)	--	11
Booking fee cancellation reserve	12	2	--	--	--	14
Reserves for environmental remediation costs	21	3	(6)	--	--	18

## INDEX TO EXHIBITS

EXHIBIT NO. -----	DESCRIPTION -----
3.2	Bylaws of AMR, amended as of November 18, 1998.
10.3	Compensation and Benefit Agreement relative to the retirement of Robert L. Crandall, between AMR and Robert L. Crandall, dated September 18, 1998.
10.15	Deferred Compensation Agreement, dated as of June 1, 1998, between AMR and Edward A. Brennan.
10.19	Deferred Compensation Agreement, dated as of January 13, 1999, between AMR and Armando M. Codina.
10.23	Deferred Compensation Agreement, dated as of February 16, 1999, between AMR and Charles T. Fisher, III.
10.27	Deferred Compensation Agreement, dated as of January 7, 1999, between AMR and Charles H. Pistor, Jr.
10.30	Deferred Compensation Agreement, dated as of January 7, 1999, between AMR and Judith Rodin.
10.34	AMR Corporation 1998 Long-Term Incentive Plan, as amended.
10.37	Current form of Stock Option Agreement under the AMR 1998 Long-Term Incentive.
10.41	Current Form of Career Equity Program Deferred Stock Award Agreement for Corporate Officers under the AMR 1998 Long-Term Incentive Plan.
10.42	Current form of Career Equity Program Deferred Stock Award Agreement for non-officers under the AMR 1998 Long-Term Incentive Plan.
10.42(a)	Current form of Career Equity Program Deferred Stock Award Agreement for Senior Officers under the AMR 1998 Long-Term Incentive Plan.
10.50	Performance Share Program for the years 1999 to 2001 under the 1998 Long-term Incentive Program
10.52	AMR Corporation 1987 Executive Deferral Plan, as amended through 1999.

- 10.56 American Airlines, Inc. 1999 Employee Profit Sharing Plan.
- 10.60 American Airlines, Inc. 1999 Incentive Compensation Plan for Officers and Key Employees.
- 10.61 Amended and Restated Executive Termination Benefits Agreement between AMR, American Airlines and Gerard J. Arpey, dated May 21, 1998.
- 10.62 Amended and Restated Executive Termination Benefits Agreement between AMR, American Airlines and Robert W. Baker, dated May 21, 1998.
- 10.63 Amended and Restated Executive Termination Benefits Agreement between AMR, American Airlines and Peter M. Bowler, dated May 21, 1998.
- 10.64 Amended and Restated Executive Termination Benefits Agreement between AMR, American Airlines and Donald J. Carty, dated May 21, 1998.
- 10.65 Amended and Restated Executive Termination Benefits Agreement between AMR, American Airlines and Peter J. Dolara, dated May 21, 1998.
- 10.66 Amended and Restated Executive Termination Benefits Agreement between AMR, American Airlines and Daniel P. Garton, dated May 21, 1998.
- 10.67 Amended and Restated Executive Termination Benefits Agreement between AMR, American Airlines and Michael W. Gunn, dated May 21, 1998.
- 10.68 Amended and Restated Executive Termination Benefits Agreement between AMR, American Airlines and Thomas J. Kiernan, dated May 21, 1998.
- 10.69 Amended and Restated Executive Termination Benefits Agreement between AMR, American Airlines and David L. Kruse, dated May 21, 1998.
- 10.70 Amended and Restated Executive Termination Benefits Agreement between AMR, American Airlines and Charles D. MarLett, dated May 21, 1998.
- 10.71 Amended and Restated Executive Termination Benefits Agreement between AMR, American Airlines and Anne H. McNamara, dated May 21, 1998.



- 10.76 Aircraft Purchase Agreement by and between AMR Eagle Holding Corporation and Embraer-Empresa Brasileira de Aeronautica S.A., dated September 30, 1998. Confidential treatment has been requested 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
- 21 Significant subsidiaries of the registrant as of December 31, 1998.
- 23 Consent of Independent Auditors.
- 27.1 Financial Data Schedule as of December 31, 1998.
- 27.2 Restated Financial Data Schedule as of December 31, 1997.
- 27.3 Restated Financial Data Schedule as of December 31, 1996.

## AMR CORPORATION

## 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 1. 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 10% 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 not be more than ten (10) days after the date upon which the resolution fixing the record date is adopted by the board of directors.

The board of directors shall promptly, but in all events within ten (10) days after the date on which the written request for fixing a record date was received by the secretary, adopt a resolution fixing the record date. If no record date has been fixed by the board of directors within ten (10) days of the date on which such a request is received, the record date for determining stockholders entitled to vote by consent, when no prior action by the board of directors is required by applicable law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken was delivered to the corporation by delivery to its registered office in the State of Delaware, its principal place of business, or any officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to the corporation's registered office shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the board of directors and prior action by the board of directors is required by applicable law, the record date for determining stockholders entitled to vote by consent shall be at the close of business on the date on which the board of directors adopts the resolution taking such prior action.

Section 10. 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 11. 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 1. Executive Committee. The board of directors may, by resolution passed by a majority of the whole board, designate an executive committee, to consist of three or more members. The chief executive officer plus one other member 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 three 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 Committee. The board of directors may, by resolution passed by a majority of the whole board, designate a compensation committee, to consist of three or more members of the board of directors, except that no member of the compensation committee may (i) be an employee or officer of the corporation or (ii) maintain a relationship with the Corporation that would cause such member to be ineligible for membership on the compensation committee pursuant to rules or regulations adopted by the Securities and Exchange Commission, the Internal Revenue Service or any other governmental agency. A majority of the members of the compensation committee shall constitute a quorum.

The compensation 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.

Section 4. Nominating/Governance Committee. The board of directors may, by resolution passed by a majority of the whole board, designate a nominating and governance committee, to consist of three or more members, none of the members of which shall be employees or officers of the corporation. A majority of the members of the nominating and governance committee shall constitute a quorum.

The nominating and governance 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, (iii) with respect to promotions, changes and succession among the senior management of the corporation and (iv) concerning practices and procedures for the proper and efficient management of the board of directors. The nominating and governance committee shall perform such other duties as may be specifically delegated to the committee by the board of directors.

Section 5. Committee Procedure, Seal.

(a) The executive, compensation, nominating and governance 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 governance 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 6. 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 1. 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 (1) 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 1 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 1 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 1 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 1 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 1 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 1 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 1 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 1 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 1. 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 1. 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 1. 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, (1) 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.



## PERSONAL &amp; CONFIDENTIAL

September 18, 1998

R. L. Crandall

This letter will confirm the mutual agreement between you and the Compensation Committee of the Board of Directors of AMR Corporation ("AMR" or the "Company") relating to the compensation and benefit arrangements relative to your retirement from AMR.

## Cash Compensation

Your last day of work was May 20, 1998. You will remain on payroll at your current annual base salary through December 31, 1998, at which time you will convert to retiree status.

## Incentive Compensation Award

In accordance with the 1998 American Airlines Incentive Compensation Plan, you will be eligible to receive your target award (100% of base salary through December 31, 1998), adjusted for Company performance, if awards are paid in 1999 to the senior officers of the Company. The award will be determined by the AMR Compensation Committee.

## Performance Return Award

In accordance with the Career Equity Program, you will be eligible to receive a 1998 Performance Return Payment, to the extent such payments are awarded to senior officers of the Company in 1998. The amount of your payment will be determined by the Compensation Committee.

## Deferred Compensation

## a) Executive Deferral Plan

You elected to defer compensation in 1983, 1984 and 1986. Your balances as of December 31, 1997 and your payment elections are reflected below:

Year	Balance @ 12/31/97	# of Annual Payments	Date Payments Begin
----	-----	-----	-----
1983	\$ 438,569.11	5	March 1, 1999
1984	647,091.52	5	March 1, 1999
1986	720,541.04	5	March 1, 1999
	-----		
Total	\$1,806,201.67		

## Deferred Compensation (cont'd)

## b) 1973 Deferred Compensation Agreement, as amended 1975

Pursuant to the agreement dated April 14, 1973, between you and American Airlines, American will pay you deferred compensation at a monthly rate of 10% of your average monthly salary from American during the last three years of your employment. Such deferred compensation will be paid for a period of 23 months commencing the first day of the month following the termination of your status as an officer, i.e., June 1, 1998:

Estimated Value as of June 1, 1998:

Earnings June 1995-May 1998	\$2,258,330
Divided by 36 months	\$62,731.39
	-----
Multiplied by 10% = 23 payments each of:	\$ 6,273.14
	-----

## Stock Based Compensation

## a) Rabbi Trust

On February 5, 1998 you made an election in writing (pursuant to Paragraph 1.1(c) of Schedule A of the Amended and Restated Employment Agreement dated January 21, 1998) to voluntarily defer receipt of the assets contained in the Rabbi Trust created by the Irrevocable Executive Trust Agreement, as amended and restated as of May 1, 1992. You elected to be paid on the first business day of January in 11 consecutive annual installments, commencing January 4, 1999. The installments will be paid in the following order and amounts: (i) a first installment of \$1,000,000; (ii) nine succeeding installments each of \$2,000,000; and (iii) a final installment equal to the balance due in a lump sum.

## b) Stock Options

As of May 1, 1998 you had exercised all of your vested options. The vesting period for your remaining stock options will be accelerated; however, the exercise dates for such options will remain the same. You will continue to be eligible to exercise your options under the Cashless Exercise Program, provided this program is available to senior officers of the Company. See Exhibit A for more detailed information concerning your existing stock options.

## c) Performance Shares

You were granted a target award of 22,500 (pre-split) Performance Shares on July 22, 1996 under the 1996-98 Performance Share Plan. According to the terms of the Plan, shares will vest on a pro rata basis and will be paid following the end of the measurement period (12/31/98), provided the performance criteria have been satisfied. As you will have been on payroll during the entire 36-month measurement period, you will vest in 100% of the award you otherwise would have earned, if any, at the end of the measurement period. The actual number of shares awarded could exceed or be less than your target award based on the Company's performance.

You were granted a target award of 22,500 (pre-split) Performance Shares on July 21, 1997 under the 1997-99 Performance Share Plan. According to the terms of the Plan, shares will vest on a pro rata basis and will be paid following the end of the measurement period (12/31/99) provided the performance criteria have been satisfied. As you will have been on payroll during 24 months of the 36-month measurement period, you will vest in 66.7% of the award you otherwise would have earned, if any, at the end of the measurement period. The actual number of shares awarded could exceed or be less than your target award based on the Company's performance.

You were granted a target award of 29,400 (post-split) Performance Shares on July 15, 1998, under the 1998-00 Performance Share Plan. According to the terms of the Plan, shares will vest on a pro rata basis and will be paid following the end of the measurement period (12/31/00), provided the performance criteria have been satisfied. As you will have been on payroll during 12 months of the 36-month measurement period, you will vest in 33.3% of the award you otherwise would have earned, if any, at the end of the measurement period. The actual number of shares awarded could exceed or be less than your target award based on the Company's performance.

The payment of any award of performance shares is subject to the approval of the Compensation Committee. See Exhibit A for more detailed information concerning Performance Shares.

## Pension Benefit

You are fully vested in your pension benefits . You will continue to accrue credited service and pensionable earnings under the Retirement Benefit Plan (RBP) and the Supplemental Executive Retirement Program (SERP) while you remain on payroll through December 31, 1998.

You currently do not have an RBP or SERP Pension Benefit Election Form on file. Since you are within one year of your retirement date, the election of any form of payment other

## Pension Benefit (cont'd)

than a spouse's 50% joint & survivor annuity requires a physical examination showing proof of normal life expectancy. The SERP lump sum option requires both one year advance notice and proof of normal life expectancy, in addition to a general waiver and spousal consent. A waiver of the one year notice has been approved by the Board of Directors.

You will also receive a benefit from Variable Benefit Plan (VBP). The benefit to be paid from this plan will be based upon the number of units you hold in the trust fund multiplied by the appropriate unit value. Your VBP benefit value as of March 31, 1998 was:

VBP Value as of 3/31/98:

- - - - -

Number of Units	4,040.170
Unit Value	\$ 89.095
Lump Sum Value	\$359,958.95

Upon retirement, you may withdraw the value of your units or elect to defer commencement of your benefit until a later date, up to age 65. If you elect to defer receipt, your units in the plan will increase by 4% per year. Upon withdrawal, your benefit value will be based on the unit value for the month prior to the month of your elected withdrawal.

## Super Saver 401(k) Plan

You may continue to participate in the Super Saver Plan and move investments among the available funds under the provisions of the plan. However, no further contributions may be made after your monthly payroll payments cease on December 31, 1998.

Plan provisions allow commencement of distribution upon reaching actual age 59 1/2 or age 55 (if retired), whichever occurs first. Alternatively, you may elect to leave your funds in your account following your retirement. As such, you may continue to transfer your funds among the available investment options on a quarterly basis by giving notice to Super Saver Plan Headquarters in accordance with plan procedures. However, you must begin receiving your benefit no later than actual age 70 1/2 or you will incur a substantial tax penalty under the current tax laws.

## Flexible Benefits/ Retiree Benefits Coverages

## a) Health Benefits Coverage

You will continue to be covered under the Flexible Benefits Program in accordance with plan provisions while you remain on payroll through December 31, 1998. Your benefit pay will continue and deductions will be taken each pay period based on the options you have elected.

## Flexible Benefits/ Retiree Benefits Coverages (cont'd)

Upon your retirement on January 1, 1999, you will receive retiree medical coverage, in accordance with plan provisions at such time, provided you continue pre-funding for this benefit through December 31, 1998. The Retiree Medical Plan covers eligible dependents (until you reach age 65) but does not provide dental or vision care coverages.

## b) Supplemental Medical Coverage

You have elected Supplemental Medical Coverage through the Flexible Benefits Program through December 31, 1998. You may continue to purchase coverages in the American Airlines Supplemental Medical Plan into retirement by sending a check for annual premiums due to the Plan administrator.

## c) Group Term Life Insurance Coverage

Your Group Term Life Insurance coverage will continue under the Flexible Benefits Program through December 31, 1998, under the same conditions as your health coverage. To the extent the conversion privilege continues to be available to retired employees of the Company, you may convert any group term life insurance you have been purchasing under the Flexible Benefits Program to an individual policy by contacting the plan administrator within 30 days after your retirement.

## d) Optional Short Term and Long Term Disability Coverage (STD and LTD)

You did not elect Optional Short Term and Long Term Disability coverages under the Flexible Benefits Program.

## e) Accidental Death and Dismemberment Coverage (AD&amp;D)

You did not elect Accidental Death and Dismemberment coverages under the Flexible Benefits Program.

## f) Management Personal Accident Insurance Coverage

Company paid management personal accident insurance coverage of three times your annual salary (up to \$1,000,000) will continue while you remain on payroll.

## Split Dollar Life Insurance Policies

You are provided supplemental life insurance through the Split Dollar Life program. Your coverage is provided through two policies issued by Massachusetts Mutual Life Insurance Company. At the beginning of the current policy year, December 28, 1997, the current benefit payable to your beneficiary is \$451,124. The projected benefit when you reach age 65 and policy is released to you is \$488,332.

## Split Dollar Life Insurance Policies (cont'd)

The Company will continue to advance the annual premiums on your Split Dollar Life Insurance policy for the lesser of your lifetime or your attainment of age 65. Upon reaching age 65, the Company will recover the amount of premiums previously paid in your behalf and release the policy to you. No action will be required on your part at this time or upon your retirement.

## Supplemental Life Insurance

Pursuant to the terms of your employment agreement, you are provided supplemental life insurance in addition to the coverage provided through the Group Term and Split Dollar Life insurance programs. Your coverage is provided through one policy issued by Phoenix Home Life Mutual Insurance Company (formerly Phoenix Mutual). The current death benefit payable from this policy is \$1,206,095.

Upon retirement, you have the right to assume this policy, without any payment to the Company, and continue this coverage at your own expense.

## Disability Policies

You are provided long term disability benefit coverage by the Company. Your coverage is provided through two policies issued by the UNUM Life Insurance Company and one policy issued by the Provident Life & Accident Insurance Company. Should you become disabled, the annual benefits paid from the above mentioned policies would be as follows:

UNUM	\$ 132,000
Provident	120,000
	-----
Total	\$ 252,000
	=====

The Company will continue to pay for this disability coverage until you reach age 65.

## Health Care Spending Account

You may file claims for eligible treatment received prior to your retirement for payment from your Health Care Spending Account. Following your retirement, you may only use the account if you continue to make contributions, and you may only continue to make contributions if you purchase continuation (COBRA) coverage. Otherwise, any balance remaining will be forfeited at the time of your retirement.

## Pass Travel

Through December 31, 1998, you will retain you're A-2 travel privileges and D-3 pass allowance, to the extent such privileges continue to be made available to senior officers and retired officers of the Company.

#### Pass Travel (cont'd)

Upon retirement, you and Jan will be provided Air Travel (formerly Universal Air Travel Plan) cards which allow unlimited travel in full-fare booking classes (F, C and Y) on American Airlines and American Eagle only. The company will gross-up the value of travel reported as imputed income to you to compensate you for the tax liability.

#### Tax and Financial Planning

To the extent such benefits continue to be made available to senior officers of the Company, AMR will continue to pay for your tax and financial planning services through December 31, 1998.

#### Leased Automobile

You may continue to use the automobile currently leased by American Airlines for you through December 31, 1998. You have notified Executive Compensation that you do not wish American to purchase the automobile and transfer title to you upon your retirement.

#### Club Memberships

You may continue to use the company-provided club membership at University Club through December 31, 1998. Thereafter, your club membership will revert to the Company. The Company will continue to pay monthly dues on your behalf for your personal club membership with the Northwood Club through December 31, 2005.

You may continue to use the company-provided club membership at La Cima Club through December 31, 2005.

Upon retirement AMR will provide you and Jan with lifetime Admirals Club memberships.

#### DFW Parking

The DFW Airport Board has agreed that you may retain your current parking privileges at the DFW Airport, including the transponder and parking tag. You may retain these privileges indefinitely, for so long as the DFW Airport Board permits.

#### Office Space

The Company will provide you with an office and will pay the salary and associated benefits for an administrative assistant through December 31, 2005. The office will be of a size and in a location appropriate for an executive of your expertise and experience. Similarly, the salary and associated benefits for an administrative assistant will be those appropriate for an executive of your expertise and experience.

Company Property

You may purchase from the company any home office equipment including computer and fax machine. See Exhibit B for a listing of home office equipment. You may retain your AMR AT&T Blue Telephone Card through December 31, 2005.

Please return your building entry cards and company identification cards to Executive Compensation when you convert to retiree status on December 31, 1998.

[Remainder of page intentionally left blank]



If you agree with the foregoing, please sign three originals of this letter and return two of the originals to Tom Kiernan (the other is for your files).

Attest: Very truly yours,

-----  
Charles D. MarLett  
Corporate Secretary  
AMR Corporation

Edward A. Brennan  
Chairman  
Compensation Committee, AMR Corporation

Accepted and Agreed:

-----  
Robert L. Crandall

-----  
Date

June 1, 1998

Mr. Edward A. Brennan  
400 North Michigan Avenue  
Suite 400  
Chicago, IL 60611

Dear Ed:

I'm enclosing a copy of the deferral agreement that was signed in 1990 pursuant to which you have been deferring your Board compensation.

Under the current arrangement, your deferral will end on December 31, 1999. Thereafter, your phantom stock units will be converted to cash and paid to you in a lump-sum.

As we discussed, the amount you've deferred has, over the years, increased substantially. And, if you wanted to elect a new distribution date and method there still remains time to do so.

I've composed the attached letter that serves to: (i) defer all cash compensation you receive as a member of the AMR Board into phantom stock units (unless you tell us otherwise); (ii) changes the distribution date to the first to occur of (a) your retirement from the Board or (b) you otherwise leave the Board; and (iii) change, if you wish, the distribution from a lump-sum payment to some other arrangement (e.g., payment over "x" years).

If the letter meets with your approval, please sign (remember to complete the third paragraph concerning distribution) and send one original to me. The other is for your file.

Thank you and let me know if you have any questions.

Very truly yours,

Charles D. MarLett  
Corporate Secretary

Enclosures

P.S. I'm also enclosing a copy of AMR's 1998 proxy statement.

June 2, 1998

Mr. Edward A. Brennan  
400 North Michigan Avenue  
Suite 400  
Chicago, IL 60611

Dear Ed:

This letter will confirm the changes we discussed to your deferral arrangement.

1. You will continue to defer, pursuant to the Directors' Stock Equivalent Purchase Plan (the "Plan"), all cash compensation paid to you as a consequence of your service on the Board of Directors of AMR Corporation and/or American Airlines, Inc. You may discontinue this deferral at any time upon written notice to AMR.
2. The Deferral Termination Date (see Article 1.04 of the Plan) will be the first to occur of: (i) your retirement from the Board or (ii) your departure from the Board for reasons other than retirement.
3. Please indicate below whether you want the payment to be (i) a lump-sum payment or (ii) made in installments. If you choose a lump-sum payment, the first and final distribution will be made in accordance with Article 4.01(B).

If you choose an installment payment, the distribution will be made in accordance with Articles 4.01(B) and (C).

I ELECT DISTRIBUTION TO BE MADE AS FOLLOWS [INDICATE A LUMP-SUM PAYMENT OR INSTALLMENT OVER "X" YEARS]: \_\_\_\_\_ .

4. In the event of your death prior to a full distribution of the Stock Equivalent Units, the distribution will be made in accordance with Article 4.01(E) in favor of Lois L. Brennan.

Please indicate your agreement to the foregoing by signing below. This letter will replace in its entirety that dated January 31, 1990. Capitalized terms will have the meanings set forth in the Plan, a copy of which is attached hereto.

Very truly yours,

Charles D. Marlett  
Corporate Secretary

Agreed:

-----  
Edward A. Brennan

January 13, 1999

Mr. Armando M. Codina  
Chairman  
Codina Group, Inc.  
Two Alhambra Plaza, PH2  
Coral Gables, FL 33134

Dear Armando:

This will confirm the following agreement relating to the deferral of, and payment of, your directors' fees in 1999:

1. All directors' fees and retainers ("Fees") payable to you in connection with your service on the boards of directors (including committees of such boards) of AMR Corporation and American Airlines, Inc. for the period January 1, 1999, through December 31, 1999, will be deferred and paid to you in accordance with the following:

2. Fees will be converted to Stock Equivalent Units in accordance with the Directors' Stock Equivalent Purchase Plan, a copy of which is attached hereto as Exhibit A.

3. On or before January 31, 2009, all the Stock Equivalent Units will be converted to cash and paid to you by multiplying the number of Stock Equivalent Units as of December 31, 2008, by the arithmetic mean of the high and low of AMR stock ("fair market value") during the immediately preceding calendar month.

4. AMR's obligation to make payments pursuant to paragraph 3 hereof will not be released or modified by reason of your death. In such event, the number of Stock Equivalent Units as of your date of death will be multiplied by the fair market value of AMR stock during the calendar month immediately preceding your death, and the amount paid to Margarita Codina.

If the foregoing is satisfactory to you, please indicate by signing one of the originals (two are enclosed) and returning it to me.

Very truly yours,

Charles D. Marlett  
Corporate Secretary

Accepted and agreed:

-----  
Armando M. Codina

-----  
Date

February 16, 1999

Mr. Charles T. Fisher, III  
Renaissance Center  
Tower 100  
Suite 3520  
Detroit, Michigan 48243

Dear Chick:

This will confirm the following agreement relating to the deferral of, and payment of, your directors' fees:

1. All directors' fees and retainers payable to you in connection with your service on the boards of directors (including committees of such boards) of AMR Corporation ("AMR") and American Airlines, Inc. for the period January 1, 1999, through December 31, 1999, will be paid to you on a deferred basis as set forth below.

2. Interest will be accrued on the amounts to be paid on a deferred basis pursuant to paragraph 1 above, from the date such fees would otherwise have been paid to the date actually paid, at the prime rate which The Chase Manhattan Bank (National Association) from time to time charges in New York for 90-day loans to responsible commercial borrowers, such interest to be compounded monthly.

3. The total amount to be paid on a deferred basis plus the aggregate amount of interest accrued thereon and to accrue on the portion unpaid from time to time will be paid to you in four installments as follows:

a) on January 1, 2004, 25% of the deferred fees and 25% of the interest accrued through December 31 of the immediately preceding year;

b) on January 1, 2005, 25% of the deferred fees and 25% of the interest accrued through December 31 of the immediately preceding year;

c) on January 1, 2006, 25% of the deferred fees and 25% of the interest accrued through December 31 of the immediately preceding year;

d) on January 1, 2007, 25% of the deferred fees and all interest accrued and remaining to be paid on such payment date.

4. AMR's obligation to make payments pursuant to paragraph 3 hereof will not be released or modified by reason of your death. In the event of your death prior to the payments contemplated by paragraph 3 hereof, the amounts remaining will be paid to Charles T. Fisher, III, trustee, under the Charles T. Fisher, III Revocable Living Trust, dated March 24, 1988, as amended.

5. This letter replaces in its entirety that letter dated January 11, 1999, regarding this subject matter.

If the foregoing is satisfactory to you, please indicate by signing and returning one of the originals of this letter (I'm sending two).

Very truly yours,

Charles D. MarLett  
Corporate Secretary

Accepted and agreed:

-----  
Charles T. Fisher, III

-----  
Date



January 7, 1999

Mr. Charles H. Pistor, Jr.  
4200 Belclaire  
Dallas, Texas 75205

Dear Charlie:

This will confirm the following agreement relating to the deferral of, and payment of, your directors' fees:

1. All directors' fees and retainers payable to you in connection with your service on the boards of directors (including committees of such boards) of AMR Corporation ("AMR") and American Airlines, Inc. for the period January 1, 1999, through December 31, 1999, will be paid to you on a deferred basis as set forth below.

2. Interest will be accrued on the amounts to be paid on a deferred basis pursuant to paragraph 1 above, from the date such fees would otherwise have been paid to the date actually paid, at the prime rate which The Chase Manhattan Bank (National Association) from time to time charges in New York for 90-day loans to responsible commercial borrowers, such interest to be compounded monthly.

3. The total amount to be paid on a deferred basis plus the aggregate amount of interest accrued thereon and to accrue on the portion unpaid from time to time will be paid to you in four installments as follows:

a) on January 1, 2000, 25% of the deferred fees and 25% of the interest accrued through December 31 of the immediately preceding year;

b) on January 1, 2001, 25% of the deferred fees and 25% of the interest accrued through December 31 of the immediately preceding year;

c) on January 1, 2002, 25% of the deferred fees and 25% of the interest accrued through December 31 of the immediately preceding year; and

d) on January 1, 2003, 25% of the deferred fees and all interest accrued and remaining to be paid on such payment date.

4. AMR's obligation to make payments pursuant to paragraph 3 hereof will not be released or modified by reason of your death. In the event of your death prior to the payments contemplated by paragraph 3 hereof, the amounts remaining will be paid to Regina Pistor.

If the foregoing is satisfactory to you, please indicate by signing and returning the enclosed copy of this letter.

Very truly yours,

Charles D. Marlett  
Corporate Secretary

Accepted and agreed:

- -----  
Charles H. Pistor, Jr.

- -----  
Date

January 7, 1999

Judith Rodin, PhD.  
President  
University of Pennsylvania  
100 College Hall  
Philadelphia, PA 19104

Dear Judith:

This will confirm the following agreement relating to the deferral of, and payment of, your directors' fees and retainers in 1999:

1. All directors' fees and retainers (?Fees?) payable to you in connection with your service on the boards of directors (including committees of such boards) of AMR Corporation and American Airlines, Inc. for the period January 1, 1999 through December 31, 1999, will be deferred and paid to you in accordance with the following:
2. Fees will be converted to Stock Equivalent Units in accordance with the Directors' Stock Equivalent Purchase Plan, a copy of which is attached hereto as Exhibit A.
3. Upon your retirement from the Board of Directors of AMR all the Stock Equivalent Units will be converted to cash and paid to you by multiplying the number of Stock Equivalent Units as of the date of your retirement by the arithmetic mean of the high and low of AMR stock ("fair market value") during the calendar month immediately preceding such retirement date. Such payment will occur within 30 days of your retirement date.
4. AMR's obligation to make payments pursuant to paragraph 3 hereof will not be released or modified by reason of your death. In such event, the number of Stock Equivalent Units as of your date of death will be multiplied by the fair market value of AMR stock during the calendar month immediately preceding your death, and the amount paid to the Trustees under your Revocable Agreement of Trust, dated September 15, 1997, as amended November 3, 1997, Judith Rodin Settlor and Trustee.

If the foregoing is satisfactory to you, please indicate by signing and returning the enclosed original of this letter.

Very truly yours,

Charles D. Marlett  
Corporate Secretary

Accepted and agreed:

-----  
Judith Rodin

-----  
Date

## AMR CORPORATION

## 1998 LONG TERM INCENTIVE PLAN, AS AMENDED

## SECTION 1. Purpose, Definitions.

The purpose of the AMR Corporation 1998 Long Term Incentive Plan, as amended (the "Plan") is to enable AMR Corporation (the "Company") to attract, retain and reward key employees of the Company and its Subsidiaries and Affiliates, and strengthen the mutuality of interests between such key employees and the Company's shareholders, by offering such key employees performance-based stock incentives and/or other equity interests or equity-based incentives in the Company, as well as performance-based incentives payable in cash.

For purposes of the Plan, the following terms shall be defined as set forth below:

(a) "Affiliate" means any entity other than the Company and its Subsidiaries that is designated by the Board as a participating employer under the Plan, provided that the Company directly or indirectly owns at least twenty percent (20%) of the combined voting power of all classes of stock of such entity or at least twenty percent (20%) of the ownership interests in such entity.

(b) "Board" means the Board of Directors of the Company.

(c) "Book Value" means, as of any given date, on a per share basis (i) the Stockholders' Equity in the Company as of the end of the immediately preceding fiscal year as reflected in the Company's audited consolidated balance sheet, subject to such adjustments as the Committee shall specify, divided by (ii) the number of then outstanding shares of Stock as of such year-end date (as adjusted by the Committee for subsequent events).

(d) "Cause" means a felony conviction of a participant or the failure of a participant to contest prosecution for a felony, or a participant's willful misconduct or dishonesty, any of which is directly and materially harmful to the business or reputation of the Company or any Subsidiary or Affiliate.

(e) "Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto.

(f) "Committee" means the Committee referred to in Section 2 of the Plan. If at any time no Committee shall be in office, then the functions of the Committee specified in the Plan shall be exercised by the Board.

(g) "Company" means AMR Corporation, a corporation organized under the laws of the State of Delaware, or any successor corporation.

(h) "Deferred Stock" means the right to receive Stock at the end of a specified deferral period pursuant to Section 8.

(i) "Disability" means disability as determined under procedures established by the Committee for purposes of this Plan.

(j) "Early Retirement" means retirement, with the express consent for purposes of this Plan of the Company at or before the time of such retirement, from active employment with the Company and any Subsidiary or Affiliate.

(k) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, and any successor thereto.

(l) "Fair Market Value" means, as of any given date, unless otherwise determined by the Committee in good faith, the mean between the highest and lowest quoted selling price, regular way, of the Stock on the New York Stock Exchange or, if no such sale of Stock occurs on the New York Stock Exchange on such date, the fair market value of the Stock as determined by the Committee in good faith.

(m) "Incentive Stock Option" means any Stock Option intended to be and designated as an "Incentive Stock Option" within the meaning of Section 422 of the Code.

(n) "Non-Qualified Stock Option" means any Stock Option that is not an Incentive Stock Option.

(o) "Normal Retirement" means retirement from active employment with the Company and any Subsidiary or Affiliate pursuant to the applicable retirement provisions of the applicable pension plan of such entity.

(p) "Other Stock Based Award" means an award under Section 10 below that is valued in whole or in part by reference to, or is otherwise based on, Stock.

(q) "Performance Related Awards" means an award made pursuant to Section 11 of Restricted Stock or Deferred Stock or Other Stock Based Awards upon the determination by the Committee that performance objectives established by the Committee have been attained, in whole or in part.

(r) "Plan" means this AMR Corporation 1998 Long Term Incentive Plan, as it may be amended from time to time.

(s) "Restricted Stock" means shares of Stock that are subject to restrictions under Section 7 below.

(t) "Retirement" means Normal or Early Retirement.

(u) "Stock" means the Common Stock, \$1.00 par value per share, of the Company.

(v) "Stock Appreciation Right" means the right pursuant to an award granted under Section 6 below to surrender to the Company all (or a portion) of a Stock Option in exchange for an amount equal to the difference between: (i) the Fair Market Value, as of the date such Stock Option (or such portion thereof) is surrendered, of the shares of Stock covered by such Stock Option (or such portion thereof), subject, where applicable, to the pricing provisions in Section 6(b)(ii); and (ii) the aggregate exercise price of such Stock Option (or such portion thereof).

(w) "Stock Option" or "Option" means any option to purchase shares of Stock (including Restricted Stock and Deferred Stock, if the Committee so determines) granted pursuant to Section 5 below.

(x) "Stock Purchase Right" means the right to purchase Stock pursuant to Section 9.

(y) "Subsidiary" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations (other than the last corporation in the unbroken chain) owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

In addition, the terms "LTIP Awards," "Performance Criteria", "Change in Control," "Potential Change in Control" and "Change in Control Price" shall have the meanings set forth, respectively, in Sections 2, 11(a), 12(b), (c) and (d) below.

## SECTION 2. Administration.

The Plan shall be administered by a committee of not less than two members of the Board, who shall be appointed by, and serve at the pleasure of, the Board. In selecting the members of the Committee, the Board shall take into account the requirements for the members of the Committee to be treated as "Outside Directors" within the meaning of Section 162(m) of the Code and "Non-Employee Directors" for purposes of Rule 16b-3, as promulgated under Section 16 of the Exchange Act. The functions of the Committee specified in the Plan shall be exercised by the Board, if and to the extent that no Committee exists which has the authority to so administer the Plan, or to the extent that the Committee is not comprised solely of Non-Employee Directors for purposes of Rule 16b-3, as promulgated under Section 16 of the Exchange Act.

The Committee shall have full authority to grant, pursuant to the terms of the Plan, to officers and other key employees eligible under Section 4: (i) Stock Options and Incentive Stock Options; (ii) Stock Appreciation Rights; (iii) Restricted Stock; (iv) Deferred Stock; (v) Stock Purchase Rights; (vi) Other Stock Based Awards; and/or (vii) Performance Related Awards (collectively, the "LTIP Awards").

In particular the Committee shall have the authority:

(a) to select the officers and other key employees of the Company and its Subsidiaries and Affiliates to whom LTIP Awards may from time to time be granted hereunder;

(b) to determine whether and to what extent LTIP Awards, or any combination thereof, are to be granted hereunder to one or more eligible employees;

(c) subject to the provisions of Sections 3, 5 and 11, to determine the number of shares to be covered by each such award granted hereunder;

(d) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any award granted hereunder (including, but not limited to, the share price and any restriction or limitation, or any vesting acceleration or waiver of forfeiture restrictions regarding any Stock Option or other award and/or the shares of Stock relating thereto, based in each case on such factors as the Committee shall determine in its sole discretion);

(e) to determine whether, to what extent and under what circumstances a Stock Option may be settled in cash, Restricted Stock and/or Deferred Stock under Section 5(k) or 5(l), as applicable, instead of Stock;

(f) to determine whether, to what extent and under what circumstances an award of Restricted Stock or Deferred Stock may be settled in cash;

(g) to determine whether, to what extent and under what circumstances Option grants and/or other awards under the Plan and/or other cash awards made by the Company are to be made, and operate, on a tandem basis vis-a-vis other awards under the Plan and/or cash awards made outside of the Plan, or on an additive basis;

(h) to determine whether, to what extent and under what circumstances Stock and other amounts payable with respect to an award under this Plan shall be deferred either automatically or at the election of the participant (including providing for and determining the amount (if any) of any deemed earnings on any deferred amount during any deferral period);

(i) to determine the terms and restrictions applicable to Stock Purchase Rights and the Stock purchased by exercising such Rights;

(j) with respect to an award of Restricted Stock, to determine whether the right to vote will be granted with such award and/or whether any dividends declared with respect to such award will be paid in cash, additional Restricted Stock, Deferred Stock, Other Stock Based Awards, or not at all;



(k) with respect to an award of Deferred Stock, to determine whether any dividends declared with respect to such award will be paid in cash, Restricted Stock, additional Deferred Stock, Other Stock Based Awards, or not at all; and

(l) to determine the terms and conditions pursuant to which an LTIP Award may vest on a pro rata basis or be terminated.

The Committee shall have the authority: to adopt, alter and repeal such rules, guidelines and practices governing the Plan as it shall, from time to time, deem advisable; to interpret the terms and provisions of the Plan and any award issued under the Plan (and any agreements relating thereto); and to otherwise supervise the administration of the Plan.

All decisions made by the Committee pursuant to the provisions of the Plan shall be made in the Committee's sole discretion and shall be final and binding on all persons, including the Company and Plan participants.

### SECTION 3. Stock Subject to Plan.

The total number of shares of Stock reserved and available for distribution under the Plan shall be 5,000,000 shares, plus any shares remaining available for issuance under the 1988 Long Term Incentive Plan, as amended, as of the Effective Date hereof. Such shares may consist, in whole or in part, of authorized and unissued shares or treasury shares.

Subject to Section 6(b)(iv) below, if any shares of Stock that have been optioned cease to be subject to a Stock Option, or if any such shares of Stock that are subject to any Restricted Stock or Deferred Stock award, Stock Purchase Right, Other Stock Based Award or Performance Related Award granted hereunder or granted under the 1988 Long Term Incentive Plan, as amended, are forfeited or any such award otherwise terminates without a payment being made to the participant in the form of Stock or cash equivalent value, such shares shall again be available for distribution in connection with future awards under the Plan.

In the event of any merger, reorganization, consolidation, recapitalization, stock dividend, stock split or other change in corporate structure affecting the Stock, such substitution or adjustment shall be made in the aggregate number of shares reserved for issuance under the Plan, in the number and option price of shares subject to outstanding Options granted under the Plan, in the number and purchase price of shares subject to outstanding Stock Purchase Rights under the Plan, and in the number of shares subject to other outstanding awards granted under the Plan as may be determined to be appropriate by the Committee, in its sole discretion, provided that the number of shares subject to any award shall always be a whole number. Such adjusted option price shall also be used to determine the amount payable by the Company upon the exercise of any Stock Appreciation Right associated with any Stock Option.

## SECTION 4. Eligibility.

Officers and other key employees of the Company and its Subsidiaries and Affiliates (but excluding members of the Committee and any person who serves only as a director) who are responsible for, or contribute to, the management, growth and/or profitability of the business of the Company and/or its Subsidiaries and Affiliates are eligible for awards under the Plan.

## SECTION 5. Stock Options.

Stock Options may be granted alone, in addition to, or in tandem with, other awards granted under the Plan. Any Stock Option granted under the Plan shall be in such form as the Committee may from time to time approve.

Stock Options granted under the Plan may be of two types: (i) Incentive Stock Options; and (ii) Non-Qualified Stock Options.

The Committee shall have the authority to grant to any optionee Incentive Stock Options, Non-Qualified Stock Options, or both types of Stock Options (in each case with or without Stock Appreciation Rights); provided that, in no event shall the number of shares of Stock subject to any Stock Options granted to any employee during any calendar year exceed 250,000 shares, as such number may be adjusted pursuant to Section 3.

Options granted under the Plan shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Committee shall deem desirable:

(a) Option Price. The option price per share of Stock purchasable under a Stock Option shall be determined by the Committee at the time of grant; provided, that such option price may not be less than the Fair Market Value of the Stock on the date the Stock Option is granted.

(b) Option Term. The term of each Stock Option shall be fixed by the Committee, but no Stock Option shall be exercisable more than ten (10) years after the date the Option is granted.

(c) Exercisability. Stock Options shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee; provided, however, that except as determined by the Committee, no Stock Option shall be exercisable prior to the first anniversary date of the granting of the Option. If the Committee provides, in its sole discretion, that any Stock Option is exercisable only in installments, the Committee may waive such installment exercise provisions at any time in whole or in part, based on such factors as the Committee shall determine, in its sole discretion.

(d) Method of Exercise. Subject to whatever installment exercise provisions apply under Section 5(c) and subject to whatever restrictions may be imposed by the Company, Stock Options may be exercised in whole or in part at any time during the option period, by giving written notice of exercise to the Company specifying the number of shares to be purchased.

Such notice shall be accompanied by payment in full of the purchase price. Without limiting the generality of the foregoing, payment of the option price may be made: (i) in cash or its equivalent; (ii) by exchanging shares of Stock owned by the optionee (which are not the subject of any pledge or other security interest), including in the case of a Non-Qualified Stock Option, Restricted Stock or Deferred Stock subject to an award hereunder (or an award under the terms of the 1988 Long Term Incentive Plan, as amended); (iii) through an arrangement with a broker approved by the Company whereby payment of the exercise price is accomplished with the proceeds of the sale of Stock; or (iv) by any combination of the foregoing, provided that the combined value of all cash and cash equivalents paid and the Fair Market Value of any such Stock so tendered to the Company, valued as of the date of such tender, is at least equal to such option price.

If payment of the option exercise price of a Non-Qualified Stock Option is made in whole or in part in the form of Restricted Stock or Deferred Stock, such Restricted Stock or Deferred Stock (and any replacement shares relating thereto) shall remain (or be) restricted or deferred, as the case may be, in accordance with the original terms of the Restricted Stock award or Deferred Stock award in question, and any additional Stock received upon the exercise shall be subject to the same forfeiture restrictions or deferral limitations, unless otherwise determined by the Committee, in its sole discretion.

No shares of Stock shall be issued upon exercise of a stock option until full payment therefor has been made. An optionee shall generally have the rights to dividends or other rights of a shareholder with respect to shares subject to the Option when the optionee has given written notice of exercise, has paid in full for such shares, and, if requested, has given the representation described in Section 15(a).

(e) Transferability of Options. Unless the Committee shall permit (on such terms and conditions as it shall establish) an Option to be transferred to a member of the participant's immediate family or to a trust or similar vehicle for the benefit of such immediate family members, no Option shall be assignable or transferable except by will or the laws of descent and distribution, and except to the extent required by law, no right or interest of any participant shall be subject to any lien, obligation or liability of the participant.

(f) Termination by Death. Subject to Section 5(j), if an optionee's employment by the Company and any Subsidiary or Affiliate terminates by reason of death, any Stock Option held by such optionee may thereafter be exercised in accordance with the terms and conditions established by the Committee.

(g) Termination by Reason of Disability. Subject to Section 5(j), if an optionee's employment by the Company and any Subsidiary or Affiliate terminates by reason of Disability, any Stock Option held by such optionee may thereafter be exercised by the optionee in accordance with the terms and conditions established by the Committee. In the event of termination of employment by reason of Disability, if an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Section 422 of the Code, such Stock Option will thereafter be treated as a Non-Qualified Stock Option.

(h) Termination by Reason of Retirement. Subject to Section 5(j), if an optionee's employment by the Company and any Subsidiary or Affiliate terminates by reason of Normal or Early Retirement, any Stock Option held by such optionee may thereafter be exercised by the optionee in accordance with the terms and conditions established by the Committee. In the event of termination of employment by reason of Retirement, if an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Section 422 of the Code, such Stock Option will thereafter be treated as a Non-Qualified Stock Option.

(i) Other Termination. Unless otherwise determined by the Committee, if an optionee's employment by the Company or any Subsidiary or Affiliate terminates for any reason other than death, Disability or Normal or Early Retirement, the Stock Option shall thereupon terminate.

(j) Incentive Stock Options. Anything in the Plan to the contrary notwithstanding, no term of this Plan relating to Incentive Stock Options shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be so exercised, so as to disqualify the Plan under Section 422 of the Code, or, without the consent of the optionee(s) affected, to disqualify any Incentive Stock Option under such Section 422.

(k) Buyout Provisions. The Committee may at any time offer to buy out for a payment in cash, Stock, Deferred Stock or Restricted Stock, an option previously granted hereunder, based on such terms and conditions as the Committee shall establish and communicate to the participant at the time that such offer is made.

(l) Settlement Provisions. If the option agreement so provides at grant or is amended after grant, and prior to the exercise, to so provide (with the optionee's consent), the Committee may require that all or part of the shares to be issued with respect to the spread value of an exercised Option take the form of Deferred or Restricted Stock, which shall be valued on the date of exercise on the basis of the Fair Market Value (as determined by the Committee) of such Deferred or Restricted Stock determined without regard to the deferral limitations and/or the forfeiture restrictions involved.

#### SECTION 6. Stock Appreciation Rights.

(a) Grant and Exercise. Stock Appreciation Rights may be granted in conjunction with all or part of any Stock Option granted under the Plan. In the case of a Non-Qualified Stock Option, such rights may be granted either at or after the time of the grant of such Stock Option. In the case of an Incentive Stock Option, such rights may be granted only at the time of grant of such Stock Option.

A Stock Appreciation Right or applicable portion thereof granted with respect to a given Stock Option shall terminate and no longer be exercisable upon the termination or exercise of the related Stock Option, subject to such provisions as the Committee may specify at grant where a Stock Appreciation Right is granted with respect to less than the full number of shares covered by a related Stock Option.

A Stock Appreciation Right may be exercised by an optionee, subject to Section 6(b), in accordance with the procedures established by the Committee for such purposes. Upon such exercise, the optionee shall be entitled to receive an amount determined in the manner prescribed in Section 6(b). Stock Options relating to exercised Stock Appreciation Rights shall no longer be exercisable to the extent that the related Stock Appreciation Rights have been exercised.

(b) Terms and Conditions. Stock Appreciation Rights shall be subject to such terms and conditions, not inconsistent with the provisions of the Plan, as shall be determined from time to time by the Committee, including the following:

(i) Stock Appreciation Rights shall be exercisable only at such time or times and to the extent that the Stock Options to which they relate shall be exercisable in accordance with the provisions of Section 5 and this Section 6 of the Plan.

(ii) Upon the exercise of a Stock Appreciation Right, an optionee shall be entitled to receive an amount in cash and/or shares of Stock equal in value to the excess of the Fair Market Value of one share of Stock over the option price per share specified in the related Stock Option multiplied by the number of shares in respect of which the Stock Appreciation Right shall have been exercised, with the Committee having the right to determine the form of payment. When payment is to be made in shares, the number of shares to be paid shall be calculated on the basis of the Fair Market Value of the shares on the date of exercise.

(iii) Stock Appreciation Rights shall be transferable only when and to the extent that the underlying Stock Option would be transferable under Section 5(e) of the Plan.

(iv) Upon the exercise of a Stock Appreciation Right, the Stock Option or part thereof to which such Stock Appreciation Right is related shall be deemed to have been exercised for the purpose of the limitation set forth in Section 3 of the Plan on the number of shares of Stock exercised under the Plan, but only to the extent of the number of shares issued under the Stock Appreciation Right at the time of exercise based on the value of the Stock Appreciation Right at such time.

(v) The Committee, in its sole discretion, may provide that, in the event of a Change in Control and/or a Potential Change in Control, the amount to be paid upon the exercise of a Stock Appreciation Right shall be based on the Change in Control Price, subject to such terms and conditions as the Committee may specify at grant.

#### SECTION 7. Restricted Stock

(a) Administration. Shares of Restricted Stock may be issued either alone, in addition to, or in tandem with, other awards granted under the Plan and/or awards made outside of the Plan. The Committee shall determine the eligible persons to whom, and the time or times at which, grants of Restricted Stock will be made, the number of shares to be awarded, the price (if any) to

be paid by the recipient of Restricted Stock (subject to Section 7(b)), the time or times within which such awards may be subject to forfeiture, and all other terms and conditions of the awards.

The Committee may condition the grant of Restricted Stock upon the attainment of specified Performance Criteria or such other factors as the Committee may determine, in its sole discretion.

The provisions of Restricted Stock awards need not be the same with respect to each recipient.

(b) Awards and Certificates. The prospective recipient of a Restricted Stock award shall not have any rights with respect to such award, unless and until the Company and such recipient have executed an agreement evidencing the award and the recipient has delivered a fully executed copy thereof to the Company, and has otherwise complied with the applicable terms and conditions of such award.

(i) The purchase price for shares of Restricted Stock shall be equal to or less than their par value and may be zero.

(ii) Awards of Restricted Stock must be accepted within a reasonable period (or such specific period as the Committee may specify at grant) after the award date, by executing a Restricted Stock award agreement and paying whatever price (if any) is required under Section 7(b)(i).

(iii) Each participant receiving a Restricted Stock award shall be issued a stock certificate in respect of such shares of Restricted Stock. Such certificate shall be registered in the name of such participant, and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such award.

(iv) The Committee shall require that the stock certificates evidencing such shares be held in custody by the Company until the restrictions thereon shall have lapsed, and that, as a condition of any Restricted Stock award, the participant shall have delivered a stock power, endorsed in blank, relating to the Stock covered by such award.

(c) Terms and Conditions. The shares of Restricted Stock awarded pursuant to this Section 7 shall be subject to the following terms and conditions:

(i) Subject to the provisions of this Plan and the award agreement, during a period set by the Committee commencing with the date of such award (the "Restriction Period"), the participant shall not be permitted to sell, transfer, pledge or assign shares of Restricted Stock awarded under the Plan. Within these limits and subject to Sections 7(c)(iv) and/or 7(c)(v), the Committee, in its sole discretion, may provide for the lapse of such restrictions in installments and may accelerate or waive such restrictions in whole or in part, based on service, Performance Criteria and/or such other factors as the Committee may determine, in its sole discretion.

(ii) If and when the Restriction Period expires without a prior forfeiture of the Restricted Stock subject to such Restriction Period, certificates for an appropriate number of unrestricted shares of Stock shall be delivered to the participant promptly (unless the Committee decides pursuant to Section 2(f) to settle the award in cash).

(iii) The voting rights and/or dividend rights, if any, of the Restricted Stock award shall be established by the Committee pursuant to Section 2(j).

(iv) An award of Restricted Stock, where the Restriction Period is based on Performance Criteria, shall have a Restriction Period of at least one (1) year.

(v) An award of Restricted Stock, where the Restriction Period is based on service, shall have a Restriction Period of at least three (3) years.

(d) Minimum Value Provisions. In order to better ensure that award payments actually reflect the performance of the Company and service of the participant, the Committee may provide, in its sole discretion, for a tandem performance-based or other award designed to guarantee a minimum value, payable in cash or Stock to the recipient of a Restricted Stock award, subject to such Performance Criteria, future service, deferral and other terms and conditions as may be specified by the Committee.

#### SECTION 8. Deferred Stock.

(a) Administration. Deferred Stock may be awarded either alone, in addition to, or in tandem with, other awards granted under the Plan and/or awards made outside of the Plan. The Committee shall determine the eligible persons to whom and the time or times at which Deferred Stock shall be awarded, the number of shares of Deferred Stock to be awarded to any person, the duration of the period (the "Deferral Period") during which, and the conditions under which, receipt of the Stock will be deferred, and the other terms and conditions of the award in addition to those set forth in Section 8(b).

The Committee may condition the grant of Deferred Stock upon the attainment of specified Performance Criteria or such other factors or criteria as the Committee shall determine, in its sole discretion.

The provisions of Deferred Stock awards need not be the same with respect to each recipient.

(b) Terms and Conditions. The shares of Deferred Stock awarded pursuant to this Section 8 shall be subject to the following terms and conditions:

(i) Subject to the provisions of this Plan and the award agreement referred to in Section 8(b)(iv) below, Deferred Stock awards may not be sold, assigned, transferred, pledged or otherwise encumbered during the Deferral Period. At the expiration of the

Deferral Period (or the Elective Deferral Period referred to in Section 8(b)(iii), where applicable), stock certificates shall be delivered to the participant, or his legal representative, in a number equal to the shares covered by the Deferred Stock award (unless the Committee decides pursuant to Section 2(f) to settle the award in cash).

(ii) Subject to Sections 8(b)(vi) and/or 8(b)(vii), the Committee may accelerate the vesting of all or any part of any Deferred Stock award and/or waive the deferral limitations in whole or in part, based on service, Performance Criteria and/or such other factors as the Committee may determine, in its sole discretion.

(iii) A participant may elect to further defer receipt of an award (or an installment of an award) for a specified period or until a specified event (the "Elective Deferral Period"), subject in each case to such terms as are determined by the Committee, all in its sole discretion. Subject to any exceptions adopted by the Committee, such election must generally be made at least twelve (12) months prior to completion of the Deferral Period for such Deferred Stock award (or such installment).

(iv) Each award shall be confirmed by, and subject to the terms of, a Deferred Stock agreement executed by the Company and the participant.

(v) The dividend rights, if any, of the Deferred Stock award established by the Committee pursuant to Section 2(k).

(vi) An award of Deferred Stock, where the Deferral Period is based on Performance Criteria, shall have a Deferral Period of at least one (1) year.

(vii) An award of Deferred Stock, where the Deferral Period is based on service, shall have a Deferral Period of at least three (3) years.

(c) Minimum Value Provisions. In order to better ensure that award payments actually reflect the performance of the Company and service of the participant, the Committee may provide, in its sole discretion, for a tandem performance-based or other award designed to guarantee a minimum value, payable in cash or Stock to the recipient of a Deferred Stock award, subject to such Performance Criteria, future service, deferral and other terms and conditions as may be specified by the Committee.

#### SECTION 9. Stock Purchase Rights.

(a) Awards and Administration. The Committee may grant eligible participants Stock Purchase Rights which shall enable such participants to purchase Stock (including Deferred Stock and Restricted Stock) at price(s) determined by the Committee at or after grant, in its sole discretion.



The Committee shall also impose such deferral, forfeiture and/or other terms and conditions as it shall determine, in its sole discretion, on such Stock Purchase Rights or the exercise thereof.

The terms of Stock Purchase Rights awards need not be the same with respect to each participant.

Each Stock Purchase Right award shall be confirmed by, and be subject to the terms of, a Stock Purchase Rights agreement.

(b) Exercisability. Stock Purchase Rights shall be exercisable for such period after grant as is determined by the Committee.

#### SECTION 10. Other Stock Based Awards.

(a) Administration. Other awards of Stock and other awards that are valued in whole or in part by reference to, or are otherwise based on, Stock ("Other Stock Based Awards"), including, without limitation, stock purchase rights, performance shares, convertible preferred stock, convertible debentures, exchangeable securities and Stock awards or options valued by reference to Book Value or subsidiary performance, may be granted either alone, in addition to, or in tandem with, Stock Options, Stock Appreciation Rights, Restricted Stock, Deferred Stock, Stock Purchase Rights or Performance Related Awards granted under the Plan and/or cash awards made outside of the Plan.

Subject to the provisions of the Plan, the Committee shall have authority to determine the persons to whom and the time or times at which such awards shall be made, the amount of such awards, and all other conditions of the awards including any dividend and/or voting rights. Subject to Sections 10(b)(iv) and 10(b)(v), the Committee may also provide for the grant of Stock upon the attainment of specified Performance Criteria or such other factors as the Committee may determine, in its sole discretion.

The provisions of Other Stock Based Awards need not be the same with respect to each recipient.

(b) Terms and Conditions. Other Stock Based Awards made pursuant to this Section 10 shall be subject to the following terms and conditions:

(i) Subject to the provisions of this Plan and the award agreement referred to in Section 10(b)(ii) below, awards made under this Section 10 may not be sold, assigned, transferred, pledged or otherwise encumbered prior to the date on which any shares are issued or amounts are paid, or, if later, the date on which any applicable restriction, performance or deferral period lapses. Subject to Sections 10(b)(iv) and/or 10(b)(v), the Committee, in its sole discretion, may accelerate the vesting of all or any part of any Other Stock Based Award, and/or waive any restrictions or deferral limitations in whole or in

part, based on service, Performance Criteria and/or other factors as the Committee may determine, in its sole discretion.

(ii) Each award under this Section 10 shall be confirmed by, and subject to the terms of, an agreement or other instrument by the Company and by the participant.

(iii) Stock (including securities convertible into Stock) issued on a bonus basis under this Section 10 may be issued for no cash consideration. Stock (including securities convertible into Stock) purchased pursuant to a purchase right awarded under this Section 10 shall be purchased at price(s) determined by the Committee, in its sole discretion.

(iv) Any Other Stock Based Award that has a Restriction Period or Deferral Period that is based on Performance Criteria shall have a Restriction Period or Deferral Period, as the case may be, of at least one (1) year.

(v) Any Other Stock Based Award that has a Restriction Period or Deferral Period that is based on service shall have a Restriction Period or Deferral Period, as the case may be, of at least three (3) years.

#### SECTION 11. Performance Related Awards.

(a) Performance Objectives. Notwithstanding anything else contained in the Plan to the contrary, unless the Committee otherwise determines at the time of grant, any award of Restricted Stock or Deferred Stock or Other Stock Based Awards to an officer who is subject to the reporting requirements of Section 16(a) of the Exchange Act other than an award which will vest solely on the basis of the passage of time, shall become vested, if at all, upon the determination by the Committee that performance objectives established by the Committee have been attained, in whole or in part (a "Performance Award"). Such performance objectives shall be determined over a measurement period or periods established by the Committee (which period or periods shall not be less than one (1) year) and related to at least one of the following criteria, which may be determined solely by reference to the performance of: (i) the Company; (ii) a Subsidiary; (iii) an Affiliate; (iv) a division or unit of any of the foregoing or based on comparative performance of any of the foregoing relative to past performance or to other companies: (A) return on equity; (B) total shareholder return; (C) revenues; (D) cash flows, revenues and/or earnings relative to other parameters (e.g., net or gross assets); (E) operating income; (F) return on investment; (G) changes in the value of the Stock; and (H) return on assets (the "Performance Criteria"). Excluding Stock Options and/or Stock Appreciation Rights granted hereunder, the maximum number of shares of Stock that may be subject to any such Performance Award granted to any key employee in any calendar year shall not exceed 100,000 shares, as such number may be adjusted pursuant to Section 3.

(b) Annual Incentive Compensation. The Committee may, in addition to the Performance Awards described above, pay cash amounts under the Plan or any other plan or arrangement approved by the Committee, provided such other plan or arrangement is in conformity with the

provisions of this Section 11(b), to any officer of the Company or any Subsidiary who is subject to the reporting requirements of Section 16(a) of the Exchange Act upon the achievement, in whole or in part, of performance goals or objectives established in writing by the Committee with respect to such performance periods as the Committee shall determine. Any such goals or objectives shall be based on one or more of the Performance Criteria. Notwithstanding anything else contained herein to the contrary, the maximum amount of any such cash payment to any single officer with respect to any calendar year shall not exceed the lesser of (i) \$2,000,000; or (ii) twice the officer's annual base salary as in effect on the last day of the preceding fiscal year.

(c) Interpretation. Notwithstanding anything else contained in the Plan to the contrary, to the extent required to so qualify any Performance Award as other performance based compensation within the meaning of Section 162(m)(4)(C) of the Code, the Committee shall not be entitled to exercise any discretion otherwise authorized under the Plan (such as the right to accelerate vesting without regard to the achievement of the relevant performance objectives) with respect to such Performance Award if the ability to exercise such discretion (as opposed to the exercise of such discretion) would cause such award to fail to qualify as other performance based compensation.

#### SECTION 12. Change in Control Provisions.

(a) Impact of Event. Notwithstanding the provisions of Sections 7(c)(iv), 7(c)(v), 8(b)(vi), 8(b)(vii), 10(b)(iv), and 10(b)(v), in the event of:

(i) a "Change in Control" as defined in Section 12(b), or

(ii) a "Potential Change in Control" as defined in Section 12(c), but only if and to the extent so determined by the Committee or the Board (subject to any right of approval expressly reserved by the Committee or the Board at the time of such determination):

(A) Any Stock Options awarded under the Plan not previously exercisable and vested shall become fully exercisable and vested;

(B) The restrictions and deferral limitations applicable to any Restricted Stock, Deferred Stock, Stock Purchase Rights, Other Stock Based Awards and Performance Related Awards, in each case to the extent not already vested under the Plan, shall lapse and such shares and awards shall be deemed fully vested and any Performance Criteria shall be deemed met at target; and

(C) The value of all outstanding LTIP Awards to the extent vested may at the sole discretion of the Committee at or after grant but prior to any Change in Control, be cashed out on the basis of the "Change in Control Price" as defined in Section 12(d) as of the date such Change in Control or such Potential Change in Control is determined to have occurred or such other date as the Committee may determine prior to the Change in Control.

(b) Definition of "Change in Control". For purposes of Section 12(a),  
a "Change in Control" means the happening of any of the following:

(i) When any "person" as defined in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) of the Exchange Act but excluding the Company, any Subsidiary or any employee benefit plan sponsored or maintained by the Company or any Subsidiary (including any trustee of such plan acting as trustee), directly or indirectly, becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act, as amended from time to time), of securities of the Company representing fifteen percent (15%) or more of the combined voting power of the Company's then outstanding securities;

(ii) The individuals who, as of the Effective Date of this Plan, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Effective Date of the Plan whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board; or

(iii) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of assets of another corporation (a "Business Combination"), in each case, unless, following such Business Combination: (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the then outstanding shares of Stock of the Company and the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors immediately prior to such Business Combination beneficially own, directly or indirectly, more than sixty percent (60%) of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries); (B) no person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, fifteen percent (15%) or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination; and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business

Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(iv) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

(c) Definition of Potential Change in Control. For purposes of Section 12(a), a "Potential Change in Control" means the happening of any one of the following:

(i) The approval by shareholders of an agreement by the Company, the consummation of which would result in a Change in Control of the Company as defined in Section 12(b); or

(ii) The acquisition of beneficial ownership, directly or indirectly, by any entity, person or group (other than the Company or a Subsidiary or any Company employee benefit plan (including any trustee of such plan acting as such trustee)) of securities of the Company representing five percent (5%) or more of the combined voting power of the Company's outstanding securities and the adoption by the Board of a resolution to the effect that a Potential Change in Control of the Company has occurred for purposes of this Plan.

(d) Change in Control Price. For the purposes of this Section 12, "Change in Control Price" means the highest price per share paid in any transaction reported on the New York Stock Exchange Composite Index, or paid or offered in any bona fide transaction related to a potential or actual Change in Control of the Company at any time during the sixty (60) day period immediately preceding the occurrence of the Change in Control (or, where applicable, the occurrence of the Potential Change in Control event), in each case as determined by the Committee except that, in the case of Incentive Stock Options and Stock Appreciation Rights relating to Incentive Stock Options, such price shall be based only on transactions reported for the date on which the optionee exercises such Stock Appreciation Rights or, where applicable, the date on which a cashout occurs under Section 12(a)(ii)(C).

#### SECTION 13. Amendments and Termination.

The Board may amend, alter, or discontinue the Plan, but no amendment, alteration, or discontinuation shall be made which would impair the rights of an optionee or participant under an LTIP Award theretofore granted, without the optionee's or participant's consent.

The Committee may amend the terms of any Stock Option or other award theretofore granted, prospectively or retroactively, but subject to Section 3 above, no such amendment shall impair the rights of any holder without the holder's consent.

Subject to the above provisions, the Board shall have broad authority to amend the Plan to take into account changes in applicable securities and tax laws and accounting rules, as well as other developments.

SECTION 14. Unfunded Status of Plan.

The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a participant or optionee by the Company, nothing contained herein shall give any such participant or optionee any rights that are greater than those of a general creditor of the Company. In its sole discretion, the Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver Stock or payments in lieu of or with respect to awards hereunder; provided, however, that unless the Committee otherwise determines with the consent of the affected participant, the existence of such trusts or other arrangements is consistent with the "unfunded" status of the Plan.

SECTION 15. General Provisions.

(a) The Committee may require each person purchasing shares pursuant to a Stock Option or other award under the Plan to represent to and agree with the Company in writing that the optionee or participant is acquiring the shares without a view to distribution thereof. The certificates for such shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer.

All certificates for shares of Stock or other securities delivered under the Plan shall be subject to such stock-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Stock is then listed, and any applicable federal or state securities law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(b) Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to stockholder approval if such approval is required, and such arrangements may be either generally applicable or applicable only in specific cases.

(c) The adoption of the Plan shall not confer upon any employee of the Company or any Subsidiary or Affiliate any right to continued employment with the Company or a Subsidiary or Affiliate, as the case may be, nor shall it interfere in any way with the right of the Company or a Subsidiary or Affiliate to terminate the employment of any of its employees at any time.

(d) Except as the participant and the Company may otherwise agree, no later than the date as of which an amount first becomes includible in the gross income of the participant for federal income tax purposes with respect to any award under the Plan, the participant shall pay to the Company, or make arrangements satisfactory to the Committee regarding the payment of, any

federal, state, or local taxes of any kind required by law to be withheld with respect to such amount. Unless otherwise determined by the Committee, withholding obligations may be settled with Stock, including Stock that is part of the award that gives rise to the withholding requirement. The obligations of the Company under the Plan shall be conditional on such payment or arrangements, and the Company and its Subsidiaries or Affiliates shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the participant.

(e) The actual or deemed reinvestment of dividends or dividend equivalents in additional Restricted Stock (or in Deferred Stock or other types of Plan awards) at the time of any dividend payment shall only be permissible if sufficient shares of Stock are available under Section 3 for such reinvestment (taking into account then outstanding Stock Options, Stock Purchase Rights and other Plan awards).

(f) The Committee may permit a participant to postpone the delivery of Stock under any award, including a Stock Option, under the Plan upon such terms and conditions as the Committee shall determine.

(g) The Plan and all awards made and actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware.

SECTION 16. Effective Date of Plan.

As amended, the Plan shall be effective as of May 21, 1998.

SECTION 17. Term of Plan.

No LTIP Award shall be granted pursuant to the Plan on or after the tenth anniversary of the date of shareholder approval, but awards granted prior to such tenth anniversary may extend beyond that date, in accordance with the terms of such awards.

SECTION 18. Applicability to Grants under 1988 Plan.

The provisions of the Plan relating to stock options, stock appreciation rights, restricted stock awards, deferred stock awards, stock purchase rights, other stock-based awards or performance related awards shall apply to, and govern existing and subsequent stock options, stock appreciation rights, restricted stock awards, deferred stock awards, stock purchase rights, other stock-based awards or performance related awards granted under the 1988 Long Term Incentive Plan, as amended.

Master Document # ((LOG))

STOCK OPTION

STOCK OPTION granted ((GRANTDATE)), by AMR Corporation, a Delaware corporation (the "Corporation"), to ((FIRSTNAME)) ((LASTNAME)), employee number ((EE)), an employee of the Corporation or one of its Subsidiaries or Affiliates (the "Optionee").

W I T N E S S E T H:

WHEREAS, the stockholders of the Corporation approved the 1998 Long Term Incentive Plan at the Corporation's annual meeting held on May 20, 1998 (such plan, as may be amended from time to time, to be referenced the "1998 Plan");

WHEREAS, the 1998 Plan provides for the grant of an option to purchase shares of the Corporation's Common Stock to those individuals selected by the Committee or, in lieu thereof, the Board of Directors of AMR Corporation (the "Board"); and

WHEREAS, the Board has determined that the Optionee is eligible under the Plan and that it is to the advantage and interest of the Corporation to grant the option provided for herein to the Optionee as an incentive for Optionee to remain in the employ of the Corporation or one of its Subsidiaries or Affiliates, and to encourage ownership by the Optionee of the Corporation's Common Stock, \$1 par value (the "Common Stock").

NOW, THEREFORE:

1. Option Grant. The Corporation hereby grants to the Optionee a non-qualified stock option, subject to the terms and conditions hereinafter set forth, to purchase all or any part of an aggregate of ((OPTIONS)) shares of Common Stock at a price of \$ ((OPTIONPRICE)) per share (being the fair market value of the Common Stock on the date hereof), exercisable in approximately equal installments on and after the following dates and with respect to the following number of shares of Common Stock:

Exercisable On and After -----	Number of Shares -----
((EXDATE1))	((EXSHRs1))
((EXDATE2))	((EXSHRs2))
((EXDATE3))	((EXSHRs3))
((EXDATE4))	((EXSHRs4))
((EXDATE5))	((EXSHRs5))



provided, that in no event shall this option be exercisable in whole or in part ten years from the date hereof and that the Company shall in no event be obligated to issue fractional shares. The right to exercise this option and to purchase the number of shares comprising each such installment shall be cumulative, and once such right has become exercisable it may be exercised in whole at any time and in part from time to time until the date of termination of the Optionee's rights hereunder.

2. Restriction on Exercise. Notwithstanding any other provision hereof, this option shall not be exercised if at such time such exercise or the delivery of certificates representing shares of Common Stock purchased pursuant hereto shall constitute a violation of any provision of any applicable Federal or State statute, rule or regulation, or any rule or regulation of any securities exchange on which the Common Stock may be listed.

3. Manner of Exercise. This option may be exercised with respect to all or any part of the shares of Common Stock then subject to such exercise by written notice from the Optionee to the Corporation addressed to P.O. Box 619616, Dallas/Fort Worth Airport, Texas 75261-9616, Attention: Executive Compensation. Such notice shall be accompanied (i) by the payment of the option price in cash or by check or (ii) by whatever other form of payment may be authorized by the Corporation, and, in the event that at the time of such exercise the shares of Common Stock as to which this option is exercisable have not been registered under the Securities Act of 1933, shall include a representation by the Optionee that at the time of such exercise he is acquiring the shares of Common Stock for investment only and not with a view to distribution. Subject to compliance by the Optionee with all the terms and conditions hereof, the Corporation shall promptly thereafter deliver to the Optionee a certificate or certificates for such shares with all requisite transfer stamps attached.

4. Termination of Option. This option shall terminate and may no longer be exercised if (i) the Optionee ceases to be an employee of the Corporation or one of its Subsidiaries or Affiliates; or (ii) the Optionee becomes an employee of a Subsidiary that is not wholly owned, directly or indirectly, by the Corporation; or (iii) the Employee takes a leave of absence without reinstatement rights, unless otherwise agreed in writing between the Corporation and the Employee; except that

(a) If the Optionee's employment by the Corporation (and any Subsidiary or Affiliate) terminates by reason of death, the option may thereafter be exercised, to the extent such option was exercisable at the time of death, by the legal representative of the estate or by the legatee of the Optionee under the will of the Optionee, for a period of three years from the date of such death or until the expiration of the stated term of the option, whichever period is the shorter;

(b) If the Optionee's employment by the Corporation (and any Subsidiary or Affiliate) terminates by reason of Disability, the option may thereafter be exercised, to the extent it was exercisable at the time of such disability, for a period of three years from the date of such disability or until the expiration of the stated term of such option, whichever period is the shorter; provided, however, that, if the Optionee dies within such three-year period, any unexercised portion of the option shall thereafter be exercisable to the extent to which it was exercisable at the time of death for a period of twelve months from the date of such death or until the expiration of the stated term of the option, whichever period is the shorter;

(c) If the Optionee's employment by the Corporation (and any Subsidiary or Affiliate) terminates by reason of Normal or Early Retirement, the option may thereafter be exercised, to the extent it was exercisable at the time of such Retirement, for a period of three years from the date of such retirement or the expiration of the stated term of the option, whichever period is the shorter; provided, however, that, if the Optionee dies within such three-year period, any unexercised portion of the option shall thereafter be exercisable, to the extent to which it was exercisable at the time of death, for a period of twelve months from the date of such death or until the expiration of the stated term of the option, whichever period is the shorter; and

(d) If the Optionee's employment by the Corporation (and any Subsidiary or Affiliate) is involuntarily terminated by the Corporation or a Subsidiary or Affiliate (as the case may be) without Cause, the option may thereafter be exercised, to the extent it was exercisable at the time of termination, for a period of three months from the date of such termination of employment or until the stated term of such option, whichever period is shorter.

(e) Change in Control; Potential Change in Control. In the event of a Change in Control or a Potential Change in Control of the Corporation, this option shall become exercisable in accordance with the 1998 Plan, or its successor.

5. Adjustments in Common Stock. In the event of any stock dividend, stock split, merger, consolidation, reorganization, recapitalization or other change in the corporate structure, appropriate adjustments shall be made by the Board in the number of shares, class or classes of securities and the price per share subject to outstanding options and Rights.

6. Non-Transferability of Option. Unless the Committee shall permit (on such terms and conditions as it shall establish), an Option may not be transferred except by will or the laws of descent and distribution to the extent provided herein. During the lifetime of the Optionee this option may be exercised only by him or her (unless otherwise determined by the Committee).

7. Miscellaneous. This option (a) shall be binding upon and inure to the benefit of any successor of the Corporation, (b) shall be governed by the laws of the State of Texas, and any applicable laws of the United States, and (c) may not be amended except in writing. No contract or right of employment shall be implied by this option.

If this option is assumed or a new option is substituted therefore in any corporate reorganization (including, but not limited to, any transaction of the type referred to in Section 425(a) of the Internal Revenue Code of 1986, as amended), employment by such assuming or substituting corporation or by a parent corporation or a subsidiary thereof shall be considered for all purposes of this option to be employment by the Corporation.

8. Securities Law Requirements. The Corporation shall not be required to issue shares upon the exercise of this option unless and until (a) such shares have been duly listed upon each stock exchange on which the Corporation's Stock is then registered; and (b) a registration statement under the Securities Act of 1933 with respect to such shares is then effective.

The Board may require the Optionee to furnish to the Corporation, prior to the issuance of any shares of Stock in connection with the exercise of this option, an agreement, in such form as the Board may from time to time deem appropriate, in which the Optionee represents that the shares acquired by him upon such exercise are being acquired for investment and not with a view to the sale or distribution thereof.

9. Option Subject to 1998 Plan. This option shall be subject to all the terms and provisions of the 1998 Plan, and the Optionee shall abide by and be bound by all rules, regulations and determinations of the Board of Directors of the Corporation now or hereafter made in connection with the administration of the 1998 Plan. Capitalized terms not otherwise defined herein shall have the meanings set forth for such terms in the 1998 Plan.

IN WITNESS WHEREOF, the Corporation has executed this Stock Option as of the day and year first above written.

AMR Corporation

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Optionee

By -----  
Charles D. Marlett  
Corporate Secretary

Grant #

CAREER EQUITY PROGRAM  
DEFERRED STOCK AWARD AGREEMENT

This AGREEMENT made as of ((GRANTDATE)), by and between AMR Corporation, a Delaware corporation (the "Corporation"), to ((FIRSTNAME)) ((LASTNAME)) (the "Employee"), employee number ((EE)).

WHEREAS, the 1998 Long Term Incentive Plan was approved by the shareholders of the Corporation at the Corporation's annual meeting held on May 20, 1998 (such Plan, as may be amended from time to time, to be referenced the "1998 Plan"); and was approved by the shareholders of the Corporation

WHEREAS, pursuant to the Career Equity Program adopted by the Board of Directors of the Corporation (the "Board"), the Board has determined to make a Career Equity Program grant to the Employee of Deferred Stock (subject to the terms of the 1998 Plan and this Agreement), as an inducement for the Employee to remain an employee of the Corporation, and to retain and motivate such Employee during his employment with the Corporation.

NOW, THEREFORE, the Corporation and the Employee hereby agree as follows:

1. Grant of Award. The Employee is hereby granted as of ((GRANTDATE)), (the "Grant Date") a Deferred Stock Award (the "Award"), subject to the terms and conditions hereinafter set forth, with respect to ((SHARES)) shares of Common Stock, \$1.00 par value, of the Corporation ("Stock"). The shares of Stock covered by the Award shall vest in accordance with Sections 2, 3, 4, 5, and 6 hereof.

2. Vesting - Normal Retirement or Early Retirement. Subject to Section 5, in the event of the termination of Employee's employment with the Corporation (or any Subsidiary or Affiliate thereof) on or after the Grant Date due to Normal Retirement (which is defined as retirement from employment with the Corporation, or any Subsidiary or Affiliate thereof, at or after age 60), the shares of Stock covered by the Award shall become fully vested.

In the event of the termination of the Employee's employment with the Corporation (or any Subsidiary or Affiliate thereof) on or after the Grant Date due to Early Retirement (which is defined as an early retirement from employment with the Corporation, or any Subsidiary or Affiliate thereof, at or after age 55 but before age 60), the shares of stock covered by the Award shall vest in accordance with the following schedule:

Age ---	Percentage of Award Vested -----
55	85%
56	88%
57	91%
58	94%
59	97%

Employee will receive prorata vesting for each full month of employment in partial years.

Share certificates for the number of shares covered by a vested Award (whether in full or partial) shall be issued and delivered to the Employee on or about the date of Retirement.

Notwithstanding anything to the contrary contained herein and for the purposes of this Award, in order to be eligible for the benefits hereunder associated with Early Retirement, the recipient must be entitled to receive early retirement pension benefits under the then existing policies of the Corporation, Subsidiary or Affiliate, as applicable.

3. Vesting - Death or Disability. Subject to Section 5, in the event of the termination of Employee's employment with the Corporation (or any Subsidiary or Affiliate thereof) on or after the Grant Date due to the Employee's death or Disability, the shares of Stock covered by the Award shall vest at a rate of 20% for each full year of employment with the Corporation (or any Subsidiary or Affiliate thereof) after the Grant Date (with pro rata vesting for each full month of employment in partial years). In such case, share certificates for the number of shares so vested shall be issued and delivered to the Employee (or, in the event of the Employee's death, the Employee's designated beneficiary for purposes of the Award, or in the absence of an effective beneficiary designation, the Employee's estate) within 60 days after the Employee's death or Disability.

4. Vesting - Termination Not for Cause. If the Employee's employment with the Corporation (or any Subsidiary or Affiliate thereof) is terminated on or after the Grant Date by the Corporation (or any Subsidiary or Affiliate thereof) other than pursuant to Section 5, the shares of Stock covered by the Award shall vest at a rate of 10% for each full year of employment with the Corporation (or any Subsidiary or Affiliate thereof) after the Grant Date (with pro rata vesting for each full month of employment in partial years); provided, that no shares of Stock shall vest under this Section 4 if the Employee has not been employed for at least one full year after the Grant Date. Share certificate(s) for the number of shares that vest pursuant to this

Section 4 shall be issued and delivered to the Employee (i) in five equal annual installments with the first installment being made one year after the date of such termination, or (ii) in one share certificate, to be issued within 90 days of the date of such terminate, in each case, at the option of the Corporation; provided, however, that in the event of such termination, vesting of the shares under the Award as provided herein may be predicated upon the Employee agreeing to such terms and conditions as required by the Corporation, including, but not limited to, non-competition and non-disclosure agreements.

5. Vesting - Termination for Cause; Other. In the event that (a) the Employee's employment with the Corporation (or any Subsidiary or Affiliate thereof) is terminated for Cause; or (b) the Employee terminates his employment with the Corporation, or any Subsidiary or Affiliate thereof, (other than for reasons of Retirement or Disability); or c) the Employee becomes an employee of a Subsidiary that is not wholly owned, directly or indirectly, by the Corporation; or (d) the Employee takes a leave of absence without reinstatement rights, unless otherwise agreed in writing between the Corporation and the Employee; or (e) the Employee is no longer a management level employee at the time his/her employment with the Corporation (or any Subsidiary or Affiliate thereof) is terminated, then all shares of Stock covered by the Award shall be forfeited.

6. Vesting - Change in Control; Potential Change in Control. In the event of a Change in Control or Potential Change in Control of the Corporation, shares under the Award shall vest in accordance with the 1998 Plan or its successor.

7. Elective Deferrals. At any time at least 12 months prior to the date of the Employee's Retirement, the Employee may elect in writing, subject to approval by the Corporation, to voluntarily defer the receipt of the shares of Stock covered by the Award for a specified additional period beyond the date of the Employee's termination of employment (the "Elective Deferral Period"). Any shares deferred pursuant to this Section 7 shall be issued to the Employee within 60 days after the end of the Elective Deferral Period. In the event of the death of the Employee during the Elective Deferral Period, the shares so deferred shall be issued to the Employee's designated Beneficiary (or to the Employee's estate, in the absence of an effective beneficiary designation) within 60 days after the Board receives written notification of death.

8. Transfer Restrictions. This Award is non-transferable otherwise than by will or by the laws of descent and distribution, and may not otherwise be assigned, pledged or hypothecated and shall not be subject to execution, attachment or similar process. Upon any attempt by the Employee (or the

Employee's successor in interest after the Employee's death) to effect any such disposition, or upon the levy of any such process, the Award shall immediately become null and void, at the discretion of the Board.

9. Miscellaneous. This Agreement (a) shall be binding upon and inure to the benefit of any successor of the Corporation, (b) shall be governed by the laws of the State of Texas and any applicable laws of the United States, and (c) may not be amended without the written consent of both the Corporation and the Employee. No contract or right of employment shall be implied by this Agreement. If this Award is assumed or a new award is substituted therefore in any corporate reorganization, employment by such assuming or substituting corporation or by a parent corporation or subsidiary or affiliate thereof shall be considered for all purposes of this Award to be employment by the Corporation. In the event Employee does not forward to the Corporation, within the applicable period, required taxes with respect to any Award distributed pursuant to this Agreement, the Corporation may withhold from any payments to be made to the Employee by the Corporation (or any Subsidiary or Affiliate thereof), an amount(s) equal to such taxes.

10. Securities Law Requirements. The Corporation shall not be required to issue shares pursuant to this Award unless and until (a) such shares have been duly listed upon each stock exchange on which the Corporation's Stock is then registered; and (b) a registration statement under the Securities Act of 1933 with respect to such shares is then effective.

The Board may require the Employee to furnish to the Corporation, prior to the issuance of any shares of Stock in connection with this Award, an agreement, in such form as the Board may from time to time deem appropriate, in which the Employee represents that the shares acquired by him under the Award are being acquired for investment and not with a view to the sale or distribution thereof.

11. Incorporation of 1998 Plan Provisions. This Agreement is made pursuant to the 1998 Plan and is subject to all of the terms and provisions of the 1998 Plan as if the same were fully set forth herein. Capitalized terms not otherwise defined herein shall have the meanings set forth for such terms in the 1998 Plan.

12. Participation in Long-Term Incentive Plans. If at the time of i) Employee's Retirement from the Corporation (or any Subsidiary or Affiliate thereof) or ii), the termination of Employee's employment with the Corporation (or any Subsidiary or Affiliate thereof) for reasons contemplated by Sections 3 or 4, the Employee has received payment(s) under the terms of a long-term



incentive plan(s) adopted by any Subsidiary or Affiliate of the Corporation, the Employee agrees that in lieu of the shares of Stock that have vested pursuant to this award, the Employee will receive shares of stock having a fair market value as of the vesting date equal to the positive difference, if any, between the fair market value (as of the vesting date) of the shares of Stock that have vested hereunder and the aggregate nominal value of the payment(s) made under such long-term incentive plan(s).

13. Payment of Performance Return Payments and Dividend Equivalents;  
Voting Rights.

(a) Performance Return Payments. Subject to the terms and conditions set forth in the attached Schedule A, Performance Return Payments (as defined in such Schedule A) shall be paid annually on or about the date as may be designated from time to time by the Board or any committee thereof (the "Payment Date") on all or a specified portion of the shares of Deferred Stock covered by this Award, as set forth in such Schedule A, based on: (i) the greater of (y) a deemed investment rate equal to the Corporation's Rolling Average ROI as defined and determined in accordance with the terms and conditions set forth in such Schedule A or (z) 6%; and (ii) the value of the Stock as determined by the Board, or any committee thereof, pursuant to Schedule A.

In addition, the Employee shall be entitled, subject to the consent of the Board, to elect to defer receipt of such Performance Return Payments in accordance with the American Airlines, Inc. 1987 Executive Deferral Plan or its successor plan.

(b) Dividend Equivalents. The Employee shall also be entitled to payment of an amount equal to (i) the amount of any dividend declared per share on the Corporation's Stock after the Grant Date and prior to issuance to, or forfeiture by, the Employee of the shares of Deferred Stock covered by this Award, multiplied by (ii) the number of unissued and unforfeited shares of Deferred Stock covered by this Award, provided (y) that the amount of any such dividend equivalents shall be offset by the amount of any Performance Return Payments paid under this Award within the preceding 11 months and (z) that, unless the Board otherwise decides prior to the dividend payment date, such dividend equivalent payment shall be automatically deferred and treated as additional shares of Deferred Stock, subject to the same terms and conditions that apply to the related shares of Deferred Stock with respect to which such dividend equivalents were initially payable.

(c) Voting and Other Rights. The Employee shall have no ownership rights, including voting rights, with respect to the shares of Deferred Stock covered by this Award unless and until shares of stock are actually issued to the Employee.

\* \* \*

EMPLOYEE

AMR CORPORATION

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C. D. MarLett  
Corporate Secretary

Schedule A  
Performance Return Payments

1. Performance Return Payments may be paid on a percentage of the shares covered by the Award, such percentage to be established, from time to time, by the Committee.
2. The price of those shares, if any, subject to Performance Return Payments, will be as determined by the Board, or any committee thereof, and will approximate the then existing price of the Stock on the New York Stock Exchange.
3. The three-year rolling average return of investment of AMR Corporation (the "ROI"), as referenced in Section 13 of the Agreement, will be calculated as soon as practical following the end of the Corporation's fiscal year. In determining ROI, the following definitions will control:

The Measurement Period is the three most recent fiscal years.

AMR is AMR corporation.

COMMITTEE is the AMR Compensation Committee.

PLAN RETURNS is the sum of AMR pre-tax income, interest expense, and any accounting adjustments or extraordinary or unusual items which may be included or excluded at the discretion of the Committee and approved by the Board of Directors of AMR, or a committee thereof.

ADJUSTED INVESTMENT is the sum of AMR's notes payable, current maturities of long term debt, current maturities on capital leases, non-current long term debt, non-current capital leases, and stockholders' equity and any extraordinary or unusual items which may be included or excluded at the discretion of the Committee and approved by the Board of Directors of AMR, or a committee thereof.

AVERAGE ADJUSTED INVESTMENT FOR A FISCAL YEAR is (i) the sum of Adjusted Investment as of December 31 of the immediately prior fiscal year and Adjusted Investment as of September 30 of the fiscal year for which the ROI is being calculated (ii) divided by two.

ROI FOR A FISCAL YEAR is Plan Returns for fiscal year divided by Average Adjusted Investment for the same fiscal year, stated as a percentage.

ROI FOR THE MEASUREMENT PERIOD is the sum of ROI for each year of the Measurement Period divided by three.

4. In the event of an Employee's termination of employment with the Corporation (and any Subsidiary or Affiliate thereof) for reasons of death, Disability, or Retirement, Performance Return Payments, if any, which are paid on or around the first occurrence of the Payment Date after the date of death, Disability, or Retirement, shall be paid to the Employee (or, in the event of the Employee's death, the Employee's designated beneficiary for purposes of the Award, or in the absence of an effective beneficiary designation, the Employee's estate) at the rate of 8 1/3% for each full or partial month of employment since the Payment Date of the preceding year. For the avoidance of doubt, no Performance Return Payments shall be made to an Employee if the Employee's employment with the Corporation (and any Subsidiary or Affiliate thereof) terminates for factors set forth in Section 5 of this Agreement.

Grant #

CAREER EQUITY PROGRAM  
DEFERRED STOCK AWARD AGREEMENT

This AGREEMENT made as of ((GRANTDATE)), by and between Corporation, ((FIRSTNAME)) ((LASTNAME)) (the "Employee"), employee number ((EE)).

WHEREAS, the stockholders of the Corporation approved the 1998 Long Term Incentive Plan at the Corporation's annual meeting held on May 20, 1998 (such Plan, as may be amended from time to time, to be referenced the "1998 Plan"); and was approved by the shareholders of the Corporation

WHEREAS, pursuant to the Career Equity Program adopted by the Board of Directors of the Corporation (the "Board"), the Board has determined to make a Career Equity Program grant to the Employee of Deferred Stock (subject to the terms of the 1998 Plan and this Agreement), as an inducement for the Employee to remain an employee of the Corporation, and to retain and motivate such Employee during his employment with the Corporation.

NOW, THEREFORE, the Corporation and the Employee hereby agree as follows:

1. Grant of Award. The Employee is hereby granted as of ((GRANTDATE)), (the "Grant Date") a Deferred Stock Award (the "Award"), subject to the terms and conditions hereinafter set forth, with respect to ((SHARES)) shares of Common Stock, \$1.00 par value, of the Corporation ("Stock"). The shares of Stock covered by the Award shall vest in accordance with Sections 2, 3, 4, 5, and 6 hereof.

2. Vesting - Normal Retirement or Early Retirement. Subject to Section 5, in the event of the termination of Employee's employment with the Corporation (or any Subsidiary or Affiliate thereof) on or after the Grant Date due to Normal Retirement (which is defined as retirement from employment with the Corporation, or any Subsidiary or Affiliate thereof, at or after age 60), the shares of Stock covered by the Award shall become fully vested.

In the event of the termination of the Employee's employment with the Corporation (or any Subsidiary or Affiliate thereof) on or after the Grant Date due to Early Retirement (which is defined as an early retirement from employment with the Corporation, or any Subsidiary or Affiliate thereof, at or after age 55 but before age 60), the shares of stock covered by the Award shall vest in accordance with the following schedule:

Age ---	Percentage of Award Vested -----
55	85%
56	88%
57	91%
58	94%
59	97%

Employee will receive prorata vesting for each full month of employment in partial years.

Share certificates for the number of shares covered by a vested Award (whether in full or partial) shall be issued and delivered to the Employee on or about the date of Retirement.

Notwithstanding anything to the contrary contained herein and for the purposes of this Award, in order to be eligible for the benefits hereunder associated with Early Retirement, the recipient must be entitled to receive early retirement pension benefits under the then existing policies of the Corporation, Subsidiary or Affiliate, as applicable.

3. Vesting - Death or Disability. Subject to Section 5, in the event of the termination of Employee's employment with the Corporation (or any Subsidiary or Affiliate thereof) on or after the Grant Date due to the Employee's death or Disability, the shares of Stock covered by the Award shall vest at a rate of 20% for each full year of employment with the Corporation (or any Subsidiary or Affiliate thereof) after the Grant Date (with pro rata vesting for each full month of employment in partial years). In such case, share certificates for the number of shares so vested shall be issued and delivered to the Employee (or, in the event of the Employee's death, the Employee's designated beneficiary for purposes of the Award, or in the absence of an effective beneficiary designation, the Employee's estate) within 60 days after the Employee's death or Disability.

4. Vesting - Termination Not for Cause. If the Employee's employment with the Corporation (or any Subsidiary or Affiliate thereof) is terminated on or after the Grant Date by the Corporation (or any Subsidiary or Affiliate thereof) other than pursuant to Section 5, the shares of Stock covered by the Award shall vest at a rate of 10% for each full year of employment with the Corporation (or any Subsidiary or Affiliate thereof) after the Grant Date (with pro rata vesting for each full month of employment in partial years); provided, that no shares of Stock shall vest under this Section 4 if the Employee has not been employed for at least one full year after the Grant Date. Share certificate(s) for the number of shares that vest

pursuant to this Section 4 shall be issued and delivered to the Employee (i) in five equal annual installments with the first installment being made one year after the date of such termination or (ii) in one share certificate, to be issued within 90 days of the date of such termination, in each case, at the option of the Corporation; provided, however, that in the event of such termination, vesting of the shares under the Award as provided herein may be predicated upon the Employee agreeing to such terms and conditions as required by the Corporation, including, but not limited to, non-competition and non-disclosure agreements.

5. Vesting - Termination for Cause; Other. In the event that (a) the Employee's employment with the Corporation (or any Subsidiary or Affiliate thereof) is terminated for Cause; or (b) the Employee terminates his employment with the Corporation, or any Subsidiary or Affiliate thereof, (other than for reasons of Retirement or Disability); or c) the Employee becomes an employee of a Subsidiary that is not wholly owned, directly or indirectly, by the Corporation; or (d) the Employee takes a leave of absence without reinstatement rights, unless otherwise agreed in writing between the Corporation and the Employee; or (e) the Employee is no longer a management level employee at the time his/her employment with the Corporation (or any Subsidiary or Affiliate thereof) is terminated, then all shares of Stock covered by the Award shall be forfeited.

6. Vesting - Change in Control; Potential Change in Control. In the event of a Change in Control or Potential Change in Control of the Corporation, shares under the Award shall vest in accordance with the 1998 Plan or its successor.

7. Elective Deferrals. At any time at least 12 months prior to the date of the Employee's Retirement, the Employee may elect in writing, subject to approval by the Corporation, to voluntarily defer the receipt of the shares of Stock covered by the Award for a specified additional period beyond the date of the Employee's termination of employment (the "Elective Deferral Period"). Any shares deferred pursuant to this Section 7 shall be issued to the Employee within 60 days after the end of the Elective Deferral Period. In the event of the death of the Employee during the Elective Deferral Period, the shares so deferred shall be issued to the Employee's designated Beneficiary (or to the Employee's estate, in the absence of an effective beneficiary designation) within 60 days after the Board receives written notification of death.

8. Transfer Restrictions. This Award is non-transferable otherwise than by will or by the laws of descent and distribution, and may not otherwise be assigned, pledged or hypothecated and shall not be subject to execution, attachment or similar process. Upon any attempt by the Employee (or the Employee's successor in interest after the Employee's death) to effect any such disposition, or upon the levy of any such process, the Award shall immediately become null and void, at the discretion of the Board.

9. Miscellaneous. This Agreement (a) shall be binding upon and inure to the benefit of any successor of the Corporation, (b) shall be governed by the laws of the State of Texas and any applicable laws of the United States, and (c) may not be amended without the written consent of both the Corporation and the Employee. No contract or right of employment shall be implied by this Agreement. If this Award is assumed or a new award is substituted therefore in any corporate reorganization, employment by such assuming or substituting corporation or by a parent corporation or subsidiary or affiliate thereof shall be considered for all purposes of this Award to be employment by the Corporation. In the event Employee does not forward to the Corporation, within the applicable period, required taxes with respect to any Award distributed pursuant to this Agreement, the Corporation may withhold from any payments to be made to the Employee by the Corporation (or any Subsidiary or Affiliate thereof), an amount(s) equal to such taxes.

10. Securities Law Requirements. The Corporation shall not be required to issue shares pursuant to this Award unless and until (a) such shares have been duly listed upon each stock exchange on which the Corporation's Stock is then registered; and (b) a registration statement under the Securities Act of 1933 with respect to such shares is then effective.

The Board may require the Employee to furnish to the Corporation, prior to the issuance of any shares of Stock in connection with this Award, an agreement, in such form as the Board may from time to time deem appropriate, in which the Employee represents that the shares acquired by him under the Award are being acquired for investment and not with a view to the sale or distribution thereof.

11. Incorporation of 1998 Plan Provisions. This Agreement is made pursuant to the 1998 Plan and is subject to all of the terms and provisions of the 1998 Plan as if the same were fully set forth herein. Capitalized terms not otherwise defined herein shall have the meanings set forth for such terms in the 1998 Plan.



12. Participation in Long-Term Incentive Plans. If at the time of i) Employee's Retirement from the Corporation (or any Subsidiary or Affiliate thereof) or ii), the termination of Employee's employment with the Corporation (or any Subsidiary or Affiliate thereof) for reasons contemplated by Sections 3 or 4, the Employee has received payment(s) under the terms of a long-term incentive plan(s) adopted by any Subsidiary or Affiliate of the Corporation, the Employee agrees that in lieu of the shares of Stock that have vested pursuant to this award, the Employee will receive shares of stock having a fair market value as of the vesting date equal to the positive difference, if any, between the fair market value (as of the vesting date) of the shares of Stock that have vested hereunder and the aggregate nominal value of the payment(s) made under such long-term incentive plan(s).

\* \* \*

IN WITNESS HEREOF, the Employee and the Corporation have executed this Career Equity Grant as of the day and year first above written.

\* \* \* \* \*

EMPLOYEE

AMR CORPORATION

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C. D. MarLett  
Corporate Secretary

Grant #

CAREER EQUITY PROGRAM  
DEFERRED STOCK AWARD AGREEMENT

This AGREEMENT made as of ((GRANTDATE)), by and between AMR Corporation, a Delaware corporation (the "Corporation"), to ((FIRSTNAME)) ((LASTNAME)) (the "Employee"), employee numBER ((EE)).

WHEREAS, the stockholders of the Corporation approved the 1998 Long Term Incentive Plan at the Corporation's annual meeting held on May 20, 1998 (such Plan, as may be amended from time to time, to be referenced the "1998 Plan"); and was approved by the shareholders of the Corporation

WHEREAS, pursuant to the Career Equity Program adopted by the Board of Directors of the Corporation (the "Board"), the Board has determined to make a Career Equity Program grant to the Employee of Deferred Stock (subject to the terms of the 1998 Plan and this Agreement), as an inducement for the Employee to remain an employee of the Corporation, and to retain and motivate such Employee during his employment with the Corporation.

NOW, THEREFORE, the Corporation and the Employee hereby agree as follows:

1. Grant of Award. The Employee is hereby granted as of ((GRANTDATE1)), (the "Grant Date") a Deferred Stock Award (the "Award"), subject to the terms and conditions hereinafter set forth, with respect to ((SHARES)) shares of Common Stock, \$1.00 par value, of the Corporation ("Stock"). The shares of Stock covered by the Award shall vest in accordance with Sections 2, 3, 4, 5, and 6 hereof.

2. Vesting - Normal Retirement or Early Retirement. Subject to Section 5, in the event of the termination of Employee's employment with the Corporation (or any Subsidiary or Affiliate thereof) on or after the Grant Date due to Normal Retirement (which is defined as retirement from employment with the Corporation, or any Subsidiary or Affiliate thereof, at or after age 60), the shares of Stock covered by the Award shall become fully vested.

In the event of the termination of the Employee's employment with the Corporation (or any Subsidiary or Affiliate thereof) on or after the Grant Date due to Early Retirement (which is defined as an early retirement from employment with the Corporation, or any Subsidiary or Affiliate thereof, at or after age 55 but before age 60), the shares of stock covered by the Award shall vest in accordance with the following schedule:

Age ---	Percentage of Award Vested -----
55	85%
56	88%
57	91%
58	94%
59	97%

Employee will receive prorata vesting for each full month of employment in partial years.

Share certificates for the number of shares covered by a vested Award (whether in full or partial) shall be issued and delivered to the Employee on or about the date of Retirement.

Notwithstanding anything to the contrary contained herein and for the purposes of this Award, in order to be eligible for the benefits hereunder associated with Early Retirement, the recipient must be entitled to receive early retirement pension benefits under the then existing policies of the Corporation, Subsidiary or Affiliate, as applicable.

3. Vesting - Death or Disability. Subject to Section 5, in the event of the termination of Employee's employment with the Corporation (or any Subsidiary or Affiliate thereof) on or after the Grant Date due to the Employee's death or Disability, the shares of Stock covered by the Award shall vest at a rate of 20% for each full year of employment with the Corporation (or any Subsidiary or Affiliate thereof) after the Grant Date (with pro rata vesting for each full month of employment in partial years). In such case, share certificates for the number of shares so vested shall be issued and delivered to the Employee (or, in the event of the Employee's death, the Employee's designated beneficiary for purposes of the Award, or in the absence of an effective beneficiary designation, the Employee's estate) within 60 days after the Employee's death or Disability.

4. Vesting - Termination Not for Cause. If the Employee's employment with the Corporation (or any Subsidiary or Affiliate thereof) is terminated on or after the Grant Date by the Corporation (or any Subsidiary or Affiliate thereof) other than pursuant to Section 5, the shares of Stock covered by the Award shall vest at a rate of 10% for each full year of employment with the Corporation (or any Subsidiary or Affiliate thereof) after the Grant Date (with pro rata vesting for each full month of employment in partial years); provided, that no shares of Stock shall vest under this Section 4 if the Employee has not been employed for at least one full year after the Grant Date. Share certificate(s) for the number of shares that vest pursuant to this

Section 4 shall be issued and delivered to the Employee (i) in five equal annual installments with the first installment being made one year after the date of such termination or (ii) in one share certificate, to be issued within 90 days of the date of such termination, in each case, at the option of the Corporation; provided, however, that in the event of such termination, vesting of the shares under the Award as provided herein may be predicated upon the Employee agreeing to such terms and conditions as required by the Corporation, including, but not limited to, non-competition and non-disclosure agreements.

5. Vesting - Termination for Cause; Other. In the event that (a) the Employee's employment with the Corporation (or any Subsidiary or Affiliate thereof) is terminated for Cause; or (b) the Employee terminates his employment with the Corporation, or any Subsidiary or Affiliate thereof, (other than for reasons of Retirement or Disability); or c) the Employee becomes an employee of a Subsidiary that is not wholly owned, directly or indirectly, by the Corporation; or (d) the Employee takes a leave of absence without reinstatement rights, unless otherwise agreed in writing between the Corporation and the Employee; or (e) the Employee is no longer a management level employee at the time his/her employment with the Corporation (or any Subsidiary or Affiliate thereof) is terminated, then all shares of Stock covered by the Award shall be forfeited.

6. Vesting - Change in Control; Potential Change in Control. In the event of a Change in Control or Potential Change in Control of the Corporation, shares under the Award shall vest in accordance with the 1998 Plan or its successor.

7. Elective Deferrals. At any time at least 12 months prior to the date of the Employee's Retirement, the Employee may elect in writing, subject to approval by the Corporation, to voluntarily defer the receipt of the shares of Stock covered by the Award for a specified additional period beyond the date of the Employee's termination of employment (the "Elective Deferral Period"). Any shares deferred pursuant to this Section 7 shall be issued to the Employee within 60 days after the end of the Elective Deferral Period. In the event of the death of the Employee during the Elective Deferral Period, the shares so deferred shall be issued to the Employee's designated Beneficiary (or to the Employee's estate, in the absence of an effective beneficiary designation) within 60 days after the Board receives written notification of death.

8. Transfer Restrictions. This Award is non-transferable otherwise than by will or by the laws of descent and distribution, and may not otherwise be assigned, pledged or hypothecated and shall not be subject to execution, attachment or similar process. Upon any attempt by the Employee (or the

Employee's successor in interest after the Employee's death) to effect any such disposition, or upon the levy of any such process, the Award shall immediately become null and void, at the discretion of the Board.

9. Miscellaneous. This Agreement (a) shall be binding upon and inure to the benefit of any successor of the Corporation, (b) shall be governed by the laws of the State of Texas and any applicable laws of the United States, and (c) may not be amended without the written consent of both the Corporation and the Employee. No contract or right of employment shall be implied by this Agreement. If this Award is assumed or a new award is substituted therefore in any corporate reorganization, employment by such assuming or substituting corporation or by a parent corporation or subsidiary or affiliate thereof shall be considered for all purposes of this Award to be employment by the Corporation. In the event Employee does not forward to the Corporation, within the applicable period, required taxes with respect to any Award distributed pursuant to this Agreement, the Corporation may withhold from any payments to be made to the Employee by the Corporation (or any Subsidiary or Affiliate thereof), an amount(s) equal to such taxes.

10. Securities Law Requirements. The Corporation shall not be required to issue shares pursuant to this Award unless and until (a) such shares have been duly listed upon each stock exchange on which the Corporation's Stock is then registered; and (b) a registration statement under the Securities Act of 1933 with respect to such shares is then effective.

The Board may require the Employee to furnish to the Corporation, prior to the issuance of any shares of Stock in connection with this Award, an agreement, in such form as the Board may from time to time deem appropriate, in which the Employee represents that the shares acquired by him under the Award are being acquired for investment and not with a view to the sale or distribution thereof.

11. Incorporation of 1998 Plan Provisions. This Agreement is made pursuant to the 1998 Plan and is subject to all of the terms and provisions of the 1998 Plan as if the same were fully set forth herein. Capitalized terms not otherwise defined herein shall have the meanings set forth for such terms in the 1998 Plan.

12. Participation in Long-Term Incentive Plans. If at the time of i) Employee's Retirement from the Corporation (or any Subsidiary or Affiliate thereof) or ii), the termination of Employee's employment with the Corporation (or any Subsidiary or Affiliate thereof) for reasons contemplated by Sections 3 or 4, the Employee has received payment(s) under the terms of a long-term

incentive plan(s) adopted by any Subsidiary or Affiliate of the Corporation, the Employee agrees that in lieu of the shares of Stock that have vested pursuant to this award, the Employee will receive shares of stock having a fair market value as of the vesting date equal to the positive difference, if any, between the fair market value (as of the vesting date) of the shares of Stock that have vested hereunder and the aggregate nominal value of the payment(s) made under such long-term incentive plan(s).

13. Payment of Performance Return Payments and Dividend Equivalents;  
Voting Rights.

(a) Performance Return Payments. Subject to the terms and conditions set forth in the attached Schedule A, Performance Return Payments (as defined in such Schedule A) shall be paid annually on or about the date as may be designated from time to time by the Board or any committee thereof (the "Payment Date") on all or a specified portion of the shares of Deferred Stock covered by this Award, as set forth in such Schedule A, based on: (i) a deemed investment rate equal to the Corporation's Rolling Average ROI as defined and determined in accordance with the terms and conditions set forth in such Schedule A ; and (ii) the value of the Stock as determined by the Board, or any committee thereof, pursuant to Schedule A.

In addition, the Employee shall be entitled, subject to the consent of the Board, to elect to defer receipt of such Performance Return Payments in accordance with the American Airlines, Inc. 1987 Executive Deferral Plan or its successor plan.

(b) Dividend Equivalents. The Employee shall also be entitled to payment of an amount equal to (i) the amount of any dividend declared per share on the Corporation's Stock after the Grant Date and prior to issuance to, or forfeiture by, the Employee of the shares of Deferred Stock covered by this Award, multiplied by (ii) the number of unissued and unforfeited shares of Deferred Stock covered by this Award, provided (y) that the amount of any such dividend equivalents shall be offset by the amount of any Performance Return Payments paid under this Award within the preceding 11 months and (z) that, unless the Board otherwise decides prior to the dividend payment date, such dividend equivalent payment shall be automatically deferred and treated as additional shares of Deferred Stock, subject to the same terms and conditions that apply to the related shares of Deferred Stock with respect to which such dividend equivalents were initially payable.

(c) Voting and Other Rights. The Employee shall have no ownership rights, including voting rights, with respect to the shares of Deferred Stock covered by this Award unless and until shares of stock are actually issued to the Employee.

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EMPLOYEE

AMR CORPORATION

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C. D. MarLett  
Corporate Secretary

Schedule A  
Performance Return Payments

1. Performance Return Payments may be paid on a percentage of the shares covered by the Award, such percentage to be established, from time to time, by the Committee.
2. The price of those shares, if any, subject to Performance Return Payments, will be as determined by the Board, or any committee thereof, and will approximate the then existing price of the Stock on the New York Stock Exchange.
3. The five-year rolling average return of investment of AMR Corporation (the "ROI"), as referenced in Section 13 of the Agreement, will be calculated as soon as practical following the end of the Corporation's fiscal year. In determining ROI, the following definitions will control:

The Measurement Period is the five most recent fiscal years.

AMR is AMR corporation.

COMMITTEE is the AMR Compensation Committee.

PLAN RETURNS is the sum of AMR pre-tax income, interest expense, and any accounting adjustments or extraordinary or unusual items which may be included or excluded at the discretion of the Committee and approved by the Board of Directors of AMR, or a committee thereof.

ADJUSTED INVESTMENT is the sum of AMR's notes payable, current maturities of long term debt, current maturities on capital leases, non-current long term debt, non-current capital leases, and stockholders' equity and any extraordinary or unusual items which may be included or excluded at the discretion of the Committee and approved by the Board of Directors of AMR, or a committee thereof.

AVERAGE ADJUSTED INVESTMENT FOR A FISCAL YEAR is (i) the sum of Adjusted Investment as of December 31 of the immediately prior fiscal year and Adjusted Investment as of September 30 of the fiscal year for which the ROI is being calculated (ii) divided by two.

ROI FOR A FISCAL YEAR is Plan Returns for fiscal year divided by Average Adjusted Investment for the same fiscal year, stated as a percentage.

ROI FOR THE MEASUREMENT PERIOD is the sum of ROI for each year of the Measurement Period divided by five.



4. In the event of an Employee's termination of employment with the Corporation (or any Subsidiary or Affiliate thereof) for reasons of death, Disability, or Retirement, Performance Return Payments, if any, which are paid on or around the first occurrence of the Payment Date after the date of death, Disability, or Retirement, shall be paid to the Employee (or, in the event of the Employee's death, the Employee's designated beneficiary for purposes of the Award, or in the absence of an effective beneficiary designation, the Employee's estate) at the rate of 8 1/3% for each full or partial month of employment since the Payment Date of the preceding year. For the avoidance of doubt, no Performance Return Payments shall be made to an Employee if the Employee's employment with the Corporation (and any Subsidiary or Affiliate thereof) terminates for factors set forth in Section 5 of this Agreement.

## AMR CORPORATION

1999 - 2001 PERFORMANCE SHARE PLAN  
FOR OFFICERS AND KEY EMPLOYEES

## Purpose

The purpose of the 1999 - 2001 AMR Corporation Performance Share Plan ("Plan") for Officers and Key Employees is to provide greater incentive to officers and key employees of AMR Corporation ("AMR" or "the Corporation"), to achieve the highest level of individual performance, and to meet or exceed specified goals which will contribute to the success of the Corporation.

## Definitions

This Plan has been approved by the Committee under the terms and conditions of the 1998 Long Term Incentive Plan, as amended ("LTIP"). Capitalized terms not otherwise defined in the Plan or the award agreement for performance shares between the Corporation and the employee, will have the meanings set forth in the LTIP.

For purposes of the Plan, the following definitions will control:

"AMR" is defined as AMR Corporation.

"Committee" is defined as the Compensation Committee of the AMR Board of Directors.

"Adjusted Earnings/(Loss)" is defined as the sum of the Corporation's consolidated earnings/(loss) applicable to common shares, preferred dividends, American Airlines Inc. ("American") aircraft rental expense - net of the Related Tax Impact, and the Corporation's Net Interest Expense - net of the Related Tax Impact, less: Calculated Amortization of Operating Leases - net of the Related Tax Impact. For purposes of the determination of Adjusted Earnings/(Loss), the Corporation's Net Interest Expense shall be reduced by an amount equal to the Net Interest Expense of any consolidated non-wholly owned subsidiary multiplied by the percentage of such subsidiary's common stock held by non-affiliates of AMR.

## Definitions (Continued)

"Net Cash Flow" is defined as the sum of Adjusted Earnings/(Loss), the Corporation's depreciation and amortization expense, Calculated Amortization of Operating Leases, and any accounting adjustments or extraordinary or unusual items (net of the Related Tax Impact) or other non-cash items which may be added or deducted at the discretion of the Committee and approved by the AMR Board of Directors. For purposes of the determination of Net Cash Flow, depreciation and amortization expense shall be reduced by an amount equal to the depreciation and amortization expense of any consolidated non-wholly owned subsidiary multiplied by the percentage of such subsidiary's common stock held by non-affiliates of AMR.

"Plan Average Net Cash Flow" is defined as the sum of the Net Cash Flow amounts for all of the fiscal years in the measurement period divided by three.

"Adjusted Gross Assets" is defined as the Corporation's consolidated total assets plus accumulated depreciation on equipment and property plus accumulated amortization on equipment and property under capital leases plus the Capitalized Value of Operating Leases, less: AMR's cash, short-term investments, Accident Receivables and minority interest in "Subsidiary Adjusted Gross Assets" (determined by multiplying "Subsidiary Adjusted Gross Assets" by the percentage of such subsidiary's common stock held by non-affiliates of AMR).

"Accident Receivables" is defined as amounts recorded as receivables from insurance carriers related to significant accident losses, and for which an offsetting liability has been recorded.

"Subsidiary Adjusted Gross Assets" is defined as any non-wholly owned subsidiary's total assets, plus accumulated depreciation on equipment and property, plus accumulated amortization on equipment and property under capital leases, less: cash, short term investments and Accident Receivables.

"Capitalized Value of Operating Leases" is defined as the initial present value of the lease payments required under American's aircraft operating leases over the initial stated lease term, calculated using a discount rate of Prime plus one percent.

"Prime" is defined as the base rate on Corporate Loans posted by at least 75% of the 30 largest U.S. banks which is published daily in the Wall Street Journal.

"Net Interest Expense" is defined as interest expense, less: interest income.

"Calculated Amortization of Operating Leases" is defined as the amortization expense associated with Capitalized Value of Operating Leases and is determined by the straight-line method of amortization over the lease term.

## Definitions (Continued)

"Related Tax Impact" of an adjustment is defined as the amount of that adjustment multiplied by the Corporation's estimated marginal tax rate for the relevant year.

"Measurement Period" is defined as the three year period beginning January 1, 1999 and ending December 31, 2001.

"Average Adjusted Gross Assets" is Adjusted Gross Assets as of December 31 of a given year during the measurement period, plus Adjusted Gross Assets as of December 31 of the prior fiscal year, divided by two.

"Plan Average Adjusted Gross Assets" is the sum of Average Adjusted Gross Assets for each of the years during the measurement period divided by three.

"Cash Flow Return on Gross Assets" is defined as Plan Average Net Cash Flow divided by Plan Average Adjusted Gross Assets.

"Comparison Airlines" shall consist of Delta Air Lines Inc., Southwest Airlines Inc., UAL Corp., and US Airways Group, Inc.

Unless otherwise indicated, the sources for all of the financial data specified above are the applicable Annual Reports on Form 10-K filed by the Corporation.

## Accumulation of Shares

The number of shares under the Plan to be distributed to individual participants is based on the applicable award agreement between the Corporation and the Employee and is determined by (i) the Corporation's Cash Flow Return on Gross Assets ("CFROGA"), and (ii) the Corporation's relative rank among the Comparison Airlines with regard to CFROGA. The accumulation of shares is specified below:

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GRANTED SHARES - PERCENT OF TARGETAMR'S CFROGA  
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AMR's Ranking	< 5.70%	> = 5.70% and < 6.80%	> = 6.80% and < 7.90%	> = 7.90% and < 8.60%	> = 8.60%
1st	75%	100%	125%	150%	175%
2nd	50%	75%	100%	125%	150%
3rd	25%	50%	75%	100%	125%
4th	0%	25%	50%	75%	100%
5th	0%	0%	25%	50%	75%

#### Administration

The Committee shall have authority to administer and interpret the Plan, establish administrative rules, approve eligible participants, and take any other action necessary for the proper operation of the Plan. In computing CFROGA of the Comparison Airlines, the Committee may include or exclude special or non-recurring items. The amount, if any, of the fund shall be computed by the General Auditor of American based on a certification of CFROGA by American's independent auditors. A summary of awards under the Plan shall be provided to the Board of Directors at the first regular meeting following determination of the awards. The Committee may determine to pay a cash equivalent in lieu of the stock award.

#### General

Neither this Plan nor any action taken hereunder shall be construed as giving any employee or participant the right to be retained in the employ of American or an Affiliate.

Nothing in the Plan shall be deemed to give any employee any right, contractually or otherwise, to participate in the Plan or in any benefits hereunder, other than the right to receive an award as may have been expressly awarded by the Committee.

In the event of any act of God, war, natural disaster, aircraft grounding, revocation of operating certificate, terrorism, strike, lockout, labor dispute, work stoppage, fire, epidemic or quarantine restriction, act of government, critical materials shortage, or any other act beyond the control of the Company, whether similar or dissimilar, (each a "Force Majeure Event"), which Force Majeure Event affects the Company or its Subsidiaries or its Affiliates, the Board of Directors of the Company, at its sole discretion, may (i) terminate or (ii) suspend, delay, defer (for such period of time as the Board may deem necessary), or substitute any awards due currently or in the future under the Plan, including, but not limited to, any awards that have accrued to the benefit of participants but have not yet been paid.

In consideration of the employee's privilege to participate in the Plan, the employee agrees (i) not to disclose any trade secrets of, or other confidential/restricted information of, American, to any unauthorized party and, (ii) not to make any unauthorized use of such trade secrets or confidential or restricted information during his or her employment with American or after such employment is terminated, and (iii) not to solicit any current employees of American or any subsidiaries of AMR Corporation to join the employee at his or her new place of employment after his or her employment with American is terminated.

The Board of Directors may amend, suspend, or terminate the Plan at any time.

AMR CORPORATION  
1987 EXECUTIVE DEFERRAL PLAN  
(AS AMENDED THROUGH 1999)

MASTER PLAN DOCUMENT  
JANUARY 1, 1987

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1987 EXECUTIVE DEFERRAL PLAN  
OF  
AMR CORPORATION

PURPOSE

The purpose of this Plan is to provide specified benefits to key employees who contribute materially to the growth, development and business success of AMR Corporation and its subsidiaries.

The Plan is intended to be a "top hat plan" within the meaning of sections 201((2), 301(a)(3) and 401(a)(2) of the Employee Retirement Income Security Act of 1974, as amended, and accordingly, all terms hereof shall be construed in a manner consistent with such provisions.

ARTICLE 1  
DEFINITIONS

For purposes hereof, unless otherwise clearly apparent from the context, the following phrases or terms shall have the following indicated meanings:

1.1 ACCOUNT BALANCE shall consist of Deferrals and the earnings credited thereon pursuant to Article 5, less any withdrawals.

1.2 AGREEMENT shall mean the form of written agreement entered into by and between an Employer and a Participant with respect to the Plan. Each Agreement executed by a Participant shall provide within the context of the Master Plan Document for the Benefit to which such Participant is entitled under the Plan.

1.3 ANNIVERSARY DATE shall be the last day of a Plan year.

1.4 BENEFIT shall mean the amount paid under the Plan.

1.5 BENEFICIARY shall mean the person or persons or the estate of Participant named (pursuant to Article 10) to receive any benefits under this Plan upon the death of a Participant.

1.6 COMMITTEE shall mean the committee appointed to manage and administer the Plan in accordance with the provisions of this Master Plan Document.

1.7 COMPANY shall mean AMR Corporation, its subsidiaries and the successors of each.

1.8 COVERED COMPENSATION shall mean that portion of a Participant's Gross Salary, Performance Return(s), Performance Share(s), and Incentive(s) eligible for Deferral.

1.9 DEFERRAL(S) shall mean the amount or amounts of Covered Compensation that a Participant elects to defer pursuant to the Plan.

1.10 DISTRIBUTION DATE shall mean the date that the Participant chose in the Agreement to begin receiving the Benefit.

1.11 EFFECTIVE DATE shall be January 1, 1987.



1.12 EMPLOYER shall mean the Company or subsidiary having one or more Executives.

1.13 EXECUTIVE shall mean any person in the regular full-time employment of the Company or any of its subsidiaries (as determined by the then existing personnel policies and practices of the Company or affiliate or subsidiary) who has been determined by the Committee to be eligible for participation in the Plan.

1.14 GROSS SALARY will mean the yearly salary and commissions paid to an Executive, excluding, Incentive(s), overtime, and non-monetary awards, for employment services to the Employer.

1.15 INCENTIVE(S) shall mean payment pursuant to any incentive, commission, profit sharing, or other bonus payment plan sponsored by the Employer.

1.16 MASTER PLAN DOCUMENT is this document setting forth the provisions of the Plan.

1.17 PARTICIPANT shall mean any Executive who elects to participate in the Plan, signs an Agreement and is accepted into the Plan.

1.18 PERFORMANCE RETURN(S) shall be the proceeds that the Participant could receive during a Plan Year as a Performance Return on Career Equity pursuant to the Participant's career equity contract.

1.19 PERFORMANCE SHARE(S) shall be the cash equivalent proceeds that the Participant could receive during a Plan Year pursuant to the Performance Share Program.

1.20 PLAN shall mean this 1987 Executive Deferral Plan of AMR Corporation, which shall be evidenced by this Master Plan Document and by each Agreement.

1.21 PLAN YEAR shall begin on January 1 of each year.

1.22 RETIREMENT shall mean achievement of retiree status with the Employer (as determined by the then existing personnel policies of the Employer).

1.23 TERMINATION OF EMPLOYMENT or TERMINATION shall mean the ceasing of employment, voluntarily or involuntarily, excluding Retirement or death.

## ARTICLE 2 ELIGIBILITY

2.1 The Committee shall have the sole discretion to determine those individuals who are eligible to become Participants in the Plan.

2.2 To become a Participant, the Executive shall complete, execute, and return to the Committee an Agreement and comply with any further conditions as many be established by the Committee.

ARTICLE 3  
DEFERRAL COMMITMENTS

3.1 Elections to defer Covered Compensation must be made and received by the Committee by September 15 of the Plan Year prior to the Plan Year in which the Deferral will actually begin.

3.2 The minimum annual Deferral shall be: either one hundred percent (100%) of, or a minimum of five thousand dollars (\$5,000) from, Gross Salary; either one hundred percent (100%) of, or a minimum of five thousand dollars (\$5,000) from, Incentives; either one hundred percent (100%) of, or a minimum of five thousand dollars (\$5,000) from, Performance Returns; or either one hundred percent (100%) of, or a minimum of five thousand dollars (\$5,000) from, Performance Shares.

3.3 The maximum annual Deferral shall be 100% of Covered Compensation per Plan Year, excluding FICA and other deductions required by law.

3.4 Deferrals from the Participant's Gross Salary shall be deducted in equal amounts for each pay period during the Plan Year.

3.5 Deferrals from the Participant's Incentives, Performance Returns, or Performance Shares shall be deducted at the time of the Incentive payment, Performance Return, or Performance Share payment.

3.6 A Participant shall be fully vested in his or her Account Balance at all times.

3.7 The minimum Deferral period is two (2) years.

ARTICLE 4  
EFFECT ON OTHER BENEFITS

4.1 Deferrals shall not reduce benefits from any other employee benefit plan of the Employer that is based on a Participant's Gross Salary, except that Deferrals shall not constitute compensation for purposes of calculating pension benefits or allowable deductions under the Employer's section 401(k) plan (the Super Saver Plan) unless and until distributed. This includes, but is not limited to, life insurance and disability benefits.

ARTICLE 5  
ESTABLISHING OF ACCOUNT AND CREDITING OF EARNINGS

5.1 The Employer shall establish on its books an account for each Participant in the Plan.

5.2 Each such account shall constitute only a bookkeeping entry by the Employer for purposes of facilitating the computation of Benefits.

5.3 Account Balances shall be adjusted monthly as though they were invested pursuant to the Participant's direction under rules established by the Committee among the investment funds chosen by the Committee. The earnings rate for a partial month shall be prorated.

ARTICLE 6  
BENEFIT PAYMENT

6.1 Subject to Section 6.5, the Employer will pay the Benefit from the Participant's Account Balance beginning on the Distribution Date time and in the manner specified by the Participant in the Agreement.

6.2 If the Participant has failed to specify the manner in which the Benefit shall be distributed, payment of the Benefit shall be in a lump sum as soon as is administratively feasible following Termination of Employment or Retirement.

6.3 The unpaid Account Balance will be adjusted monthly pursuant to Section 5.3.

6.4 The Employer shall withhold from payments made under this Plan any taxes required to be withheld from a Participant's wages for Federal, state, or local government.

6.5 The Participant may elect to extend the Distribution Date by notifying the Committee in writing at least one (1) year plus one (1) day prior to the initially selected Distribution Date. The Participant may elect to extend the Distribution Date a maximum of two (2) times for each Deferral.

ARTICLE 7  
SURVIVOR BENEFITS

7.1 If the Participant dies prior to (i) the commencement of benefits (as contemplated under Article 6) or (ii) the payment in full of the amount in the Participant's Account Balance, the Account Balance as of the Participant's death shall be paid to the Beneficiary.

7.2 The Participant may request the mode of payment of the foregoing benefit in the Agreement, which the Committee, in its sole discretion, may authorize.

7.3 Benefits will be paid in the same manner as in Section 6.2, 6.3, and 6.4.

ARTICLE 8  
TERMINATION OF EMPLOYMENT

8.1 Upon a Termination of Employment, the Participant will be entitled to a Benefit at the time and in the manner specified by the Participant in the election form. Account Balances will continue to be adjusted pursuant to Section 5.3.

ARTICLE 9  
BENEFICIARY

9.1 All payments made by the Employer under the Plan shall be made to the Participant during the Participant's lifetime.

9.2 A Participant shall designate a Beneficiary to receive benefits under the Plan by completing the appropriate form as designated by the Committee.

9.3 A Participant shall have the right at any time to change the Beneficiary by submitting to the Committee a Change of Beneficiary Notice in the form prescribed by the Committee.

9.4 Each Change of Beneficiary Notice shall be in writing and shall be effective when received by the Employer. The Employer shall acknowledge in writing receipt of each Change of Beneficiary Notice.

9.5 Each Change of Beneficiary Notice shall automatically revoke and supersede any prior Beneficiary designation, if any.

9.6 Any payment made by the Employer in accordance with this Plan shall fully discharge the Employer from all further obligations with respect to the amount of such payment.

9.7 If no Beneficiary designation is in effect at the time of the Participant's death or if the named Beneficiary has predeceased the Participant, then the Beneficiary (ies) shall be: (1) the surviving spouse, (2) if there is no surviving spouse, then the Participant's issue per stirpes, or (3) if no such issue survive the Participant, then the Participant's estate.

ARTICLE 10  
LEAVE OF ABSENCE

10.1 If a Participant is authorized by the Company for any reason to take a PAID Leave of Absence, the Deferral commitments shall remain in full force and effect.

10.2 If a Participant takes an UNPAID Leave of Absence from the employment of the Company, the Deferral commitments shall be suspended until the Leave of Absence ends and the Participant's paid status resumes.

ARTICLE 11  
EMPLOYER LIABILITY

11.1 Benefits to a Participant shall be paid exclusively from the general assets of the Employer.

11.2 The right of the Participant to Benefits shall be no greater than that of an unsecured general creditor, except as otherwise provided by law.

11.3 The Employer shall have no obligation to a Participant under the Plan, except as provided in the Master Plan Document.

11.4 The Participant must cooperate with the Employer in furnishing all information requested by the Employer in order to facilitate the payment of Benefits.

ARTICLE 12  
NO GUARANTEE OF CONTINUING EMPLOYMENT

12.1 Nothing herein shall constitute a contract of continuing employment between the Employer and the Participant.

ARTICLE 13  
TERMINATION, AMENDMENT OR MODIFICATION OF PLAN

13.1 The Employer reserves the right to terminate this Plan. In the event of Employer-instigated Plan termination, the Participants will receive their Account Balances as of the date of termination. The mode of payment shall be determined by the Committee.

13.2 Termination of this Plan shall not terminate the rights of a Participant or a Beneficiary to continue to receive any Benefits under this Plan to which they have become entitled prior to its termination.

ARTICLE 14  
RESTRICTION ON ALIENATION OF BENEFITS

14.1 No right or benefit under the Plan shall be subject to alienation, sale, transfer, pledge, assignment or encumbrance by a Participant, a Beneficiary or other person except as may be required by law.

ARTICLE 15  
EARLY WITHDRAWAL

15.1 No withdrawal for hardship is contemplated by this Plan. However, the Committee, in its sole discretion, may consider and grant a request for hardship withdrawal upon terms which the Committee may deem fair and equitable. A hardship for these purposes shall mean a severe financial hardship to the Participant resulting from extraordinary circumstances beyond the control of the Participant.

15.2 A Participant may, upon 30 days' prior written notice to the Committee, elect to receive all or a portion of his or her Account Balance, in which case the Committee shall promptly after the 30-day period pay to the Participant 90% of the portion of the Account Balance that the Participant has elected to receive. The remaining 10% of the elected portion of the Account Balance shall be canceled and the Company shall have no further obligation with respect thereto. If the Participant elects an immediate pay-out pursuant to this Section 15.2, the Participant may not make further Deferrals in this Plan for a period of two-years thereafter. The Participant is not eligible to make further Deferrals in this Plan again if the Participant elects a withdrawal pursuant to this Section 15.2 more than once. Notwithstanding anything else in this Plan to the contrary, in the event of any act of God, war, natural disaster, aircraft grounding, revocation of operating certificate, terrorism, strike, lockout, labor dispute, work stoppage, fire, other act, whether similar or dissimilar, beyond the control of the Company (each a "Force Majeure Event"), which Force Majeure Event affects the Company or its subsidiaries, the Board of Directors of the Company, at its sole discretion, may (i) terminate this Section 15.2 or (ii) suspend, delay, defer or substitute (for such period of time as the Board may deem necessary) any payments due by operation of this Section 15.2.

ARTICLE 16  
ADMINISTRATION OF THE PLAN

16.1 The general administration of this Plan, as well as construction and interpretation thereof, shall be vested in the Committee. The number of Committee members shall be established by, and the members shall be appointed from time to time by, and shall serve at the pleasure of, the Board of Directors of the Employer; provided, however, that no member of the Committee shall be allowed to participate in decisions regarding his own eligibility or benefits under the Plan.

16.2 Subject to the Plan, the Committee shall from time to time establish rules, forms and procedures for the administration of the Plan. Except as otherwise expressly provided, the Committee shall have the exclusive right to interpret the Plan and to decide any and all matters arising thereunder. The Committee's decisions shall be conclusive and binding upon all persons having or claiming to have any right or interest under the Plan.

16.3 The Committee may employ such consultants, advisors and managers as it deems necessary or useful in carrying out its duties.

16.4 No member of the Committee shall be liable for any act or omission on such Committee member's own part, excepting willful misconduct. The Employer shall indemnify and save harmless each member of the Committee against any and all expenses and liabilities arising out of membership on the Committee, with the exception of expenses and liabilities arising out of willful misconduct.

16.5 To enable the Committee to perform its functions, the Employer shall supply full and timely information to the Committee on all matters relating to the compensation of all

Participants, their retirement, death or other cause for termination of employment and such other pertinent facts as the Committee may require.

16.6 The Committee shall have the power, in its sole discretion, to change the manner and time of payments to be made to a Participant or Beneficiary from that set forth in the Participant's Agreement.

16.7 The Company reserves the right to amend this Plan as it deems appropriate for future deferral years.

16.8 Dispute Resolution Procedure:

(a) Notice of Denial of Claim. When a Participant's claim for benefits under this Plan has been denied, the Committee shall provide notice to the Participant in writing of the denial within 90 days after the submission of the claim. The notice shall be written in a manner calculated to be understood by the applicant and shall include:

- (i) the specific reason or reasons for denial;
- (ii) specific references to the pertinent Plan provisions on which the denial is based;
- (iii) a description of any additional material or information necessary for the applicant to perfect the claim and an explanation of why such material or information is necessary; and
- (iv) an explanation of the Plan's claim review procedures.

If special circumstances require an extension of time for processing the initial claim, a written notice of the extension and the reason therefore shall be furnished to the claimant before the end of the initial 90-day period. In no event shall this extension exceed 90 days.

(b) Appeal of Denied Claim. In the event a claim for benefits under the Plan is denied or if the applicant has had no response to such claim within 90 days of its submission (in which case the claim for benefits shall be deemed to have been denied), the applicant or his duly authorized representative, at the applicant's sole expense, may appeal the denial to his Employer within 60 days of the receipt of written notice of the denial or 60 days from the date such claim is deemed to be denied. In pursuing such appeal the applicant or his duly authorized representative:

- (i) may request in writing that his Employer review the denial;
- (ii) may review pertinent documents; and
- (iii) may submit issues and comments in writing.

The decision on review shall be made within 60 days of receipt of the request for review, unless special circumstances require an extension of time for processing, in which case a decision shall be rendered as soon as possible, but not later than 120 days after receipt of the request for review. If such an extension of time is required, written notice of the extension shall be furnished to the claimant before the end of the original 60-day period. The decision on review shall be made in writing, shall be written in a manner calculated to be understood by the claimant, and shall include specific references to the provisions of this Plan on which the denial is based. If the decision on review is not furnished within the time specified above, the claim shall be denied on review

ARTICLE 17  
MISCELLANEOUS

17.1 Any notice given under the Plan shall be in writing and shall be mailed or delivered to: American Airlines, Inc., Executive Compensation and Benefits, Mail Drop 5131 HDQ, P . O. Box 619616, DFW Airport, TX 75261-9616.

17.2 The Plan shall be binding upon the Employer and its respective successors or assigns and upon a Participant, Participant's Beneficiary, assigns, heirs, executors and administrators.

17.3 The Plan and Plan Agreement shall be governed by and construed under the Laws of the State of Texas.

17.4 Headings in the Master Plan Document are inserted for convenience of reference only. In the event of any conflict between such headings and the text, the text shall govern.

17.5 Masculine pronouns, however used, shall include feminine pronouns and when the context dictates, the singular shall include the plural.

ARTICLE 18  
TRUST

18.1 To assist in the payment of Benefits following a Change in Control or Potential Change in Control (each as defined in the 1999 Long-Term Incentive Plan (or its successors) of AMR Corporation ("AMR") with respect to AMR, the Board of Directors of AMR or its General Counsel or its Corporate Secretary may establish a trust.

18.2 The trust which may be established pursuant to Section 18.1 will be: i) with a nationally recognized banking institution with experience in serving as a trustee for such matters, ii) pursuant to such documentation as recommended by outside counsel to AMR, and iii) funded so as to enable the trust to pay the Benefits contemplated under the Plan as may be determined by AMR's independent compensation consultant. In addition, AMR's Board of Directors, its General Counsel or its Corporate Secretary, may take those additional actions deemed reasonably necessary to accomplish the stated purpose of Section 18.1.



IN WITNESS WHEREOF the Employer has signed this Plan this \_\_\_ day of \_\_\_\_\_,  
1999.

AMR CORPORATION

By: \_\_\_\_\_

C.D. Marlett

Title: Corporate Secretary

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## AMERICAN AIRLINES, INC.

## 1999 EMPLOYEE PROFIT SHARING PLAN

## Purpose

The purpose of the 1999 American Airlines Employee Profit Sharing Plan ("Plan") is to provide participating employees with a sense of commitment to, and direct financial interest in, the success of American Airlines, Inc. ("American").

## Definitions

Capitalized terms not otherwise defined in the Plan will have the meanings set forth in the 1998 Long Term Incentive Plan, as amended.

"AMR" is defined as AMR Corporation.

"American" is defined as AMR Corporation less AMR subsidiaries other than American Airlines, Inc.

"Committee" is defined as the AMR Incentive Compensation Committee.

"Fund" is defined as the profit sharing fund, if any, accumulated in accordance with this plan.

"Qualified Earnings" is defined as base pay, overtime, holiday pay, skill premiums, longevity pay, sick pay, vacation pay, shift differential, market rate differential, overrides and license premiums and does not include such things as travel and incidental expenses, moving expenses, relocation allowance (COLA), payouts from any retirement plan, disability payments, Workers Compensation payments, imputed income from D-3 service charges or Company provided life insurance, nor does it include any special monetary awards or allowances such as IdeAAs in Action payments, lump sum payments, or incentive compensation or profit sharing payments.

"Plan Earnings" is defined as the sum of American's pre-tax income, interest expense, aircraft rental expense, AMR Minority Interest Expense, and any accruals for American's Pilot Variable Compensation Plan, TWU Profit Sharing Plan, Employee Profit Sharing Plan, and Incentive Compensation Plan, less Calculated Amortization of Operating Leases and any accounting adjustments or extraordinary or unusual items which may be added or deducted at the discretion of the Committee and approved by the Board of Directors.

"Adjusted Investment" is defined as the sum of American's notes payable, current maturities of long term debt and capital leases, long term debt, capital leases, present value of operating leases, and stockholders' equity, and any extraordinary or unusual items which may be added or deducted at the discretion of the Committee and the Board of Directors.

"Present Value of Operating Leases" is defined as the present value of the lease payments required under American's aircraft operating leases over the remaining lease term, calculated using a discount rate of Prime plus one percent. Amounts for 3/31/99, 6/30/99, and 9/30/99 are computed by determining the difference between the Present Value of Operating Leases as of 12/31/99 and 12/31/98 and allocating that difference evenly over the four quarters of 1999.

"AMR Minority Interest Expense" is defined as outside stockholder's ownership in AMR subsidiaries other than American Airlines, Inc.

"Capitalized Value of Operating Leases" is defined as the initial present value of the lease payments required under American's aircraft operating leases over the initial stated lease term, calculated using a discount rate of Prime plus one percent.

"Calculated Amortization of Operating Leases" is defined as the amortization expense associated with the Capitalized Value of Operating Leases and is determined by the straight line method over the lease term.

"Prime" is defined as the base rate on Corporate Loans posted by at least 75% of the 30 largest U.S. banks which is published daily in the Wall Street Journal.

"Average Adjusted Investment" is defined as the sum of Adjusted Investment as of 12/31/98, 3/31/99, 6/30/99, and 9/30/99, divided by four.

"Return on Investment" or "ROI" is defined as Plan Earnings divided by Average Adjusted Investment, stated as a percentage.

"Affiliate" is defined as a subsidiary of AMR or any entity that is designated by the Board as a participating employer under the Plan, provided that AMR directly or indirectly owns at least 20% of the combined voting power of all classes of stock of such entity.

#### Eligibility for Participation

In order to be eligible for a profit sharing award, the individual must:

- o Have worked during the plan year as a regular full-time or part-time employee at American in a participating workgroup (flight attendant, reservations, coordinator/planner, airport agent, support staff, management levels 04 and below).

- o Must have completed six consecutive months of service as a regular employee at American or an Affiliate during his/her tenure. If the six months service requirement is fulfilled during the plan year, eligible earnings from the time worked at American during those six months will be included in the award calculation.
- o Must be actively employed at American or an Affiliate at the time awards are paid. If at the time awards are paid under the Plan, an individual has retired from American or an Affiliate, has been laid off, is on a leave of absence with re-instatement rights, is disabled or has died, the award which the individual otherwise would have received under the Plan but for such retirement, lay-off, leave, disability or death may be paid to the individual or his/her estate in the event of death, at the discretion of the Committee.

Notwithstanding the foregoing, however, an employee will not be eligible to participate in the Plan if such employee is, at the same time, eligible to participate in:

- i) the 1999 American Airlines Incentive Compensation Plan for Officers and Key Employees,
- ii) the Pilot Profit Sharing (as implemented in 1997),
- iii) the TWU Profit Sharing Plan for members of the Transport Workers Union (as implemented in 1995 and revised in 1996),
- iv) any incentive compensation, profit sharing, commission or other bonus plan for employees of any division of American, or
- v) any incentive compensation, profit sharing, commission or other bonus plan sponsored by an Affiliate.

Profit Sharing awards will be determined on a proportionate basis for participation in more than one plan. Employees who transfer from/to Affiliates or any other plan described above, and satisfy aforementioned eligibility requirements, will receive awards from each plan on a proportionate basis.

#### The Profit Sharing Fund Accumulation

Performance will be measured by ROI and the Fund will accumulate based on that performance. The Fund is established at 1% of Qualified Earnings when ROI is equal to 6.4%. The fund will accumulate on a straight-line basis at the rate of 0.583% of qualified earnings for each additional point of ROI.

The profit sharing fund will not exceed an amount equal to 8% of Qualified Earnings at levels of ROI above 18.4%.

#### Award Distribution

For domestic employees, individual awards will be distributed based on an employee's Qualified Earnings for the Plan year multiplied by the appropriate percentage of Qualified Earnings based upon the ROI achieved for the Plan year. The percent of Qualified Earnings used for fund accumulation and award distribution will be the same.

A portion of the Fund will be allocated for international employees based on eligible international employees' Qualified Earnings as a percentage of eligible employees' total Qualified Earnings. This portion of the Fund will be set aside for distribution at the discretion of the appropriate Officer, subject only to the Committee's approval.

#### Administration

The Plan will be administered by a Committee comprised of officers of American appointed by the Chairman of AMR. The Committee will have authority to administer and interpret the Plan, establish administrative rules, determine eligibility and take any other action necessary for the proper and efficient operation of the Plan. The amount, if any, of the Fund shall be computed by the General Auditor of American based on a certification of ROI by American's independent auditors. A summary of awards under the Plan shall be provided to the Board of Directors at the first regular meeting following determination of the awards.

#### Method of Payment

The Committee shall determine the method of payment of awards. Awards shall be paid as soon as practicable after audited financial statements for the year 1999 are available. Individuals, except retirees, may elect to defer their awards into the 401(k) plan established by American.

#### General

Neither this Plan nor any action taken thereunder shall be construed as giving to any employee or participant the right to be retained in the employ of American or any Affiliate.

Nothing in the Plan shall be deemed to give any employee any right, contractually or otherwise, to participate in the Plan or in any benefits thereunder, other than the right to receive payment of such award as may have been expressly determined by the Committee.

In the event of any act of God, war, natural disaster, aircraft grounding, revocation of operating certificate, terrorism, strike, lockout, labor dispute, work stoppage, fire, epidemic or quarantine restriction, act of government, critical materials shortage, or any other act beyond the control of the Company, whether similar or dissimilar, (each a "Force Majeure Event"), which Force Majeure Event affects the Company or its Subsidiaries or its Affiliates, the Board of Directors of the Company, at its sole discretion, may (i) terminate or (ii) suspend, delay, defer (for such period of time as the Board may deem necessary), or substitute any payments due currently or in the future under the Plan, including, but not limited to, any payments that have accrued to the benefit of participants but have not yet been paid.

In consideration of the employee's privilege to participate in the Plan, the employee agrees (i) not to disclose any trade secrets of, or other confidential/restricted information of, American, to any unauthorized party and, (ii) not to make any unauthorized use of such trade secrets or confidential or restricted information during his or her employment with American or after such employment is terminated, and (iii) not to solicit any current employees of American or any subsidiaries of AMR Corporation to join the employee at his or her new place of employment after his or her employment with American is terminated.

The Committee may amend, suspend, or terminate the Plan at any time.

## AMERICAN AIRLINES, INC.

1999 INCENTIVE COMPENSATION PLAN  
FOR OFFICERS AND KEY EMPLOYEES

## Purpose

The purpose of the 1999 American Airlines Incentive Compensation Plan ("Plan") for Officers and Key Employees is to provide greater incentive to officers and key employees of American Airlines, Inc. ("American"), to achieve the highest level of individual performance, and to meet or exceed specified goals which will contribute to the success of American.

## Definitions

This Plan has been approved by the Committee under the terms and conditions of the 1998 Long Term Incentive Plan, as amended ("LTIP"). Capitalized terms not otherwise defined in the Plan will have the meanings set forth in the LTIP.

For purposes of the Plan, the following definitions will control:

"AMR" is defined as AMR Corporation.

"American" is defined as AMR Corporation less AMR subsidiaries other than American Airlines, Inc.

"Committee" is defined as the Compensation Committee of the AMR Board of Directors.

"Fund" is defined as the incentive compensation fund, if any, accumulated in accordance with this Plan.

"Qualified Earnings" is defined as base pay, overtime, holiday pay, skill premiums, longevity pay, sick pay, vacation pay, shift differential, market rate differential, overrides and license premiums and does not include such things as travel and incidental expenses, moving expenses, relocation allowance (COLA), payouts from any retirement plan, disability payments, Workers Compensation payments, imputed income from D-3 service charges or Company provided life insurance, nor does it include any special monetary awards or allowances such as IdeAAs in Action payments, lump sum payments, or incentive compensation or profit sharing payments.

"Target Award" is defined as the award (stated as a percentage of Qualified Earnings) for an eligible participant when Target CFROGA is achieved; subject, however, to adjustment by the Committee or senior management, as the case may be, based upon the participant's individual performance.

"Adjusted Earnings/(Loss)" is defined as the sum of American's net earnings/(loss), aircraft rental expense - net of the Related Tax Impact, Net Interest Expense - net of the Related Tax Impact, and AMR Minority Interest Expense - net of Related Tax Impact, less: Calculated Amortization on Operating Leases - net of the Related Tax Impact .

"Net Interest Expense" is defined as interest expense less interest income.

"Calculated Amortization on Operating Leases" is defined as the amortization expense associated with Capitalized Value of Operating Leases and is determined by the straight line method of amortization over the lease term.

"Net Cash Flow" is defined as the sum of Adjusted Earnings/(Loss), depreciation and amortization expense, Calculated Amortization on Operating Leases, and any accounting adjustments or extraordinary or unusual items (net of the Related Tax Impact) or other non-cash items which may be added or deducted at the discretion of the AMR Incentive Compensation Committee and approved by the AMR Board of Directors.

"Adjusted Gross Assets" is defined as the sum of American's total assets, the Capitalized Value of Operating Leases, Accumulated Depreciation on Equipment and Property, and Accumulated Amortization on Equipment and Property under Capital Leases, less cash and short-term investments, less Accident Receivables, and other assets which may be added or deducted at the discretion of the AMR Incentive Compensation Committee and approved by the AMR Board of Directors.

"Accident Receivables" is defined as amounts recorded as receivables from insurance carriers related to significant accident losses, and for which an offsetting liability has been recorded.

"Capitalized Value of Operating Leases" is defined as the initial present value of the lease payments required under American's aircraft operating leases over the initial stated lease term, calculated using a discount rate of Prime plus one percent.

"AMR Minority Interest Expense" is defined as outside stockholder's ownership in AMR subsidiaries other than American Airlines, Inc.

"Prime" is defined as the base rate on Corporate Loans posted by at least 75% of the 30 largest U.S. banks which is published daily in the Wall Street Journal.



"Related Tax Impact" of an adjustment made in determining Adjusted Net Earnings/(Loss) or Net Cash Flow is defined as the amount of that adjustment multiplied by American's estimated marginal tax rate for the relevant year, as determined by American's Tax Department.

"Average Adjusted Gross Assets" is defined as the sum of Adjusted Gross Assets as of 12/31/98, 3/31/99, 6/30/99, and 9/30/99, divided by four.

"Cash Flow Return on Gross Assets" or "CFROGA" is defined as Net Cash Flow divided by Average Adjusted Gross Assets, stated as a percentage.

"Comparison Airlines" shall consist of UAL Corp., Delta Air Lines, Inc., Southwest Airlines, Inc., and US Airways, Inc.

"Affiliate" is defined as a subsidiary of AMR or any entity that is designated by the Board as a participating employer under the Plan, provided that AMR directly or indirectly owns at least 20% of the combined voting power of all classes of stock of such entity.

"Threshold CFROGA" is defined as 6.7%.

#### Eligibility for Participation

In order to be eligible to participate in the Plan, an individual must be an officer or key employee (as designated by American's Chairman and CEO) of American. Additionally, the individual must have been employed by American or an Affiliate as an officer or key employee for at least three consecutive months during the Plan year. The three months service requirement may be waived in cases of mandatory retirement prior to completing three months of service.

During a Plan year, individuals with less than twelve months eligibility in the Plan may be eligible to participate in the Plan on a pro rata basis, at the discretion of the Committee. In addition, the Committee, in its discretion, may permit participation by officers and key employees of Affiliates who have been so employed by the Affiliate for at least three consecutive months during the Plan year.

Notwithstanding the forgoing, however, an officer or key employee will not be eligible to participate in the Plan if such officer or key employee is, at the same time, eligible to participate in a commission, incentive, profit sharing or other bonus compensation program sponsored by American or an Affiliate, unless the Committee otherwise decides.

In order to receive an award under the Plan, an individual must satisfy the aforementioned eligibility requirements and must be an employee of American or an Affiliate at the time an award under the Plan is paid. If at the time awards are paid under the Plan, an individual has retired from American or an Affiliate, is on leave of absence with reinstatement rights, is disabled, or has died, the award which the individual otherwise would have received under the Plan but for such retirement, leave, disability, or death may be paid to the individual, or his/her estate in the event of death, at the discretion of the Committee.

The Incentive Compensation Fund

- a) As CFROGA exceeds the Threshold CFROGA, the Fund will begin to accumulate.
- b) Target CFROGA will vary from 7.4% - 7.8% depending upon CFROGA rank among the Comparison Airlines. At target CFROGA, the Fund will accumulate to a size that will allow Target Awards for all eligible participants.
- c) Maximum Payout CFROGA will vary from 9.0% to 10.2% depending on CFROGA rank among the comparison airlines. At Maximum Payout CFROGA, the Fund will accumulate to a size that will allow 210% of Target Awards for all eligible participants.
- d) Once Threshold CFROGA has been attained, the Fund will accumulate on a linear basis such that at Target CFROGA, the Fund size equals 100% of Target Awards. Following the attainment of Target CFROGA, the Fund will accumulate on a linear basis such that maximum awards are funded at Maximum Payout CFROGA.

American's Competitive Rank	Threshold	--CFROGA-- Target	Max Payout	Comparison Airlines
1	6.7%	7.4%	9.0%	Delta
2	6.7%	7.5%	9.3%	UAL
3	6.7%	7.6%	9.6%	US Airways
4	6.7%	7.7%	9.9%	Southwest
5	6.7%	7.8%	10.2%	

## Allocation of Individual Awards

Individual awards for officers of American under the Plan will be determined by the Committee based upon each participant's performance; provided, however, that in no event will any award to an officer exceed the amount calculated in accordance with Section 11 (b) of the 1998 LTIP. Individual awards for key non-officer employees of American will be determined by the senior management of American based upon each such employee's performance; provided, however, that in no event will any award to a key non-officer, when combined with any other award made under an incentive, commission, profit sharing or other bonus compensation program sponsored by American or an Affiliate (excluding any performance return or stock-based awards, such as performance share awards), exceed 100% of that employee's base salary. The aggregate of all awards paid hereunder will not exceed the lesser of 2.1 times the target fund or 50% of total base salaries of all participants; provided, however, that if payments to any officers made pursuant to Section 11 (b) of the LTIP exceed 100% of such officer's base salary, the Fund amount will be increased to account for such differential. In addition, the Committee may determine in its discretion that the Fund may not be fully distributed.

## Administration

The Committee shall have authority to administer and interpret the Plan, establish administrative rules, approve eligible participants, and take any other action necessary for the proper operation of the Plan. In computing the Cash Flow Return on Gross Assets of the Comparison Airlines, the Committee may include or exclude special or non-recurring items. Notwithstanding anything to the contrary contained herein, no awards will be made under the Plan unless awards are also made under the 1999 American Airlines Employee Profit Sharing Plan, the 1999 Pilot Variable Compensation Plan for members of the Allied Pilots Association, and the 1999 TWU Profit Sharing Plan for members of the Transport Workers Union. The amount if any, of the Fund shall be computed by the General Auditor of American based on a certification of CFROGA by American's independent auditors. A summary of awards under the Plan shall be provided to the Board of Directors at the first regular meeting following determination of the awards.

## Method of Payment

The Committee will determine the method of payment of awards. Awards shall be paid as soon as practicable after audited financial statements for the year 1999 are available. Individuals, except retirees, may elect to defer their awards into a 401(k) plan established by American or AMR or into a deferred compensation program, if any, administered by American or AMR.

## General

Neither this Plan nor any action taken hereunder shall be construed as giving any employee or participant the right to be retained in the employ of American or an Affiliate.

Nothing in the Plan shall be deemed to give any employee any right, contractually or otherwise, to participate in the Plan or in any benefits hereunder, other than the right to receive payment of such incentive compensation as may have been expressly awarded by the Committee.

In the event of any act of God, war, natural disaster, aircraft grounding, revocation of operating certificate, terrorism, strike, lockout, labor dispute, work stoppage, fire, epidemic or quarantine restriction, act of government, critical materials shortage, or any other act beyond the control of American, whether similar or dissimilar, (each a "Force Majeure Event"), which Force Majeure Event affects American or its Subsidiaries or its Affiliates, the Board of Directors of American, at its sole discretion, may (i) terminate or (ii) suspend, delay, defer (for such period of time as the Board may deem necessary), or substitute any payments due currently or in the future under the Plan, including, but not limited to, any payments that have accrued to the benefit of participants but have not yet been paid.

In consideration of the employee's privilege to participate in the Plan, the employee agrees (i) not to disclose any trade secrets of, or other confidential/restricted information of, American, to any unauthorized party and, (ii) not to make any unauthorized use of such trade secrets or confidential or restricted information during his or her employment with American or after such employment is terminated, and (iii) not to solicit any current employees of American or any subsidiaries of AMR Corporation to join the employee at his or her new place of employment after his or her employment with American is terminated.

The Board of Directors may amend, suspend, or terminate the Plan at any time.

AMENDED AND RESTATED  
EXECUTIVE TERMINATION BENEFITS AGREEMENT

THIS AMENDED AND RESTATED EXECUTIVE TERMINATION BENEFITS AGREEMENT (this "Agreement"), dated as of the 21st day of May, 1998 is among AMR CORPORATION, a Delaware corporation, AMERICAN AIRLINES, INC., a Delaware corporation (collectively the "Company"), and GERARD J. ARPEY (the "Executive").

W I T N E S S E T H:

WHEREAS, the Company considers it essential to the best interests of the Company and its stockholders that its management be encouraged to remain with the Company and to continue to devote full attention to the Company's business in the event an effort is made to obtain control of the Company through a tender offer or otherwise;

WHEREAS, the Company recognizes that the possibility of a change in control and the uncertainty and questions which it may raise among management may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders;

WHEREAS, the Company's Board of Directors (the "Board") has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management to their assigned duties without distraction in the face of the potentially disturbing circumstances arising from the possibility of a change in control of the Company;

WHEREAS, the Executive is a key Executive of the Company;

WHEREAS, the Company believes the Executive has made valuable contributions to the productivity and profitability of the Company;

WHEREAS, should the Company receive any proposal from a third person concerning a possible business combination with or acquisition of equity securities of the Company, the Board believes it imperative that the Company and the Board be able to rely upon the Executive to continue in his position, and that the Company be able to receive and rely upon his advice as to the best interests of the Company and its stockholders without concern that he might be distracted by the personal uncertainties and risks created by such a proposal; and

WHEREAS, should the Company receive any such proposals, in addition to the Executive's regular duties, he may be called upon to assist in the assessment of such proposals, advise management and the Board as to whether such proposals would be in the best interests of the Company and its stockholders, and to take such other actions as the Board might determine to be appropriate.

NOW, THEREFORE, to assure the Company that it will have the continued undivided attention and services of the Executive and the availability of his advice and counsel notwithstanding the possibility, threat or occurrence of a bid to take over control of the Company, and to induce the Executive to remain in the employ of the Company, and for other good and valuable consideration, the Company and the Executive agree as follows:

1. Change in Control

For purposes of this Agreement, a Change in Control of the Company shall be deemed to have taken place if:

(a) any person as defined in Section 3(a)(9) of the Securities Exchange Act of 1934, as amended from time to time (the "Exchange Act"), and as used in Sections 13(d) and

14(d) thereof, including a "group" as defined in Section 13(d) of the Exchange Act (a "Person"), but excluding the Company, any subsidiary of the Company and any employee benefit plan sponsored or maintained by the Company or any subsidiary of the Company (including any trustee of such plan acting as trustee), directly or indirectly, becomes the "beneficial owner" (as defined in Rule 13(d)-3 under the Exchange Act, as amended from time to time) of securities of the Company representing 15% or more of the combined voting power of the Company's then outstanding securities; or

(b) individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of the assets of another corporation (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the then outstanding shares of common stock of the Company and the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors immediately prior to such Business Combination

beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries), (ii) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 15% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination, and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Incumbent Board, providing for such Business Combination; or

(d) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

2. Circumstances Triggering Receipt of Severance Benefits

(a) Subject to Section 2(c), the Company will provide the Executive with the benefits set forth in Section 4 upon any termination of the Executive's employment:

(i) by the Company at any time within the first 24 months after a Change in Control;



(ii) by the Executive for "Good Reason" (as defined in Section 2(b) below) at any time within the first 24 months after a Change in Control;

(iii) by the Executive pursuant to Section 2(d); or

(iv) by the Company or the Executive pursuant to Section 2(e).

(b) In the event of the occurrence of a Change in Control, the Executive may terminate employment with the Company and/or any subsidiary for "Good Reason" with the right to benefits set forth in Section 4 upon the occurrence of one or more of the following events (regardless of whether any other reason, other than Cause as provided below, for such termination exists or has occurred, including without limitation other employment):

(i) Failure to elect or reelect or otherwise to maintain the Executive in the office or the position, or a substantially equivalent office or position, of or with the Company and/or a subsidiary, as the case may be, which the Executive held immediately prior to a Change in Control, or the removal of the Executive as a director of the Company and/or a subsidiary (or any successor thereto) if the Executive shall have been a director of the Company and/or a subsidiary immediately prior to the Change in Control;

(ii) (A) A significant adverse change in the nature or scope of the authorities, powers, functions, responsibilities or duties attached to the position with the Company and/or any subsidiary which the Executive held immediately prior to the Change in Control, (B) a reduction in the aggregate of the Executive's annual base salary rate and annual incentive compensation target to be received from the Company and/or any subsidiary, or (C) the termination or denial of the Executive's rights to Employee Benefits (as defined below) or a reduction in the

scope or value thereof, any of which is not remedied by the Company within 10 calendar days after receipt by the Company of written notice from the Executive of such change, reduction or termination, as the case may be;

(iii) A determination by the Executive (which determination will be conclusive and binding upon the parties hereto provided it has been made in good faith and in all events will be presumed to have been made in good faith unless otherwise shown by the Company by clear and convincing evidence) that a change in circumstances has occurred following a Change in Control, including, without limitation, a change in the scope of the business or other activities for which the Executive was responsible immediately prior to the Change in Control, which has rendered the Executive substantially unable to carry out, has substantially hindered Executive's performance of, or has caused the Executive to suffer a substantial reduction in, any of the authorities, powers, functions, responsibilities or duties attached to the position held by the Executive immediately prior to the Change in Control, which situation is not remedied within 10 calendar days after written notice to the Company from the Executive of such determination;

(iv) The liquidation, dissolution, merger, consolidation or reorganization of the Company or transfer of all or substantially all of its business and/or assets, unless the successor or successors (by liquidation, merger, consolidation, reorganization, transfer or otherwise) to which all or substantially all of its business and/or assets have been transferred (directly or by operation of

law) assumed all duties and obligations of the Company under this Agreement pursuant to Section 9(a);

(v) The Company relocates its principal executive offices, or requires the Executive to have his principal location of work changed, to any location that is in excess of 50 miles from the location thereof immediately prior to the Change in Control, or requires the Executive to travel away from his office in the course of discharging his responsibilities or duties hereunder at least 20% more (in terms of aggregate days in any calendar year or in any calendar quarter when annualized for purposes of comparison to any prior year) than was required of Executive in any of the three full years immediately prior to the Change in Control without, in either case, his prior written consent; or

(vi) Without limiting the generality or effect of the foregoing, any material breach of this Agreement by the Company or any successor thereto, which breach is not remedied within 10 calendar days after written notice to the Company from the Executive describing the nature of such breach.

(c) Notwithstanding Sections 2(a) and (b) above, no benefits shall be payable by reason of this Agreement in the event of:

(i) Termination of the Executive's employment with the Company and its subsidiaries by reason of the Executive's death or Disability, provided that the Executive has not previously given a valid "Notice of Termination" pursuant to Section 3. For purposes hereof, "Disability" shall be defined as the inability of Executive due to illness, accident or other physical or mental disability to perform his duties for any period of six consecutive months or for any period of eight

months out of any 12-month period, as determined by an independent physician selected by the Company and reasonably acceptable to the Executive (or his legal representative), provided that the Executive does not return to work on substantially a full-time basis within 30 days after written notice from the Company, pursuant to Section 3, of an intent to terminate the Executive's employment due to Disability;

(ii) Termination of the Executive's employment with the Company and its subsidiaries on account of the Executive's retirement at or after age 65, pursuant to the Company's Retirement Benefit Plan; or

(iii) Termination of the Executive's employment with the Company and its subsidiaries for Cause. For the purposes hereof, "Cause" shall be defined as a felony conviction of the Executive or the failure of the Executive to contest prosecution for a felony, or the Executive's wilful misconduct or dishonesty, any of which is directly and materially harmful to the business or reputation of the Company or any subsidiary or affiliate. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for "Cause" hereunder unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three quarters of the Board then in office at a meeting of the Board called and held for such purpose, after reasonable notice to the Executive and an opportunity for the Executive, together with his counsel (if the Executive chooses to have counsel present at such meeting), to be heard before the Board, finding that, in the good faith opinion of the Board, the Executive had committed an act constituting

"Cause" as herein defined and specifying the particulars thereof in detail. Nothing herein will limit the right of the Executive or his beneficiaries to contest the validity or propriety of any such determination.

This Section 2(c) shall not preclude the payment of any amounts otherwise payable to the Executive under any of the Company's employee benefit plans, stock plans, programs and arrangements and/or under any Employment Agreement.

(d) Notwithstanding anything contained in this Agreement to the contrary, in the event of a Change in Control, the Executive may terminate employment with the Company and any subsidiary for any reason, or without reason, by providing Notice of Termination pursuant to Section 3 during the 30-day period immediately following the first anniversary of the first occurrence of a Change in Control with the right to the benefits set forth in Section 4.

(e) Any termination of employment of the Executive, including a termination for "Good Reason," but excluding a termination for "Cause," or the removal of the Executive from the office or position in the Company or any subsidiary that occurs (i) not more than 180 days prior to the date on which a Change in Control occurs and (ii) following the commencement of any discussion with a third person that ultimately results in a Change in Control shall be deemed to be a termination or removal of the Executive after a Change in Control for purposes of this Agreement.

### 3. Notice of Termination

Any termination of the Executive's employment with the Company and its subsidiaries as contemplated by Section 2 shall be communicated by written "Notice of Termination" to the other party hereto. Any "Notice of Termination" shall indicate the effective date of termination which shall not be less than 30 days or more than 60 days after the date the Notice of

Termination is delivered (the "Termination Date"), the specific provision in this Agreement relied upon, and, except for a termination pursuant to Section 2(d), will set forth in reasonable detail the facts and circumstances claimed to provide a basis for such termination including, if applicable, the failure after provision of written notice by the Executive to effect a remedy pursuant to the final clause of Section 2(b)(ii), 2(b)(iii) or 2(b)(vi).

4. Termination Benefits

Subject to the conditions set forth in Section 2, the following benefits shall be paid or provided to the Executive:

(a) Compensation

The Company shall pay to the Executive three times the sum of (i) "Base Pay", which shall be an amount equal to the greater of (A) the Executive's effective annual base salary at the Termination Date or (B) the Executive's effective annual base salary immediately prior to the Change in Control, plus (ii) "Incentive Pay" equal to the greater of (x) the target annual bonus payable to the Executive under the Company's Incentive Compensation Plan or any other annual bonus plan for the fiscal year of the Company in which the Change in Control occurred or (y) the highest annual bonus earned by the Executive under the Company's Incentive Compensation Plan or any other annual bonus plan (whether paid currently or on a deferred basis) with respect to any 12 consecutive month period during the three fiscal years of the Company immediately preceding the fiscal year of the Company in which the Change in Control occurred, plus (iii) "Performance Returns" equal to the highest annual payment of performance returns paid to the Executive with respect to any 12 consecutive month period during the three fiscal years of the Company immediately preceding the fiscal year of the Company in which the Change in Control occurred.

## (b) Welfare Benefits

For a period of 36 months following the Termination Date (the "Continuation Period"), the Company shall arrange to provide the Executive with benefits, including travel accident, major medical, dental, vision care and other welfare benefit programs in effect immediately prior to the Change in Control ("Employee Benefits") substantially similar to those that the Executive was receiving or entitled to receive immediately prior to the Termination Date (or, if greater, immediately prior to the reduction, termination, or denial described in Section 2(b)(ii)(C)). If and to the extent that any benefit described in this Section 4(b) is not or cannot be paid or provided under any policy, plan, program or arrangement of the Company or any subsidiary, as the case may be, then the Company will itself pay or provide for the payment to the Executive, his dependents and beneficiaries, of such Employee Benefits along with, in the case of any benefit which is subject to tax because it is not or cannot be paid or provided under any such policy, plan, program or arrangement of the Company or any subsidiary, an additional amount such that after payment by the Executive, or his dependents or beneficiaries, as the case may be, of all taxes so imposed, the recipient retains an amount equal to such taxes. Employee Benefits otherwise receivable by the Executive pursuant to this Section 4(b) will be reduced to the extent comparable welfare benefits are actually received by the Executive from another employer during the Continuation Period, and any such benefits actually received by the Executive shall be reported by the Executive to the Company.

## (c) Retirement Benefits

The Executive shall be deemed to be completely vested in Executive's currently accrued benefits under the Company's Retirement Benefit Plan and Supplemental Executive Retirement Plan ("SERP") in effect as of the date of Change in Control (collectively, the

"Plans"), regardless of his actual vesting service credit thereunder. In addition, the Executive shall be deemed to earn service credit for benefit calculation purposes thereunder for the Continuation Period. Benefits under the Plans will become payable at any time designated by the Executive following termination of the Executive's employment with the Company and its subsidiaries after the Executive reaches age 55, subject to the terms of the Plans regarding the actuarial adjustment of benefit payments commencing prior to normal retirement age. The benefits to be paid pursuant to the Plans shall be calculated as though the Executive's compensation rate for each of the five years immediately preceding his retirement equaled the sum of Base Pay plus Incentive Pay plus Performance Returns. Any benefits payable pursuant to this Section 4(c) that are not payable out of the Plans for any reason (including but not limited to any applicable benefit limitations under the Employee Retirement Income Security Act of 1974, as amended, or any restrictions relating to the qualification of the Company's Retirement Benefit Plan under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code")) shall be paid directly by the Company out of its general assets.

(d) Relocation Benefits

If the Executive moves his residence in order to pursue other business or employment opportunities during the Continuation Period and requests in writing that the Company provide relocation services, he will be reimbursed for any expenses incurred in that initial relocation (including taxes payable on the reimbursement) which are not reimbursed by another employer. Benefits under this provision will include assistance in selling the Executive's home and all other assistance and benefits which were customarily provided by the Company to transferred executives prior to the Change in Control.

(e) Executive Outplacement Counseling



At the request of the Executive made in writing during the Continuation Period, the Company shall engage an outplacement counseling service of national reputation to assist the Executive in obtaining employment.

(f) Stock Based Compensation Plans

(i) Any issued and outstanding Stock Options (to the extent they have not already become exercisable) shall become exercisable as of the date on which the Change in Control occurs, unless otherwise specifically provided at the time such options are granted.

(ii) The Company's right to rescind any award of stock to the Executive under the Company's 1988 Long Term Incentive Plan or the Company's 1998 Long Term Incentive Plan (or any successor plan) shall terminate upon a Change in Control, and all restrictions on the sale, pledge, hypothecation or other disposition of shares of stock awarded pursuant to such plan shall be removed at the Termination Date, unless otherwise specifically provided at the time such award(s) are made.

(iii) The Executive's rights under any other stock based compensation plan shall vest (to the extent they have not already vested) and any performance criteria shall be deemed met at target as of the date on which a Change in Control occurs, unless otherwise specifically provided at the time such right(s) are granted.

(g) Split Dollar Life Insurance

The Company shall pay to the Executive a lump sum equal to the cost on the Termination Date of purchasing, at standard independent insurance premium rates, an individual

paid up insurance policy providing benefits equal to the benefits provided by the Company's Split Dollar Life Insurance coverage immediately prior to the date of the Change in Control.

(h) Other Benefits

(i) The Executive shall have all flight privileges provided by the Company to Directors as of the date of Change in Control until the Executive reaches age 55, at which time he shall have all flight privileges provided by the Company to its retirees who held the same or similar position as the Executive immediately prior to the Change in Control.

(ii) The Executive, at the Executive's option, shall be entitled to continue the use of the Executive's Company-provided automobile during the Continuation Period under the same terms that applied to the automobile immediately prior to the Change in Control, or to purchase the automobile at its book value as of the Termination Date.

(iii) The Company shall pay to the Executive an amount equal to the cost to the Company of providing any other perquisites and benefits of the Company in effect immediately prior to the Change in Control, calculated as if such benefits were continued during the Continuation Period.

(i) Accrued Amounts

The Company shall pay to the Executive all other amounts accrued or earned by the Executive through the Termination Date and amounts otherwise owing under the then existing plans and policies of the Company, including but not limited to all amounts of compensation previously deferred by the Executive (together with any accrued interest thereon) and not yet paid by the Company, and any accrued vacation pay not yet paid by the Company.

(j) The Company shall pay to the Executive the amounts due pursuant to Sections 4(a), 4(g) and 4(h)(iii) in a lump sum on the first business day of the month following the Termination Date. The Company shall pay to the Executive the amounts due pursuant to Section 4(i) in accordance with the terms and conditions of the existing plans and policies of the Company.

5. Certain Additional Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding, but subject to Section 5(h), in the event that this Agreement shall become operative and it shall be determined (as hereafter provided) that any payment (other than the Gross-Up payments provided for in this Section 5) or distribution by the Company or any of its subsidiaries to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise pursuant to or by reason of any other agreement, policy, plan, program or arrangement, including without limitation any stock option, stock appreciation right or similar right, restricted stock, deferred stock or the lapse or termination of any restriction on, deferral period or the vesting or exercisability of any of the foregoing (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Code (or any successor provision thereto) by reason of being considered "contingent on a change in ownership or control" of the Company, within the meaning of Section 280G of the Code (or any successor provision thereto) or to any similar tax imposed by state or local law, or any interest or penalties with respect to such tax (such tax or taxes, together with any such interest and penalties, being hereafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment or payments (collectively, a "Gross-Up Payment"). The Gross-Up Payment shall be in an amount such that, after payment by the Executive of all taxes (including any interest or

penalties imposed with respect to such taxes), including any Excise Tax and any income tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payment.

(b) Subject to the provisions of Section 5(f), all determinations required to be made under this Section 5, including whether an Excise Tax is payable by the Executive and the amount of such Excise Tax and whether a Gross-Up Payment is required to be paid by the Company to the Executive and the amount of such Gross-Up Payment, if any, shall be made by a nationally recognized accounting firm (the "Accounting Firm") selected by the Executive in his sole discretion. The Executive shall direct the Accounting Firm to submit its determination and detailed supporting calculations to both the Company and the Executive within 30 calendar days after the Change in Control Date, the Termination Date, if applicable, and any such other time or times as may be requested by the Company or the Executive. If the Accounting Firm determines that any Excise Tax is payable by the Executive, the Company shall pay the required Gross-Up Payment to the Executive within five business days after receipt of such determination and calculations with respect to any Payment to the Executive. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall, at the same time as it makes such determination, furnish the Company and the Executive an opinion that the Executive has substantial authority not to report any Excise Tax on his federal, state or local income or other tax return. As a result of the uncertainty in the application of Section 4999 of the Code (or any successor provision thereto) and the possibility of similar uncertainty regarding applicable state or local tax law at the time of any determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made (an "Underpayment"), consistent with the calculations required to be made hereunder. In the

event that the Company exhausts or fails to pursue its remedies pursuant to Section 5(f) and the Executive thereafter is required to make a payment of any Excise Tax, the Executive shall direct the Accounting Firm to determine the amount of the Underpayment that has occurred and to submit its determination and detailed supporting calculations to both the Company and the Executive as promptly as possible. Any such Underpayment shall be promptly paid by the Company to, or for the benefit of, the Executive within five business days after receipt of such determination and calculations.

(c) The Company and the Executive shall each provide the Accounting Firm access to and copies of any books, records and documents in the possession of the Company or the Executive, as the case may be, reasonably requested by the Accounting Firm, and otherwise cooperate with the Accounting Firm in connection with the preparation and issuance of the determinations and calculations contemplated by Section 5(b). Any determination by the Accounting Firm as to the amount of the Gross-Up Payment shall be binding upon the Company and the Executive.

(d) The federal, state and local income or other tax returns filed by the Executive shall be prepared and filed on a consistent basis with the determination of the Accounting Firm with respect to the Excise Tax payable by the Executive. The Executive shall make proper payment of the amount of any Excise Payment, and at the request of the Company, provide to the Company true and correct copies (with any amendments) of his federal income tax return as filed with the Internal Revenue Service and corresponding state and local tax returns, if relevant, as filed with the applicable taxing authority, and such other documents reasonably requested by the Company, evidencing such payment. If prior to the filing of the Executive's federal income tax return, or corresponding state or local tax return, if relevant, the Accounting

Firm determines that the amount of the Gross-Up Payment should be reduced, the Executive shall within five business days pay to the Company the amount of such reduction.

(e) The fees and expenses of the Accounting Firm for its services in connection with the determinations and calculations contemplated by Section 5(b) shall be borne by the Company. If such fees and expenses are initially paid by the Executive, the Company shall reimburse the Executive the full amount of such fees and expenses within five business days after receipt from the Executive of a statement therefor and reasonable evidence of his payment thereof.

(f) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service or any other taxing authority that, if successful, would require the payment by the Company of a Gross-Up Payment or any additional Gross-Up Payment. Such notification shall be given as promptly as practicable but no later than 10 business days after the Executive actually receives notice of such claim and the Executive shall further apprise the Company of the nature of such claim and the date on which such claim is requested to be paid (in each case, to the extent known by the Executive). The Executive shall not pay such claim prior to the earlier of (x) the expiration of the 30-calendar-day period following the date on which he gives such notice to the Company and (y) the date that any payment of amount with respect to such claim is due. If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) provide the Company with any written records or documents in his possession relating to such claim reasonably requested by the Company;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including without

limitation accepting legal representation with respect to such claim by an attorney competent in respect of the subject matter and reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order effectively to contest such claim; and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including interest and penalties) incurred in connection with such contest and shall indemnify and hold harmless the Executive, on an after-tax basis, for and against any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such contest and payment of costs and expenses. Without limiting the foregoing provisions of this Section 5(f), the Company shall control all proceedings taken in connection with the contest of any claim contemplated by this Section 5(f) and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim (provided, however, that the Executive may participate therein at his own cost and expense) and may, at its option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay the tax claimed and sue for a refund, the Company shall advance the amount of such payment to the Executive on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any

Excise Tax or income or other tax, including interest or penalties with respect thereto, imposed with respect to such advance; and provided further, however, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which the contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of any such contested claim shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(g) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 5(f), the Executive receives any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 5(f)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after any taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 5(f), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial or refund prior to the expiration of 30 calendar days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of any such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid by the Company to the Executive pursuant to this Section 5.

(h) Notwithstanding any provision of this Agreement to the contrary, if (i) but for this sentence, the Company would be obligated to make a Gross-Up Payment to the Executive, (ii) the aggregate "present value" of the "parachute payments" to be paid or provided



to the Executive under this Agreement or otherwise does not exceed 1.15 multiplied by three times the Executive's "base amount," and (iii) but for this sentence, the net after-tax benefit to the Executive of the Gross-Up Payment would not exceed \$50,000 (taking into account both income taxes and any Excise Tax), then the payments and benefits to be paid or provided under this Agreement (including any stock based compensation pursuant to Section 4(f)) will be reduced to the minimum extent necessary (but in no event to less than zero) so that no portion of any payment or benefit to the Executive, as so reduced, constitutes an "excess parachute payment." For purposes of this Section 5(h), the terms "excess parachute payment," "present value," "parachute payment," and "base amount" will have the meanings assigned to them by Section 280G of the Code. The determination of whether any reduction in such payments or benefits to be provided under this Agreement is required pursuant to the preceding sentence will be made at the expense of the Company, if requested by the Executive or the Company, by the Accounting Firm. The fact that the Executive's right to payments or benefits may be reduced by reason of the limitations contained in this Section 5(h) will not of itself limit or otherwise affect any other rights of the Executive other than pursuant to this Agreement. In the event that any payment or benefit intended to be provided under this Agreement or otherwise is required to be reduced pursuant to this Section 5(h), the Executive will be entitled to designate the payments and/or benefits to be so reduced in order to give effect to this Section 5(h). The Company will provide the Executive with all information reasonably requested by the Executive to permit the Executive to make such designation. In the event that the Executive fails to make such designation within 10 business days of the Termination Date, the Company may effect such reduction in any manner it deems appropriate.

6. No Mitigation Obligation. The Company hereby acknowledges that it will be difficult and may be impossible for the Executive to find reasonably comparable employment following the Termination Date. Accordingly, the payment of the severance compensation by the Company to the Executive in accordance with the terms of this Agreement is hereby acknowledged by the Company to be reasonable, and the Executive will not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, nor will any profits, income, earnings or other benefits from any source whatsoever create any mitigation, offset, reduction or any other obligation on the part of the Executive hereunder or otherwise, except as expressly provided in the last sentence of Section 4(b).

7. Legal Fees and Expenses.

(a) It is the intent of the Company that the Executive not be required to incur legal fees and the related expenses associated with the interpretation, enforcement or defense of Executive's rights under this Agreement by litigation or otherwise because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Executive hereunder. Accordingly, if it should appear to the Executive that the Company has failed to comply with any of its obligations under this Agreement or in the event that the Company or any other person takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any litigation or other action or proceeding designed to deny, or to recover from, the Executive any or all of the benefits provided or intended to be provided to the Executive hereunder, the Company irrevocably authorizes the Executive from time to time to retain counsel of Executive's choice, at the expense of the Company as hereafter provided, to advise and represent the Executive in connection with any such interpretation, enforcement or

defense, including without limitation the initiation or defense of any litigation or other legal action, whether by or against the Company or any director, officer, stockholder or other person affiliated with the Company, in any jurisdiction. Notwithstanding any existing or prior attorney-client relationship between the Company and such counsel, the Company irrevocably consents to the Executive's entering into an attorney-client relationship with such counsel, and in that connection the Company and the Executive agree that a confidential relationship shall exist between the Executive and such counsel. Without respect to whether the Executive prevails, in whole or in part, in connection with any of the foregoing, the Company will pay and be solely financially responsible for any and all attorneys' and related fees and expenses incurred by the Executive in connection with any of the foregoing.

(b) Without limiting the obligations of the Company pursuant to Section 7(a) hereof, in the event a Change in Control occurs, the performance of the Company's obligations under this Section 7 shall be secured by amounts deposited or to be deposited in trust pursuant to certain trust agreements to which the Company shall be a party, which amounts deposited shall in the aggregate be not less than \$2,000,000, providing that the fees and expenses of counsel selected from time to time by the Executive pursuant to Section 7(a) shall be paid, or reimbursed to the Executive if paid by the Executive, either in accordance with the terms of such trust agreements, or, if not so provided, on a regular, periodic basis upon presentation by the Executive to the trustee of a statement or statements prepared by such counsel in accordance with its customary practices. Any failure by the Company to satisfy any of its obligations under this Section 7(b) shall not limit the rights of the Executive hereunder. Subject to the foregoing, the Executive shall have the status of a general unsecured creditor of the Company and shall have no right to, or security interest in, any assets of the Company or any subsidiary.

## 8. Continuing Obligations

(a) The Executive hereby agrees that all documents, records, techniques, business secrets and other information which have come into his possession from time to time during his employment with the Company shall be deemed to be confidential and proprietary to the Company and, except for personal documents and records of the Executive, shall be returned to the Company. The Executive further agrees to retain in confidence any confidential information known to him concerning the Company and its subsidiaries and their respective businesses so long as such information is not publicly disclosed, except that Executive may disclose any such information required to be disclosed in the normal course of his employment with the Company or pursuant to any court order or other legal process.

(b) The Executive hereby agrees that during the Continuation Period, he will not directly or indirectly solicit any employee of the Company or any of its subsidiaries or affiliated companies to join the employ of any entity that competes with the Company or any of its subsidiaries or affiliated companies.

## 9. Successors

(a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to the Executive to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of such successor entity to enter into such agreement prior to the effective date of any such succession (or, if later, within three business days after first receiving a written request for such agreement) shall constitute a breach of this Agreement and shall entitle the Executive to

terminate his employment pursuant to Section 2(a)(ii) and to receive the payments and benefits provided under Section 4. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which executes and delivers the Agreement provided for in this Section 9 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(b) This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive dies while any amounts are payable to him hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to his devisee, legatee or other designee or, if there is no such designee, to his estate.

10. Notices

For all purposes of this Agreement, all communications, including without limitation notices, consents, requests or approvals, required or permitted to be given hereunder will be in writing and will be deemed to have been duly given when hand delivered or dispatched by electronic facsimile transmission (with receipt thereof orally confirmed), or five business days after having been mailed by United States registered or certified mail, return receipt requested, postage prepaid, or three business days after having been sent by a nationally recognized overnight courier service such as FedEx, UPS, or Purolator, addressed to the Company (to the attention of the Secretary of the Company, with a copy to the General Counsel of the Company) at its principal executive office and to the Executive at his principal residence, or to such other address as any party may have furnished to the other in writing and in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

## 11. Governing Law

THE VALIDITY, INTERPRETATION, CONSTRUCTION AND PERFORMANCE OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF DELAWARE.

## 12. Miscellaneous

No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by the Executive and the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement (or in any employment or other written agreement relating to the Executive). Notwithstanding any provision of this Agreement to the contrary, the parties' respective rights and obligations under Sections 4, 5 and 7 will survive any termination or expiration of this Agreement or the termination of the Executive's employment following a Change in Control for any reason whatsoever. Nothing expressed or implied in this Agreement will create any right or duty on the part of the Company or the Executive to have the Executive remain in the employment of the Company or any subsidiary prior to or following any Change in Control. The Company may withhold from any amounts payable under this Agreement all federal, state, city or other taxes as the Company is required to withhold pursuant to any law or government regulation or ruling. In the event that the Company refuses or otherwise fails to make a payment when due and it is ultimately decided that the Executive is entitled to such

payment, such payment shall be increased to reflect an interest factor, compounded annually, equal to the prime rate in effect as of the date the payment was first due plus two points. For this purpose, the prime rate shall be based on the rate identified by Chase Manhattan Bank as its prime rate.

13. Separability

The invalidity or unenforceability of any provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

14. Non-assignability

This Agreement is personal in nature and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder, except as provided in Section 9. Without limiting the foregoing, the Executive's right to receive payments hereunder shall not be assignable or transferable, whether by pledge, creation of a security interest or otherwise, other than a transfer by his will or by the laws of descent or distribution, and in the event of any attempted assignment or transfer by Executive contrary to this Section 14 the Company shall have no liability to pay any amount so attempted to be assigned or transferred to any person other than the Executive or, in the event of his death, his designated beneficiary or, in the absence of an effective beneficiary designation, the Executive's estate.

15. Effectiveness; Term

This Agreement will be effective and binding as of the date first above written immediately upon its execution, but, anything in this Agreement to the contrary notwithstanding, this Agreement will not be operative unless and until a Change in Control occurs. Upon the

occurrence of a Change in Control at any time during the Term (as defined below), without further action, this Agreement shall become immediately operative. For purposes of this Agreement, "Term" means the period commencing as of the date first above written and expiring as of the later of (i) the fifth anniversary of the date first above written or (ii) the second anniversary of the first occurrence of a Change in Control; provided, however, that (A) commencing on the fifth anniversary of the date first above written and each fifth anniversary date thereafter, the Term of this Agreement will automatically be extended for an additional five years unless, not later than 180 days preceding each such fifth anniversary date, the Company or the Executive shall have given notice that it or the Executive, as the case may be, does not wish to have the Term extended and (B) subject to Section 2(e), if, prior to a Change in Control, the Executive ceases for any reason to be an employee of the Company and any subsidiary, thereupon without further action the Term shall be deemed to have expired and this Agreement will immediately terminate and be of no further effect. For purposes of this Section 15, the Executive shall not be deemed to have ceased to be an employee of the Company and any subsidiary by reason of the transfer of Executive's employment between the Company and any subsidiary, or among any subsidiaries.

16 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same agreement.

17 Prior Agreement. This Agreement supersedes and terminates any and all prior Executive Termination Benefits Agreements by and among Company and the Executive.



IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered as of the day and year first above set forth, thereby mutually and voluntarily agreeing that this Agreement supersedes and replaces any prior similar agreements for such termination benefits.

AMR CORPORATION

By: /s/ Donald J. Carty  
-----  
AMERICAN AIRLINES, INC.

By: /s/ Thomas J. Kiernan  
-----  
GERARD J. ARPEY

/s/ Gerard J. Arpey  
-----

AMENDED AND RESTATED  
EXECUTIVE TERMINATION BENEFITS AGREEMENT

THIS AMENDED AND RESTATED EXECUTIVE TERMINATION BENEFITS AGREEMENT (this "Agreement"), dated as of the 21st day of May, 1998 is among AMR CORPORATION, a Delaware corporation, AMERICAN AIRLINES, INC., a Delaware corporation (collectively the "Company"), and ROBERT W. BAKER (the "Executive").

W I T N E S S E T H:

WHEREAS, the Company considers it essential to the best interests of the Company and its stockholders that its management be encouraged to remain with the Company and to continue to devote full attention to the Company's business in the event an effort is made to obtain control of the Company through a tender offer or otherwise;

WHEREAS, the Company recognizes that the possibility of a change in control and the uncertainty and questions which it may raise among management may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders;

WHEREAS, the Company's Board of Directors (the "Board") has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management to their assigned duties without distraction in the face of the potentially disturbing circumstances arising from the possibility of a change in control of the Company;

WHEREAS, the Executive is a key Executive of the Company;

WHEREAS, the Company believes the Executive has made valuable contributions to the productivity and profitability of the Company;

WHEREAS, should the Company receive any proposal from a third person concerning a possible business combination with or acquisition of equity securities of the Company, the Board believes it imperative that the Company and the Board be able to rely upon the Executive to continue in his position, and that the Company be able to receive and rely upon his advice as to the best interests of the Company and its stockholders without concern that he might be distracted by the personal uncertainties and risks created by such a proposal; and

WHEREAS, should the Company receive any such proposals, in addition to the Executive's regular duties, he may be called upon to assist in the assessment of such proposals, advise management and the Board as to whether such proposals would be in the best interests of the Company and its stockholders, and to take such other actions as the Board might determine to be appropriate.

NOW, THEREFORE, to assure the Company that it will have the continued undivided attention and services of the Executive and the availability of his advice and counsel notwithstanding the possibility, threat or occurrence of a bid to take over control of the Company, and to induce the Executive to remain in the employ of the Company, and for other good and valuable consideration, the Company and the Executive agree as follows:

1. Change in Control

For purposes of this Agreement, a Change in Control of the Company shall be deemed to have taken place if:

(a) any person as defined in Section 3(a)(9) of the Securities Exchange Act of 1934, as amended from time to time (the "Exchange Act"), and as used in Sections 13(d) and

14(d) thereof, including a "group" as defined in Section 13(d) of the Exchange Act (a "Person"), but excluding the Company, any subsidiary of the Company and any employee benefit plan sponsored or maintained by the Company or any subsidiary of the Company (including any trustee of such plan acting as trustee), directly or indirectly, becomes the "beneficial owner" (as defined in Rule 13(d)-3 under the Exchange Act, as amended from time to time) of securities of the Company representing 15% or more of the combined voting power of the Company's then outstanding securities; or

(b) individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of the assets of another corporation (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the then outstanding shares of common stock of the Company and the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors immediately prior to such Business Combination

beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries), (ii) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 15% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination, and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Incumbent Board, providing for such Business Combination; or

(d) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

## 2. Circumstances Triggering Receipt of Severance Benefits

(a) Subject to Section 2(c), the Company will provide the Executive with the benefits set forth in Section 4 upon any termination of the Executive's employment:

(i) by the Company at any time within the first 24 months after a Change in Control;

(ii) by the Executive for "Good Reason" (as defined in Section 2(b) below) at any time within the first 24 months after a Change in Control;

(iii) by the Executive pursuant to Section 2(d);  
or

(iv) by the Company or the Executive pursuant to Section 2(e).

(b) In the event of the occurrence of a Change in Control, the Executive may terminate employment with the Company and/or any subsidiary for "Good Reason" with the right to benefits set forth in Section 4 upon the occurrence of one or more of the following events (regardless of whether any other reason, other than Cause as provided below, for such termination exists or has occurred, including without limitation other employment):

(i) Failure to elect or reelect or otherwise to maintain the Executive in the office or the position, or a substantially equivalent office or position, of or with the Company and/or a subsidiary, as the case may be, which the Executive held immediately prior to a Change in Control, or the removal of the Executive as a director of the Company and/or a subsidiary (or any successor thereto) if the Executive shall have been a director of the Company and/or a subsidiary immediately prior to the Change in Control;

(ii) (A) A significant adverse change in the nature or scope of the authorities, powers, functions, responsibilities or duties attached to the position with the Company and/or any subsidiary which the Executive held immediately prior to the Change in Control, (B) a reduction in the aggregate of the Executive's annual base salary rate and annual incentive compensation target to be received from the Company and/or any subsidiary, or (C) the termination or denial of the Executive's rights to Employee Benefits (as defined below) or a reduction in the

scope or value thereof, any of which is not remedied by the Company within 10 calendar days after receipt by the Company of written notice from the Executive of such change, reduction or termination, as the case may be;

(iii) A determination by the Executive (which determination will be conclusive and binding upon the parties hereto provided it has been made in good faith and in all events will be presumed to have been made in good faith unless otherwise shown by the Company by clear and convincing evidence) that a change in circumstances has occurred following a Change in Control, including, without limitation, a change in the scope of the business or other activities for which the Executive was responsible immediately prior to the Change in Control, which has rendered the Executive substantially unable to carry out, has substantially hindered Executive's performance of, or has caused the Executive to suffer a substantial reduction in, any of the authorities, powers, functions, responsibilities or duties attached to the position held by the Executive immediately prior to the Change in Control, which situation is not remedied within 10 calendar days after written notice to the Company from the Executive of such determination;

(iv) The liquidation, dissolution, merger, consolidation or reorganization of the Company or transfer of all or substantially all of its business and/or assets, unless the successor or successors (by liquidation, merger, consolidation, reorganization, transfer or otherwise) to which all or substantially all of its business and/or assets have been transferred (directly or by operation of

law) assumed all duties and obligations of the Company under this Agreement pursuant to Section 9(a);

(v) The Company relocates its principal executive offices, or requires the Executive to have his principal location of work changed, to any location that is in excess of 50 miles from the location thereof immediately prior to the Change in Control, or requires the Executive to travel away from his office in the course of discharging his responsibilities or duties hereunder at least 20% more (in terms of aggregate days in any calendar year or in any calendar quarter when annualized for purposes of comparison to any prior year) than was required of Executive in any of the three full years immediately prior to the Change in Control without, in either case, his prior written consent; or

(vi) Without limiting the generality or effect of the foregoing, any material breach of this Agreement by the Company or any successor thereto, which breach is not remedied within 10 calendar days after written notice to the Company from the Executive describing the nature of such breach.

(c) Notwithstanding Sections 2(a) and (b) above, no benefits shall be payable by reason of this Agreement in the event of:

(i) Termination of the Executive's employment with the Company and its subsidiaries by reason of the Executive's death or Disability, provided that the Executive has not previously given a valid "Notice of Termination" pursuant to Section 3. For purposes hereof, "Disability" shall be defined as the inability of Executive due to illness, accident or other physical or mental disability to perform his duties for any period of six consecutive months or for any period of eight



months out of any 12-month period, as determined by an independent physician selected by the Company and reasonably acceptable to the Executive (or his legal representative), provided that the Executive does not return to work on substantially a full-time basis within 30 days after written notice from the Company, pursuant to Section 3, of an intent to terminate the Executive's employment due to Disability;

(ii) Termination of the Executive's employment with the Company and its subsidiaries on account of the Executive's retirement at or after age 65, pursuant to the Company's Retirement Benefit Plan; or

(iii) Termination of the Executive's employment with the Company and its subsidiaries for Cause. For the purposes hereof, "Cause" shall be defined as a felony conviction of the Executive or the failure of the Executive to contest prosecution for a felony, or the Executive's willful misconduct or dishonesty, any of which is directly and materially harmful to the business or reputation of the Company or any subsidiary or affiliate. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for "Cause" hereunder unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three quarters of the Board then in office at a meeting of the Board called and held for such purpose, after reasonable notice to the Executive and an opportunity for the Executive, together with his counsel (if the Executive chooses to have counsel present at such meeting), to be heard before the Board, finding that, in the good faith opinion of the Board, the Executive had committed an act constituting

"Cause" as herein defined and specifying the particulars thereof in detail. Nothing herein will limit the right of the Executive or his beneficiaries to contest the validity or propriety of any such determination.

This Section 2(c) shall not preclude the payment of any amounts otherwise payable to the Executive under any of the Company's employee benefit plans, stock plans, programs and arrangements and/or under any Employment Agreement.

(d) Notwithstanding anything contained in this Agreement to the contrary, in the event of a Change in Control, the Executive may terminate employment with the Company and any subsidiary for any reason, or without reason, by providing Notice of Termination pursuant to Section 3 during the 30-day period immediately following the first anniversary of the first occurrence of a Change in Control with the right to the benefits set forth in Section 4.

(e) Any termination of employment of the Executive, including a termination for "Good Reason," but excluding a termination for "Cause," or the removal of the Executive from the office or position in the Company or any subsidiary that occurs (i) not more than 180 days prior to the date on which a Change in Control occurs and (ii) following the commencement of any discussion with a third person that ultimately results in a Change in Control shall be deemed to be a termination or removal of the Executive after a Change in Control for purposes of this Agreement.

### 3. Notice of Termination

Any termination of the Executive's employment with the Company and its subsidiaries as contemplated by Section 2 shall be communicated by written "Notice of Termination" to the other party hereto. Any "Notice of Termination" shall indicate the effective date of termination which shall not be less than 30 days or more than 60 days after the date the Notice of

Termination is delivered (the "Termination Date"), the specific provision in this Agreement relied upon, and, except for a termination pursuant to Section 2(d), will set forth in reasonable detail the facts and circumstances claimed to provide a basis for such termination including, if applicable, the failure after provision of written notice by the Executive to effect a remedy pursuant to the final clause of Section 2(b) (ii), 2(b) (iii) or 2(b) (vi).

4. Termination Benefits

Subject to the conditions set forth in Section 2, the following benefits shall be paid or provided to the Executive:

(a) Compensation

The Company shall pay to the Executive three times the sum of (i) "Base Pay", which shall be an amount equal to the greater of (A) the Executive's effective annual base salary at the Termination Date or (B) the Executive's effective annual base salary immediately prior to the Change in Control, plus (ii) "Incentive Pay" equal to the greater of (x) the target annual bonus payable to the Executive under the Company's Incentive Compensation Plan or any other annual bonus plan for the fiscal year of the Company in which the Change in Control occurred or (y) the highest annual bonus earned by the Executive under the Company's Incentive Compensation Plan or any other annual bonus plan (whether paid currently or on a deferred basis) with respect to any 12 consecutive month period during the three fiscal years of the Company immediately preceding the fiscal year of the Company in which the Change in Control occurred, plus (iii) "Performance Returns" equal to the highest annual payment of performance returns paid to the Executive with respect to any 12 consecutive month period during the three fiscal years of the Company immediately preceding the fiscal year of the Company in which the Change in Control occurred.

## (b) Welfare Benefits

For a period of 36 months following the Termination Date (the "Continuation Period"), the Company shall arrange to provide the Executive with benefits, including travel accident, major medical, dental, vision care and other welfare benefit programs in effect immediately prior to the Change in Control ("Employee Benefits") substantially similar to those that the Executive was receiving or entitled to receive immediately prior to the Termination Date (or, if greater, immediately prior to the reduction, termination, or denial described in Section 2(b)(ii)(C)). If and to the extent that any benefit described in this Section 4(b) is not or cannot be paid or provided under any policy, plan, program or arrangement of the Company or any subsidiary, as the case may be, then the Company will itself pay or provide for the payment to the Executive, his dependents and beneficiaries, of such Employee Benefits along with, in the case of any benefit which is subject to tax because it is not or cannot be paid or provided under any such policy, plan, program or arrangement of the Company or any subsidiary, an additional amount such that after payment by the Executive, or his dependents or beneficiaries, as the case may be, of all taxes so imposed, the recipient retains an amount equal to such taxes. Employee Benefits otherwise receivable by the Executive pursuant to this Section 4(b) will be reduced to the extent comparable welfare benefits are actually received by the Executive from another employer during the Continuation Period, and any such benefits actually received by the Executive shall be reported by the Executive to the Company.

## (c) Retirement Benefits

The Executive shall be deemed to be completely vested in Executive's currently accrued benefits under the Company's Retirement Benefit Plan and Supplemental Executive Retirement Plan ("SERP") in effect as of the date of Change in Control (collectively, the

"Plans"), regardless of his actual vesting service credit thereunder. In addition, the Executive shall be deemed to earn service credit for benefit calculation purposes thereunder for the Continuation Period. Benefits under the Plans will become payable at any time designated by the Executive following termination of the Executive's employment with the Company and its subsidiaries after the Executive reaches age 55, subject to the terms of the Plans regarding the actuarial adjustment of benefit payments commencing prior to normal retirement age. The benefits to be paid pursuant to the Plans shall be calculated as though the Executive's compensation rate for each of the five years immediately preceding his retirement equaled the sum of Base Pay plus Incentive Pay plus Performance Returns. Any benefits payable pursuant to this Section 4(c) that are not payable out of the Plans for any reason (including but not limited to any applicable benefit limitations under the Employee Retirement Income Security Act of 1974, as amended, or any restrictions relating to the qualification of the Company's Retirement Benefit Plan under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code")) shall be paid directly by the Company out of its general assets.

(d) Relocation Benefits

If the Executive moves his residence in order to pursue other business or employment opportunities during the Continuation Period and requests in writing that the Company provide relocation services, he will be reimbursed for any expenses incurred in that initial relocation (including taxes payable on the reimbursement) which are not reimbursed by another employer. Benefits under this provision will include assistance in selling the Executive's home and all other assistance and benefits which were customarily provided by the Company to transferred executives prior to the Change in Control.

(e) Executive Outplacement Counseling

At the request of the Executive made in writing during the Continuation Period, the Company shall engage an outplacement counseling service of national reputation to assist the Executive in obtaining employment.

(f) Stock Based Compensation Plans

(i) Any issued and outstanding Stock Options (to the extent they have not already become exercisable) shall become exercisable as of the date on which the Change in Control occurs, unless otherwise specifically provided at the time such options are granted.

(ii) The Company's right to rescind any award of stock to the Executive under the Company's 1988 Long Term Incentive Plan or the Company's 1998 Long Term Incentive Plan (or any successor plan) shall terminate upon a Change in Control, and all restrictions on the sale, pledge, hypothecation or other disposition of shares of stock awarded pursuant to such plan shall be removed at the Termination Date, unless otherwise specifically provided at the time such award(s) are made.

(iii) The Executive's rights under any other stock based compensation plan shall vest (to the extent they have not already vested) and any performance criteria shall be deemed met at target as of the date on which a Change in Control occurs, unless otherwise specifically provided at the time such right(s) are granted.

(g) Split Dollar Life Insurance

The Company shall pay to the Executive a lump sum equal to the cost on the Termination Date of purchasing, at standard independent insurance premium rates, an individual

paid up insurance policy providing benefits equal to the benefits provided by the Company's Split Dollar Life Insurance coverage immediately prior to the date of the Change in Control.

(h) Other Benefits

(i) The Executive shall have all flight privileges provided by the Company to Directors as of the date of Change in Control until the Executive reaches age 55, at which time he shall have all flight privileges provided by the Company to its retirees who held the same or similar position as the Executive immediately prior to the Change in Control.

(ii) The Executive, at the Executive's option, shall be entitled to continue the use of the Executive's Company-provided automobile during the Continuation Period under the same terms that applied to the automobile immediately prior to the Change in Control, or to purchase the automobile at its book value as of the Termination Date.

(iii) The Company shall pay to the Executive an amount equal to the cost to the Company of providing any other perquisites and benefits of the Company in effect immediately prior to the Change in Control, calculated as if such benefits were continued during the Continuation Period.

(i) Accrued Amounts

The Company shall pay to the Executive all other amounts accrued or earned by the Executive through the Termination Date and amounts otherwise owing under the then existing plans and policies of the Company, including but not limited to all amounts of compensation previously deferred by the Executive (together with any accrued interest thereon) and not yet paid by the Company, and any accrued vacation pay not yet paid by the Company.

(j) The Company shall pay to the Executive the amounts due pursuant to Sections 4(a), 4(g) and 4(h)(iii) in a lump sum on the first business day of the month following the Termination Date. The Company shall pay to the Executive the amounts due pursuant to Section 4(i) in accordance with the terms and conditions of the existing plans and policies of the Company.

5. Certain Additional Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding, but subject to Section 5(h), in the event that this Agreement shall become operative and it shall be determined (as hereafter provided) that any payment (other than the Gross-Up payments provided for in this Section 5) or distribution by the Company or any of its subsidiaries to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise pursuant to or by reason of any other agreement, policy, plan, program or arrangement, including without limitation any stock option, stock appreciation right or similar right, restricted stock, deferred stock or the lapse or termination of any restriction on, deferral period or the vesting or exercisability of any of the foregoing (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Code (or any successor provision thereto) by reason of being considered "contingent on a change in ownership or control" of the Company, within the meaning of Section 280G of the Code (or any successor provision thereto) or to any similar tax imposed by state or local law, or any interest or penalties with respect to such tax (such tax or taxes, together with any such interest and penalties, being hereafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment or payments (collectively, a "Gross-Up Payment"). The Gross-Up Payment shall be in an amount such that, after payment by the Executive of all taxes (including any interest or



penalties imposed with respect to such taxes), including any Excise Tax and any income tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payment.

(b) Subject to the provisions of Section 5(f), all determinations required to be made under this Section 5, including whether an Excise Tax is payable by the Executive and the amount of such Excise Tax and whether a Gross-Up Payment is required to be paid by the Company to the Executive and the amount of such Gross-Up Payment, if any, shall be made by a nationally recognized accounting firm (the "Accounting Firm") selected by the Executive in his sole discretion. The Executive shall direct the Accounting Firm to submit its determination and detailed supporting calculations to both the Company and the Executive within 30 calendar days after the Change in Control Date, the Termination Date, if applicable, and any such other time or times as may be requested by the Company or the Executive. If the Accounting Firm determines that any Excise Tax is payable by the Executive, the Company shall pay the required Gross-Up Payment to the Executive within five business days after receipt of such determination and calculations with respect to any Payment to the Executive. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall, at the same time as it makes such determination, furnish the Company and the Executive an opinion that the Executive has substantial authority not to report any Excise Tax on his federal, state or local income or other tax return. As a result of the uncertainty in the application of Section 4999 of the Code (or any successor provision thereto) and the possibility of similar uncertainty regarding applicable state or local tax law at the time of any determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made (an "Underpayment"), consistent with the calculations required to be made hereunder. In the

event that the Company exhausts or fails to pursue its remedies pursuant to Section 5(f) and the Executive thereafter is required to make a payment of any Excise Tax, the Executive shall direct the Accounting Firm to determine the amount of the Underpayment that has occurred and to submit its determination and detailed supporting calculations to both the Company and the Executive as promptly as possible. Any such Underpayment shall be promptly paid by the Company to, or for the benefit of, the Executive within five business days after receipt of such determination and calculations.

(c) The Company and the Executive shall each provide the Accounting Firm access to and copies of any books, records and documents in the possession of the Company or the Executive, as the case may be, reasonably requested by the Accounting Firm, and otherwise cooperate with the Accounting Firm in connection with the preparation and issuance of the determinations and calculations contemplated by Section 5(b). Any determination by the Accounting Firm as to the amount of the Gross-Up Payment shall be binding upon the Company and the Executive.

(d) The federal, state and local income or other tax returns filed by the Executive shall be prepared and filed on a consistent basis with the determination of the Accounting Firm with respect to the Excise Tax payable by the Executive. The Executive shall make proper payment of the amount of any Excise Payment, and at the request of the Company, provide to the Company true and correct copies (with any amendments) of his federal income tax return as filed with the Internal Revenue Service and corresponding state and local tax returns, if relevant, as filed with the applicable taxing authority, and such other documents reasonably requested by the Company, evidencing such payment. If prior to the filing of the Executive's federal income tax return, or corresponding state or local tax return, if relevant, the Accounting

Firm determines that the amount of the Gross-Up Payment should be reduced, the Executive shall within five business days pay to the Company the amount of such reduction.

(e) The fees and expenses of the Accounting Firm for its services in connection with the determinations and calculations contemplated by Section 5(b) shall be borne by the Company. If such fees and expenses are initially paid by the Executive, the Company shall reimburse the Executive the full amount of such fees and expenses within five business days after receipt from the Executive of a statement therefor and reasonable evidence of his payment thereof.

(f) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service or any other taxing authority that, if successful, would require the payment by the Company of a Gross-Up Payment or any additional Gross-Up Payment. Such notification shall be given as promptly as practicable but no later than 10 business days after the Executive actually receives notice of such claim and the Executive shall further apprise the Company of the nature of such claim and the date on which such claim is requested to be paid (in each case, to the extent known by the Executive). The Executive shall not pay such claim prior to the earlier of (x) the expiration of the 30-calendar-day period following the date on which he gives such notice to the Company and (y) the date that any payment of amount with respect to such claim is due. If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) provide the Company with any written records or documents in his possession relating to such claim reasonably requested by the Company;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including without

limitation accepting legal representation with respect to such claim by an attorney competent in respect of the subject matter and reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order effectively to contest such claim; and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including interest and penalties) incurred in connection with such contest and shall indemnify and hold harmless the Executive, on an after-tax basis, for and against any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such contest and payment of costs and expenses. Without limiting the foregoing provisions of this Section 5(f), the Company shall control all proceedings taken in connection with the contest of any claim contemplated by this Section 5(f) and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim (provided, however, that the Executive may participate therein at his own cost and expense) and may, at its option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay the tax claimed and sue for a refund, the Company shall advance the amount of such payment to the Executive on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any

Excise Tax or income or other tax, including interest or penalties with respect thereto, imposed with respect to such advance; and provided further, however, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which the contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of any such contested claim shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(g) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 5(f), the Executive receives any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 5(f)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after any taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 5(f), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial or refund prior to the expiration of 30 calendar days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of any such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid by the Company to the Executive pursuant to this Section 5.

(h) Notwithstanding any provision of this Agreement to the contrary, if (i) but for this sentence, the Company would be obligated to make a Gross-Up Payment to the Executive, (ii) the aggregate "present value" of the "parachute payments" to be paid or provided

to the Executive under this Agreement or otherwise does not exceed 1.15 multiplied by three times the Executive's "base amount," and (iii) but for this sentence, the net after-tax benefit to the Executive of the Gross-Up Payment would not exceed \$50,000 (taking into account both income taxes and any Excise Tax), then the payments and benefits to be paid or provided under this Agreement (including any stock based compensation pursuant to Section 4(f)) will be reduced to the minimum extent necessary (but in no event to less than zero) so that no portion of any payment or benefit to the Executive, as so reduced, constitutes an "excess parachute payment." For purposes of this Section 5(h), the terms "excess parachute payment," "present value," "parachute payment," and "base amount" will have the meanings assigned to them by Section 280G of the Code. The determination of whether any reduction in such payments or benefits to be provided under this Agreement is required pursuant to the preceding sentence will be made at the expense of the Company, if requested by the Executive or the Company, by the Accounting Firm. The fact that the Executive's right to payments or benefits may be reduced by reason of the limitations contained in this Section 5(h) will not of itself limit or otherwise affect any other rights of the Executive other than pursuant to this Agreement. In the event that any payment or benefit intended to be provided under this Agreement or otherwise is required to be reduced pursuant to this Section 5(h), the Executive will be entitled to designate the payments and/or benefits to be so reduced in order to give effect to this Section 5(h). The Company will provide the Executive with all information reasonably requested by the Executive to permit the Executive to make such designation. In the event that the Executive fails to make such designation within 10 business days of the Termination Date, the Company may effect such reduction in any manner it deems appropriate.

6. No Mitigation Obligation. The Company hereby acknowledges that it will be difficult and may be impossible for the Executive to find reasonably comparable employment following the Termination Date. Accordingly, the payment of the severance compensation by the Company to the Executive in accordance with the terms of this Agreement is hereby acknowledged by the Company to be reasonable, and the Executive will not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, nor will any profits, income, earnings or other benefits from any source whatsoever create any mitigation, offset, reduction or any other obligation on the part of the Executive hereunder or otherwise, except as expressly provided in the last sentence of Section 4(b).

7. Legal Fees and Expenses.

(a) It is the intent of the Company that the Executive not be required to incur legal fees and the related expenses associated with the interpretation, enforcement or defense of Executive's rights under this Agreement by litigation or otherwise because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Executive hereunder. Accordingly, if it should appear to the Executive that the Company has failed to comply with any of its obligations under this Agreement or in the event that the Company or any other person takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any litigation or other action or proceeding designed to deny, or to recover from, the Executive any or all of the benefits provided or intended to be provided to the Executive hereunder, the Company irrevocably authorizes the Executive from time to time to retain counsel of Executive's choice, at the expense of the Company as hereafter provided, to advise and represent the Executive in connection with any such interpretation, enforcement or

defense, including without limitation the initiation or defense of any litigation or other legal action, whether by or against the Company or any director, officer, stockholder or other person affiliated with the Company, in any jurisdiction. Notwithstanding any existing or prior attorney-client relationship between the Company and such counsel, the Company irrevocably consents to the Executive's entering into an attorney-client relationship with such counsel, and in that connection the Company and the Executive agree that a confidential relationship shall exist between the Executive and such counsel. Without respect to whether the Executive prevails, in whole or in part, in connection with any of the foregoing, the Company will pay and be solely financially responsible for any and all attorneys' and related fees and expenses incurred by the Executive in connection with any of the foregoing.

(b) Without limiting the obligations of the Company pursuant to Section 7(a) hereof, in the event a Change in Control occurs, the performance of the Company's obligations under this Section 7 shall be secured by amounts deposited or to be deposited in trust pursuant to certain trust agreements to which the Company shall be a party, which amounts deposited shall in the aggregate be not less than \$2,000,000, providing that the fees and expenses of counsel selected from time to time by the Executive pursuant to Section 7(a) shall be paid, or reimbursed to the Executive if paid by the Executive, either in accordance with the terms of such trust agreements, or, if not so provided, on a regular, periodic basis upon presentation by the Executive to the trustee of a statement or statements prepared by such counsel in accordance with its customary practices. Any failure by the Company to satisfy any of its obligations under this Section 7(b) shall not limit the rights of the Executive hereunder. Subject to the foregoing, the Executive shall have the status of a general unsecured creditor of the Company and shall have no right to, or security interest in, any assets of the Company or any subsidiary.



## 8. Continuing Obligations

(a) The Executive hereby agrees that all documents, records, techniques, business secrets and other information which have come into his possession from time to time during his employment with the Company shall be deemed to be confidential and proprietary to the Company and, except for personal documents and records of the Executive, shall be returned to the Company. The Executive further agrees to retain in confidence any confidential information known to him concerning the Company and its subsidiaries and their respective businesses so long as such information is not publicly disclosed, except that Executive may disclose any such information required to be disclosed in the normal course of his employment with the Company or pursuant to any court order or other legal process.

(b) The Executive hereby agrees that during the Continuation Period, he will not directly or indirectly solicit any employee of the Company or any of its subsidiaries or affiliated companies to join the employ of any entity that competes with the Company or any of its subsidiaries or affiliated companies.

## 9. Successors

(a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to the Executive to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of such successor entity to enter into such agreement prior to the effective date of any such succession (or, if later, within three business days after first receiving a written request for such agreement) shall constitute a breach of this Agreement and shall entitle the Executive to

terminate his employment pursuant to Section 2(a)(ii) and to receive the payments and benefits provided under Section 4. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which executes and delivers the Agreement provided for in this Section 9 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(b) This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive dies while any amounts are payable to him hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to his devisee, legatee or other designee or, if there is no such designee, to his estate.

#### 10. Notices

For all purposes of this Agreement, all communications, including without limitation notices, consents, requests or approvals, required or permitted to be given hereunder will be in writing and will be deemed to have been duly given when hand delivered or dispatched by electronic facsimile transmission (with receipt thereof orally confirmed), or five business days after having been mailed by United States registered or certified mail, return receipt requested, postage prepaid, or three business days after having been sent by a nationally recognized overnight courier service such as FedEx, UPS, or Purolator, addressed to the Company (to the attention of the Secretary of the Company, with a copy to the General Counsel of the Company) at its principal executive office and to the Executive at his principal residence, or to such other address as any party may have furnished to the other in writing and in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

## 11. Governing Law

THE VALIDITY, INTERPRETATION, CONSTRUCTION AND PERFORMANCE OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF DELAWARE.

## 12. Miscellaneous

No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by the Executive and the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement (or in any employment or other written agreement relating to the Executive). Notwithstanding any provision of this Agreement to the contrary, the parties' respective rights and obligations under Sections 4, 5 and 7 will survive any termination or expiration of this Agreement or the termination of the Executive's employment following a Change in Control for any reason whatsoever. Nothing expressed or implied in this Agreement will create any right or duty on the part of the Company or the Executive to have the Executive remain in the employment of the Company or any subsidiary prior to or following any Change in Control. The Company may withhold from any amounts payable under this Agreement all federal, state, city or other taxes as the Company is required to withhold pursuant to any law or government regulation or ruling. In the event that the Company refuses or otherwise fails to make a payment when due and it is ultimately decided that the Executive is entitled to such

payment, such payment shall be increased to reflect an interest factor, compounded annually, equal to the prime rate in effect as of the date the payment was first due plus two points. For this purpose, the prime rate shall be based on the rate identified by Chase Manhattan Bank as its prime rate.

13. Separability

The invalidity or unenforceability of any provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

14. Non-assignability

This Agreement is personal in nature and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder, except as provided in Section 9. Without limiting the foregoing, the Executive's right to receive payments hereunder shall not be assignable or transferable, whether by pledge, creation of a security interest or otherwise, other than a transfer by his will or by the laws of descent or distribution, and in the event of any attempted assignment or transfer by Executive contrary to this Section 14 the Company shall have no liability to pay any amount so attempted to be assigned or transferred to any person other than the Executive or, in the event of his death, his designated beneficiary or, in the absence of an effective beneficiary designation, the Executive's estate.

15. Effectiveness; Term

This Agreement will be effective and binding as of the date first above written immediately upon its execution, but, anything in this Agreement to the contrary notwithstanding, this Agreement will not be operative unless and until a Change in Control occurs. Upon the

occurrence of a Change in Control at any time during the Term (as defined below), without further action, this Agreement shall become immediately operative. For purposes of this Agreement, "Term" means the period commencing as of the date first above written and expiring as of the later of (i) the fifth anniversary of the date first above written or (ii) the second anniversary of the first occurrence of a Change in Control; provided, however, that (A) commencing on the fifth anniversary of the date first above written and each fifth anniversary date thereafter, the Term of this Agreement will automatically be extended for an additional five years unless, not later than 180 days preceding each such fifth anniversary date, the Company or the Executive shall have given notice that it or the Executive, as the case may be, does not wish to have the Term extended and (B) subject to Section 2(e), if, prior to a Change in Control, the Executive ceases for any reason to be an employee of the Company and any subsidiary, thereupon without further action the Term shall be deemed to have expired and this Agreement will immediately terminate and be of no further effect. For purposes of this Section 15, the Executive shall not be deemed to have ceased to be an employee of the Company and any subsidiary by reason of the transfer of Executive's employment between the Company and any subsidiary, or among any subsidiaries.

16. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same agreement.

17. Prior Agreement. This Agreement supersedes and terminates any and all prior Executive Termination Benefits Agreements by and among Company and the Executive.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered as of the day and year first above set forth, thereby mutually and voluntarily agreeing that this Agreement supersedes and replaces any prior similar agreements for such termination benefits.

AMR CORPORATION

By: /s/ Donald J. Carty  
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AMERICAN AIRLINES, INC.

By: /s/ Thomas J. Kiernan  
-----

ROBERT W. BAKER

/s/ Robert W. Baker  
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AMENDED AND RESTATED  
EXECUTIVE TERMINATION BENEFITS AGREEMENT

THIS AMENDED AND RESTATED EXECUTIVE TERMINATION BENEFITS AGREEMENT (this "Agreement"), dated as of the 21st day of May, 1998 is among AMR CORPORATION, a Delaware corporation, AMERICAN AIRLINES, INC., a Delaware corporation (collectively the "Company"), and PETER M. BOWLER (the "Executive").

W I T N E S S E T H :

WHEREAS, the Company considers it essential to the best interests of the Company and its stockholders that its management be encouraged to remain with the Company and to continue to devote full attention to the Company's business in the event an effort is made to obtain control of the Company through a tender offer or otherwise;

WHEREAS, the Company recognizes that the possibility of a change in control and the uncertainty and questions which it may raise among management may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders;

WHEREAS, the Company's Board of Directors (the "Board") has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management to their assigned duties without distraction in the face of the potentially disturbing circumstances arising from the possibility of a change in control of the Company;

WHEREAS, the Executive is a key Executive of the Company;

WHEREAS, the Company believes the Executive has made valuable contributions to the productivity and profitability of the Company;

WHEREAS, should the Company receive any proposal from a third person concerning a possible business combination with or acquisition of equity securities of the Company, the Board believes it imperative that the Company and the Board be able to rely upon the Executive to continue in his position, and that the Company be able to receive and rely upon his advice as to the best interests of the Company and its stockholders without concern that he might be distracted by the personal uncertainties and risks created by such a proposal; and

WHEREAS, should the Company receive any such proposals, in addition to the Executive's regular duties, he may be called upon to assist in the assessment of such proposals, advise management and the Board as to whether such proposals would be in the best interests of the Company and its stockholders, and to take such other actions as the Board might determine to be appropriate.

NOW, THEREFORE, to assure the Company that it will have the continued undivided attention and services of the Executive and the availability of his advice and counsel notwithstanding the possibility, threat or occurrence of a bid to take over control of the Company, and to induce the Executive to remain in the employ of the Company, and for other good and valuable consideration, the Company and the Executive agree as follows:

1. Change in Control

For purposes of this Agreement, a Change in Control of the Company shall be deemed to have taken place if:

(a) any person as defined in Section 3(a)(9) of the Securities Exchange Act of 1934, as amended from time to time (the "Exchange Act"), and as used in Sections 13(d)



and 14(d) thereof, including a "group" as defined in Section 13(d) of the Exchange Act (a "Person"), but excluding the Company, any subsidiary of the Company and any employee benefit plan sponsored or maintained by the Company or any subsidiary of the Company (including any trustee of such plan acting as trustee), directly or indirectly, becomes the "beneficial owner" (as defined in Rule 13(d)-3 under the Exchange Act, as amended from time to time) of securities of the Company representing 15% or more of the combined voting power of the Company's then outstanding securities; or

(b) individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of the assets of another corporation (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the then outstanding shares of common stock of the Company and the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors immediately prior to such Business Combination

beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries), (ii) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 15% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination, and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Incumbent Board, providing for such Business Combination; or

(d) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

## 2. Circumstances Triggering Receipt of Severance Benefits

(a) Subject to Section 2(c), the Company will provide the Executive with the benefits set forth in Section 4 upon any termination of the Executive's employment:

(i) by the Company at any time within the first 24 months after a Change in Control;

(ii) by the Executive for "Good Reason" (as defined in Section 2(b) below) at any time within the first 24 months after a Change in Control;

(iii) by the Executive pursuant to Section 2(d); or

(iv) by the Company or the Executive pursuant to Section 2(e).

(b) In the event of the occurrence of a Change in Control, the Executive may terminate employment with the Company and/or any subsidiary for "Good Reason" with the right to benefits set forth in Section 4 upon the occurrence of one or more of the following events (regardless of whether any other reason, other than Cause as provided below, for such termination exists or has occurred, including without limitation other employment):

(i) Failure to elect or reelect or otherwise to maintain the Executive in the office or the position, or a substantially equivalent office or position, of or with the Company and/or a subsidiary, as the case may be, which the Executive held immediately prior to a Change in Control, or the removal of the Executive as a director of the Company and/or a subsidiary (or any successor thereto) if the Executive shall have been a director of the Company and/or a subsidiary immediately prior to the Change in Control;

(ii) (A) A significant adverse change in the nature or scope of the authorities, powers, functions, responsibilities or duties attached to the position with the Company and/or any subsidiary which the Executive held immediately prior to the Change in Control, (B) a reduction in the aggregate of the Executive's annual base salary rate and annual incentive compensation target to be received from the Company and/or any subsidiary, or (C) the termination or denial of the Executive's rights to Employee Benefits (as defined below) or a reduction in the

scope or value thereof, any of which is not remedied by the Company within 10 calendar days after receipt by the Company of written notice from the Executive of such change, reduction or termination, as the case may be;

(iii) A determination by the Executive (which determination will be conclusive and binding upon the parties hereto provided it has been made in good faith and in all events will be presumed to have been made in good faith unless otherwise shown by the Company by clear and convincing evidence) that a change in circumstances has occurred following a Change in Control, including, without limitation, a change in the scope of the business or other activities for which the Executive was responsible immediately prior to the Change in Control, which has rendered the Executive substantially unable to carry out, has substantially hindered Executive's performance of, or has caused the Executive to suffer a substantial reduction in, any of the authorities, powers, functions, responsibilities or duties attached to the position held by the Executive immediately prior to the Change in Control, which situation is not remedied within 10 calendar days after written notice to the Company from the Executive of such determination;

(iv) The liquidation, dissolution, merger, consolidation or reorganization of the Company or transfer of all or substantially all of its business and/or assets, unless the successor or successors (by liquidation, merger, consolidation, reorganization, transfer or otherwise) to which all or substantially all of its business and/or assets have been transferred (directly or by operation of

law) assumed all duties and obligations of the Company under this Agreement pursuant to Section 9(a);

(v) The Company relocates its principal executive offices, or requires the Executive to have his principal location of work changed, to any location that is in excess of 50 miles from the location thereof immediately prior to the Change in Control, or requires the Executive to travel away from his office in the course of discharging his responsibilities or duties hereunder at least 20% more (in terms of aggregate days in any calendar year or in any calendar quarter when annualized for purposes of comparison to any prior year) than was required of Executive in any of the three full years immediately prior to the Change in Control without, in either case, his prior written consent; or

(vi) Without limiting the generality or effect of the foregoing, any material breach of this Agreement by the Company or any successor thereto, which breach is not remedied within 10 calendar days after written notice to the Company from the Executive describing the nature of such breach.

(c) Notwithstanding Sections 2(a) and (b) above, no benefits shall be payable by reason of this Agreement in the event of:

(i) Termination of the Executive's employment with the Company and its subsidiaries by reason of the Executive's death or Disability, provided that the Executive has not previously given a valid "Notice of Termination" pursuant to Section 3. For purposes hereof, "Disability" shall be defined as the inability of Executive due to illness, accident or other physical or mental disability to perform his duties for any period of six consecutive months or for any period of eight

months out of any 12-month period, as determined by an independent physician selected by the Company and reasonably acceptable to the Executive (or his legal representative), provided that the Executive does not return to work on substantially a full-time basis within 30 days after written notice from the Company, pursuant to Section 3, of an intent to terminate the Executive's employment due to Disability;

(ii) Termination of the Executive's employment with the Company and its subsidiaries on account of the Executive's retirement at or after age 65, pursuant to the Company's Retirement Benefit Plan; or

(iii) Termination of the Executive's employment with the Company and its subsidiaries for Cause. For the purposes hereof, "Cause" shall be defined as a felony conviction of the Executive or the failure of the Executive to contest prosecution for a felony, or the Executive's wilful misconduct or dishonesty, any of which is directly and materially harmful to the business or reputation of the Company or any subsidiary or affiliate. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for "Cause" hereunder unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three quarters of the Board then in office at a meeting of the Board called and held for such purpose, after reasonable notice to the Executive and an opportunity for the Executive, together with his counsel (if the Executive chooses to have counsel present at such meeting), to be heard before the Board, finding that, in the good faith opinion of the Board, the Executive had committed an act constituting

"Cause" as herein defined and specifying the particulars thereof in detail. Nothing herein will limit the right of the Executive or his beneficiaries to contest the validity or propriety of any such determination.

This Section 2(c) shall not preclude the payment of any amounts otherwise payable to the Executive under any of the Company's employee benefit plans, stock plans, programs and arrangements and/or under any Employment Agreement.

(d) Notwithstanding anything contained in this Agreement to the contrary, in the event of a Change in Control, the Executive may terminate employment with the Company and any subsidiary for any reason, or without reason, by providing Notice of Termination pursuant to Section 3 during the 30-day period immediately following the first anniversary of the first occurrence of a Change in Control with the right to the benefits set forth in Section 4.

(e) Any termination of employment of the Executive, including a termination for "Good Reason," but excluding a termination for "Cause," or the removal of the Executive from the office or position in the Company or any subsidiary that occurs (i) not more than 180 days prior to the date on which a Change in Control occurs and (ii) following the commencement of any discussion with a third person that ultimately results in a Change in Control shall be deemed to be a termination or removal of the Executive after a Change in Control for purposes of this Agreement.

### 3. Notice of Termination

Any termination of the Executive's employment with the Company and its subsidiaries as contemplated by Section 2 shall be communicated by written "Notice of Termination" to the other party hereto. Any "Notice of Termination" shall indicate the effective date of termination which shall not be less than 30 days or more than 60 days after the date the Notice of

Termination is delivered (the "Termination Date"), the specific provision in this Agreement relied upon, and, except for a termination pursuant to Section 2(d), will set forth in reasonable detail the facts and circumstances claimed to provide a basis for such termination including, if applicable, the failure after provision of written notice by the Executive to effect a remedy pursuant to the final clause of Section 2(b)(ii), 2(b)(iii) or 2(b)(vi).

#### 4. Termination Benefits

Subject to the conditions set forth in Section 2, the following benefits shall be paid or provided to the Executive:

##### (a) Compensation

The Company shall pay to the Executive three times the sum of (i) "Base Pay", which shall be an amount equal to the greater of (A) the Executive's effective annual base salary at the Termination Date or (B) the Executive's effective annual base salary immediately prior to the Change in Control, plus (ii) "Incentive Pay" equal to the greater of (x) the target annual bonus payable to the Executive under the Company's Incentive Compensation Plan or any other annual bonus plan for the fiscal year of the Company in which the Change in Control occurred or (y) the highest annual bonus earned by the Executive under the Company's Incentive Compensation Plan or any other annual bonus plan (whether paid currently or on a deferred basis) with respect to any 12 consecutive month period during the three fiscal years of the Company immediately preceding the fiscal year of the Company in which the Change in Control occurred, plus (iii) "Performance Returns" equal to the highest annual payment of performance returns paid to the Executive with respect to any 12 consecutive month period during the three fiscal years of the Company immediately preceding the fiscal year of the Company in which the Change in Control occurred.



## (b) Welfare Benefits

For a period of 36 months following the Termination Date (the "Continuation Period"), the Company shall arrange to provide the Executive with benefits, including travel accident, major medical, dental, vision care and other welfare benefit programs in effect immediately prior to the Change in Control ("Employee Benefits") substantially similar to those that the Executive was receiving or entitled to receive immediately prior to the Termination Date (or, if greater, immediately prior to the reduction, termination, or denial described in Section 2(b)(ii)(C)). If and to the extent that any benefit described in this Section 4(b) is not or cannot be paid or provided under any policy, plan, program or arrangement of the Company or any subsidiary, as the case may be, then the Company will itself pay or provide for the payment to the Executive, his dependents and beneficiaries, of such Employee Benefits along with, in the case of any benefit which is subject to tax because it is not or cannot be paid or provided under any such policy, plan, program or arrangement of the Company or any subsidiary, an additional amount such that after payment by the Executive, or his dependents or beneficiaries, as the case may be, of all taxes so imposed, the recipient retains an amount equal to such taxes. Employee Benefits otherwise receivable by the Executive pursuant to this Section 4(b) will be reduced to the extent comparable welfare benefits are actually received by the Executive from another employer during the Continuation Period, and any such benefits actually received by the Executive shall be reported by the Executive to the Company.

## (c) Retirement Benefits

The Executive shall be deemed to be completely vested in Executive's currently accrued benefits under the Company's Retirement Benefit Plan and Supplemental Executive Retirement Plan ("SERP") in effect as of the date of Change in Control (collectively, the

"Plans"), regardless of his actual vesting service credit thereunder. In addition, the Executive shall be deemed to earn service credit for benefit calculation purposes thereunder for the Continuation Period. Benefits under the Plans will become payable at any time designated by the Executive following termination of the Executive's employment with the Company and its subsidiaries after the Executive reaches age 55, subject to the terms of the Plans regarding the actuarial adjustment of benefit payments commencing prior to normal retirement age. The benefits to be paid pursuant to the Plans shall be calculated as though the Executive's compensation rate for each of the five years immediately preceding his retirement equaled the sum of Base Pay plus Incentive Pay plus Performance Returns. Any benefits payable pursuant to this Section 4(c) that are not payable out of the Plans for any reason (including but not limited to any applicable benefit limitations under the Employee Retirement Income Security Act of 1974, as amended, or any restrictions relating to the qualification of the Company's Retirement Benefit Plan under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code")) shall be paid directly by the Company out of its general assets.

(d) Relocation Benefits

If the Executive moves his residence in order to pursue other business or employment opportunities during the Continuation Period and requests in writing that the Company provide relocation services, he will be reimbursed for any expenses incurred in that initial relocation (including taxes payable on the reimbursement) which are not reimbursed by another employer. Benefits under this provision will include assistance in selling the Executive's home and all other assistance and benefits which were customarily provided by the Company to transferred executives prior to the Change in Control.

## (e) Executive Outplacement Counseling

At the request of the Executive made in writing during the Continuation Period, the Company shall engage an outplacement counseling service of national reputation to assist the Executive in obtaining employment.

## (f) Stock Based Compensation Plans

(i) Any issued and outstanding Stock Options (to the extent they have not already become exercisable) shall become exercisable as of the date on which the Change in Control occurs, unless otherwise specifically provided at the time such options are granted.

(ii) The Company's right to rescind any award of stock to the Executive under the Company's 1988 Long Term Incentive Plan or the Company's 1998 Long Term Incentive Plan (or any successor plan) shall terminate upon a Change in Control, and all restrictions on the sale, pledge, hypothecation or other disposition of shares of stock awarded pursuant to such plan shall be removed at the Termination Date, unless otherwise specifically provided at the time such award(s) are made.

(iii) The Executive's rights under any other stock based compensation plan shall vest (to the extent they have not already vested) and any performance criteria shall be deemed met at target as of the date on which a Change in Control occurs, unless otherwise specifically provided at the time such right(s) are granted.

## (g) Split Dollar Life Insurance

The Company shall pay to the Executive a lump sum equal to the cost on the Termination Date of purchasing, at standard independent insurance premium rates, an individual

paid up insurance policy providing benefits equal to the benefits provided by the Company's Split Dollar Life Insurance coverage immediately prior to the date of the Change in Control.

(h) Other Benefits

(i) The Executive shall have all flight privileges provided by the Company to Directors as of the date of Change in Control until the Executive reaches age 55, at which time he shall have all flight privileges provided by the Company to its retirees who held the same or similar position as the Executive immediately prior to the Change in Control.

(ii) The Executive, at the Executive's option, shall be entitled to continue the use of the Executive's Company-provided automobile during the Continuation Period under the same terms that applied to the automobile immediately prior to the Change in Control, or to purchase the automobile at its book value as of the Termination Date.

(iii) The Company shall pay to the Executive an amount equal to the cost to the Company of providing any other perquisites and benefits of the Company in effect immediately prior to the Change in Control, calculated as if such benefits were continued during the Continuation Period.

(i) Accrued Amounts

The Company shall pay to the Executive all other amounts accrued or earned by the Executive through the Termination Date and amounts otherwise owing under the then existing plans and policies of the Company, including but not limited to all amounts of compensation previously deferred by the Executive (together with any accrued interest thereon) and not yet paid by the Company, and any accrued vacation pay not yet paid by the Company.

(j) The Company shall pay to the Executive the amounts due pursuant to Sections 4(a), 4(g) and 4(h)(iii) in a lump sum on the first business day of the month following the Termination Date. The Company shall pay to the Executive the amounts due pursuant to Section 4(i) in accordance with the terms and conditions of the existing plans and policies of the Company.

5. Certain Additional Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding, but subject to Section 5(h), in the event that this Agreement shall become operative and it shall be determined (as hereafter provided) that any payment (other than the Gross-Up payments provided for in this Section 5) or distribution by the Company or any of its subsidiaries to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise pursuant to or by reason of any other agreement, policy, plan, program or arrangement, including without limitation any stock option, stock appreciation right or similar right, restricted stock, deferred stock or the lapse or termination of any restriction on, deferral period or the vesting or exercisability of any of the foregoing (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Code (or any successor provision thereto) by reason of being considered "contingent on a change in ownership or control" of the Company, within the meaning of Section 280G of the Code (or any successor provision thereto) or to any similar tax imposed by state or local law, or any interest or penalties with respect to such tax (such tax or taxes, together with any such interest and penalties, being hereafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment or payments (collectively, a "Gross-Up Payment"). The Gross-Up Payment shall be in an amount such that, after payment by the Executive of all taxes (including any interest or

penalties imposed with respect to such taxes), including any Excise Tax and any income tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payment.

(b) Subject to the provisions of Section 5(f), all determinations required to be made under this Section 5, including whether an Excise Tax is payable by the Executive and the amount of such Excise Tax and whether a Gross-Up Payment is required to be paid by the Company to the Executive and the amount of such Gross-Up Payment, if any, shall be made by a nationally recognized accounting firm (the "Accounting Firm") selected by the Executive in his sole discretion. The Executive shall direct the Accounting Firm to submit its determination and detailed supporting calculations to both the Company and the Executive within 30 calendar days after the Change in Control Date, the Termination Date, if applicable, and any such other time or times as may be requested by the Company or the Executive. If the Accounting Firm determines that any Excise Tax is payable by the Executive, the Company shall pay the required Gross-Up Payment to the Executive within five business days after receipt of such determination and calculations with respect to any Payment to the Executive. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall, at the same time as it makes such determination, furnish the Company and the Executive an opinion that the Executive has substantial authority not to report any Excise Tax on his federal, state or local income or other tax return. As a result of the uncertainty in the application of Section 4999 of the Code (or any successor provision thereto) and the possibility of similar uncertainty regarding applicable state or local tax law at the time of any determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made (an "Underpayment"), consistent with the calculations required to be made hereunder. In the

event that the Company exhausts or fails to pursue its remedies pursuant to Section 5(f) and the Executive thereafter is required to make a payment of any Excise Tax, the Executive shall direct the Accounting Firm to determine the amount of the Underpayment that has occurred and to submit its determination and detailed supporting calculations to both the Company and the Executive as promptly as possible. Any such Underpayment shall be promptly paid by the Company to, or for the benefit of, the Executive within five business days after receipt of such determination and calculations.

(c) The Company and the Executive shall each provide the Accounting Firm access to and copies of any books, records and documents in the possession of the Company or the Executive, as the case may be, reasonably requested by the Accounting Firm, and otherwise cooperate with the Accounting Firm in connection with the preparation and issuance of the determinations and calculations contemplated by Section 5(b). Any determination by the Accounting Firm as to the amount of the Gross-Up Payment shall be binding upon the Company and the Executive.

(d) The federal, state and local income or other tax returns filed by the Executive shall be prepared and filed on a consistent basis with the determination of the Accounting Firm with respect to the Excise Tax payable by the Executive. The Executive shall make proper payment of the amount of any Excise Payment, and at the request of the Company, provide to the Company true and correct copies (with any amendments) of his federal income tax return as filed with the Internal Revenue Service and corresponding state and local tax returns, if relevant, as filed with the applicable taxing authority, and such other documents reasonably requested by the Company, evidencing such payment. If prior to the filing of the Executive's federal income tax return, or corresponding state or local tax return, if relevant, the Accounting

Firm determines that the amount of the Gross-Up Payment should be reduced, the Executive shall within five business days pay to the Company the amount of such reduction.

(e) The fees and expenses of the Accounting Firm for its services in connection with the determinations and calculations contemplated by Section 5(b) shall be borne by the Company. If such fees and expenses are initially paid by the Executive, the Company shall reimburse the Executive the full amount of such fees and expenses within five business days after receipt from the Executive of a statement therefor and reasonable evidence of his payment thereof.

(f) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service or any other taxing authority that, if successful, would require the payment by the Company of a Gross-Up Payment or any additional Gross-Up Payment. Such notification shall be given as promptly as practicable but no later than 10 business days after the Executive actually receives notice of such claim and the Executive shall further apprise the Company of the nature of such claim and the date on which such claim is requested to be paid (in each case, to the extent known by the Executive). The Executive shall not pay such claim prior to the earlier of (x) the expiration of the 30-calendar-day period following the date on which he gives such notice to the Company and (y) the date that any payment of amount with respect to such claim is due. If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) provide the Company with any written records or documents in his possession relating to such claim reasonably requested by the Company;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including without



limitation accepting legal representation with respect to such claim by an attorney competent in respect of the subject matter and reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order effectively to contest such claim; and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including interest and penalties) incurred in connection with such contest and shall indemnify and hold harmless the Executive, on an after-tax basis, for and against any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such contest and payment of costs and expenses. Without limiting the foregoing provisions of this Section 5(f), the Company shall control all proceedings taken in connection with the contest of any claim contemplated by this Section 5(f) and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim (provided, however, that the Executive may participate therein at his own cost and expense) and may, at its option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay the tax claimed and sue for a refund, the Company shall advance the amount of such payment to the Executive on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any

Excise Tax or income or other tax, including interest or penalties with respect thereto, imposed with respect to such advance; and provided further, however, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which the contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of any such contested claim shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(g) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 5(f), the Executive receives any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 5(f)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after any taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 5(f), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial or refund prior to the expiration of 30 calendar days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of any such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid by the Company to the Executive pursuant to this Section 5.

(h) Notwithstanding any provision of this Agreement to the contrary, if (i) but for this sentence, the Company would be obligated to make a Gross-Up Payment to the Executive, (ii) the aggregate "present value" of the "parachute payments" to be paid or provided

to the Executive under this Agreement or otherwise does not exceed 1.15 multiplied by three times the Executive's "base amount," and (iii) but for this sentence, the net after-tax benefit to the Executive of the Gross-Up Payment would not exceed \$50,000 (taking into account both income taxes and any Excise Tax), then the payments and benefits to be paid or provided under this Agreement (including any stock based compensation pursuant to Section 4(f)) will be reduced to the minimum extent necessary (but in no event to less than zero) so that no portion of any payment or benefit to the Executive, as so reduced, constitutes an "excess parachute payment." For purposes of this Section 5(h), the terms "excess parachute payment," "present value," "parachute payment," and "base amount" will have the meanings assigned to them by Section 280G of the Code. The determination of whether any reduction in such payments or benefits to be provided under this Agreement is required pursuant to the preceding sentence will be made at the expense of the Company, if requested by the Executive or the Company, by the Accounting Firm. The fact that the Executive's right to payments or benefits may be reduced by reason of the limitations contained in this Section 5(h) will not of itself limit or otherwise affect any other rights of the Executive other than pursuant to this Agreement. In the event that any payment or benefit intended to be provided under this Agreement or otherwise is required to be reduced pursuant to this Section 5(h), the Executive will be entitled to designate the payments and/or benefits to be so reduced in order to give effect to this Section 5(h). The Company will provide the Executive with all information reasonably requested by the Executive to permit the Executive to make such designation. In the event that the Executive fails to make such designation within 10 business days of the Termination Date, the Company may effect such reduction in any manner it deems appropriate.

6. No Mitigation Obligation. The Company hereby acknowledges that it will be difficult and may be impossible for the Executive to find reasonably comparable employment following the Termination Date. Accordingly, the payment of the severance compensation by the Company to the Executive in accordance with the terms of this Agreement is hereby acknowledged by the Company to be reasonable, and the Executive will not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, nor will any profits, income, earnings or other benefits from any source whatsoever create any mitigation, offset, reduction or any other obligation on the part of the Executive hereunder or otherwise, except as expressly provided in the last sentence of Section 4(b).

7. Legal Fees and Expenses.

(a) It is the intent of the Company that the Executive not be required to incur legal fees and the related expenses associated with the interpretation, enforcement or defense of Executive's rights under this Agreement by litigation or otherwise because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Executive hereunder. Accordingly, if it should appear to the Executive that the Company has failed to comply with any of its obligations under this Agreement or in the event that the Company or any other person takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any litigation or other action or proceeding designed to deny, or to recover from, the Executive any or all of the benefits provided or intended to be provided to the Executive hereunder, the Company irrevocably authorizes the Executive from time to time to retain counsel of Executive's choice, at the expense of the Company as hereafter provided, to advise and represent the Executive in connection with any such interpretation, enforcement or

defense, including without limitation the initiation or defense of any litigation or other legal action, whether by or against the Company or any director, officer, stockholder or other person affiliated with the Company, in any jurisdiction. Notwithstanding any existing or prior attorney-client relationship between the Company and such counsel, the Company irrevocably consents to the Executive's entering into an attorney-client relationship with such counsel, and in that connection the Company and the Executive agree that a confidential relationship shall exist between the Executive and such counsel. Without respect to whether the Executive prevails, in whole or in part, in connection with any of the foregoing, the Company will pay and be solely financially responsible for any and all attorneys' and related fees and expenses incurred by the Executive in connection with any of the foregoing.

(b) Without limiting the obligations of the Company pursuant to Section 7(a) hereof, in the event a Change in Control occurs, the performance of the Company's obligations under this Section 7 shall be secured by amounts deposited or to be deposited in trust pursuant to certain trust agreements to which the Company shall be a party, which amounts deposited shall in the aggregate be not less than \$2,000,000, providing that the fees and expenses of counsel selected from time to time by the Executive pursuant to Section 7(a) shall be paid, or reimbursed to the Executive if paid by the Executive, either in accordance with the terms of such trust agreements, or, if not so provided, on a regular, periodic basis upon presentation by the Executive to the trustee of a statement or statements prepared by such counsel in accordance with its customary practices. Any failure by the Company to satisfy any of its obligations under this Section 7(b) shall not limit the rights of the Executive hereunder. Subject to the foregoing, the Executive shall have the status of a general unsecured creditor of the Company and shall have no right to, or security interest in, any assets of the Company or any subsidiary.

## 8. Continuing Obligations

(a) The Executive hereby agrees that all documents, records, techniques, business secrets and other information which have come into his possession from time to time during his employment with the Company shall be deemed to be confidential and proprietary to the Company and, except for personal documents and records of the Executive, shall be returned to the Company. The Executive further agrees to retain in confidence any confidential information known to him concerning the Company and its subsidiaries and their respective businesses so long as such information is not publicly disclosed, except that Executive may disclose any such information required to be disclosed in the normal course of his employment with the Company or pursuant to any court order or other legal process.

(b) The Executive hereby agrees that during the Continuation Period, he will not directly or indirectly solicit any employee of the Company or any of its subsidiaries or affiliated companies to join the employ of any entity that competes with the Company or any of its subsidiaries or affiliated companies.

## 9. Successors

(a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to the Executive to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of such successor entity to enter into such agreement prior to the effective date of any such succession (or, if later, within three business days after first receiving a written request for such agreement) shall constitute a breach of this Agreement and shall entitle the Executive to

terminate his employment pursuant to Section 2(a)(ii) and to receive the payments and benefits provided under Section 4. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which executes and delivers the Agreement provided for in this Section 9 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(b) This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive dies while any amounts are payable to him hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to his devisee, legatee or other designee or, if there is no such designee, to his estate.

#### 10. Notices

For all purposes of this Agreement, all communications, including without limitation notices, consents, requests or approvals, required or permitted to be given hereunder will be in writing and will be deemed to have been duly given when hand delivered or dispatched by electronic facsimile transmission (with receipt thereof orally confirmed), or five business days after having been mailed by United States registered or certified mail, return receipt requested, postage prepaid, or three business days after having been sent by a nationally recognized overnight courier service such as FedEx, UPS, or Purolator, addressed to the Company (to the attention of the Secretary of the Company, with a copy to the General Counsel of the Company) at its principal executive office and to the Executive at his principal residence, or to such other address as any party may have furnished to the other in writing and in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

## 11. Governing Law

THE VALIDITY, INTERPRETATION, CONSTRUCTION AND PERFORMANCE OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF DELAWARE.

## 12. Miscellaneous

No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by the Executive and the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement (or in any employment or other written agreement relating to the Executive). Notwithstanding any provision of this Agreement to the contrary, the parties' respective rights and obligations under Sections 4, 5 and 7 will survive any termination or expiration of this Agreement or the termination of the Executive's employment following a Change in Control for any reason whatsoever. Nothing expressed or implied in this Agreement will create any right or duty on the part of the Company or the Executive to have the Executive remain in the employment of the Company or any subsidiary prior to or following any Change in Control. The Company may withhold from any amounts payable under this Agreement all federal, state, city or other taxes as the Company is required to withhold pursuant to any law or government regulation or ruling. In the event that the Company refuses or otherwise fails to make a payment when due and it is ultimately decided that the Executive is entitled to such



payment, such payment shall be increased to reflect an interest factor, compounded annually, equal to the prime rate in effect as of the date the payment was first due plus two points. For this purpose, the prime rate shall be based on the rate identified by Chase Manhattan Bank as its prime rate.

### 13. Separability

The invalidity or unenforceability of any provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

### 14. Non-assignability

This Agreement is personal in nature and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder, except as provided in Section 9. Without limiting the foregoing, the Executive's right to receive payments hereunder shall not be assignable or transferable, whether by pledge, creation of a security interest or otherwise, other than a transfer by his will or by the laws of descent or distribution, and in the event of any attempted assignment or transfer by Executive contrary to this Section 14 the Company shall have no liability to pay any amount so attempted to be assigned or transferred to any person other than the Executive or, in the event of his death, his designated beneficiary or, in the absence of an effective beneficiary designation, the Executive's estate.

### 15. Effectiveness; Term

This Agreement will be effective and binding as of the date first above written immediately upon its execution, but, anything in this Agreement to the contrary notwithstanding, this Agreement will not be operative unless and until a Change in Control occurs. Upon the

occurrence of a Change in Control at any time during the Term (as defined below), without further action, this Agreement shall become immediately operative. For purposes of this Agreement, "Term" means the period commencing as of the date first above written and expiring as of the later of (i) the fifth anniversary of the date first above written or (ii) the second anniversary of the first occurrence of a Change in Control; provided, however, that (A) commencing on the fifth anniversary of the date first above written and each fifth anniversary date thereafter, the Term of this Agreement will automatically be extended for an additional five years unless, not later than 180 days preceding each such fifth anniversary date, the Company or the Executive shall have given notice that it or the Executive, as the case may be, does not wish to have the Term extended and (B) subject to Section 2(e), if, prior to a Change in Control, the Executive ceases for any reason to be an employee of the Company and any subsidiary, thereupon without further action the Term shall be deemed to have expired and this Agreement will immediately terminate and be of no further effect. For purposes of this Section 15, the Executive shall not be deemed to have ceased to be an employee of the Company and any subsidiary by reason of the transfer of Executive's employment between the Company and any subsidiary, or among any subsidiaries.

16. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same agreement.

17. Prior Agreement. This Agreement supersedes and terminates any and all prior Executive Termination Benefits Agreements by and among Company and the Executive.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered as of the day and year first above set forth, thereby mutually and voluntarily agreeing that this Agreement supersedes and replaces any prior similar agreements for such termination benefits.

AMR CORPORATION

By: /s/ Donald J. Carty

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AMERICAN AIRLINES, INC.

By: /s/ Thomas J. Kiernan

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PETER M. BOWLER

/s/ Peter M. Bowler

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AMENDED AND RESTATED  
EXECUTIVE TERMINATION BENEFITS AGREEMENT

THIS AMENDED AND RESTATED EXECUTIVE TERMINATION BENEFITS AGREEMENT (this "Agreement"), dated as of the 21st day of May, 1998 is among AMR CORPORATION, a Delaware corporation, AMERICAN AIRLINES, INC., a Delaware corporation (collectively the "Company"), and DONALD J. CARTY (the "Executive").

W I T N E S S E T H:

WHEREAS, the Company considers it essential to the best interests of the Company and its stockholders that its management be encouraged to remain with the Company and to continue to devote full attention to the Company's business in the event an effort is made to obtain control of the Company through a tender offer or otherwise;

WHEREAS, the Company recognizes that the possibility of a change in control and the uncertainty and questions which it may raise among management may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders;

WHEREAS, the Company's Board of Directors (the "Board") has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management to their assigned duties without distraction in the face of the potentially disturbing circumstances arising from the possibility of a change in control of the Company;

WHEREAS, the Executive is a key Executive of the Company;

WHEREAS, the Company believes the Executive has made valuable contributions to the productivity and profitability of the Company;

WHEREAS, should the Company receive any proposal from a third person concerning a possible business combination with or acquisition of equity securities of the Company, the Board believes it imperative that the Company and the Board be able to rely upon the Executive to continue in his position, and that the Company be able to receive and rely upon his advice as to the best interests of the Company and its stockholders without concern that he might be distracted by the personal uncertainties and risks created by such a proposal; and

WHEREAS, should the Company receive any such proposals, in addition to the Executive's regular duties, he may be called upon to assist in the assessment of such proposals, advise management and the Board as to whether such proposals would be in the best interests of the Company and its stockholders, and to take such other actions as the Board might determine to be appropriate.

NOW, THEREFORE, to assure the Company that it will have the continued undivided attention and services of the Executive and the availability of his advice and counsel notwithstanding the possibility, threat or occurrence of a bid to take over control of the Company, and to induce the Executive to remain in the employ of the Company, and for other good and valuable consideration, the Company and the Executive agree as follows:

1. Change in Control

For purposes of this Agreement, a Change in Control of the Company shall be deemed to have taken place if:

(a) any person as defined in Section 3(a)(9) of the Securities Exchange Act of 1934, as amended from time to time (the "Exchange Act"), and as used in Sections 13(d) and

14(d) thereof, including a "group" as defined in Section 13(d) of the Exchange Act (a "Person"), but excluding the Company, any subsidiary of the Company and any employee benefit plan sponsored or maintained by the Company or any subsidiary of the Company (including any trustee of such plan acting as trustee), directly or indirectly, becomes the "beneficial owner" (as defined in Rule 13(d)-3 under the Exchange Act, as amended from time to time) of securities of the Company representing 15% or more of the combined voting power of the Company's then outstanding securities; or

(b) individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of the assets of another corporation (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the then outstanding shares of common stock of the Company and the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors immediately prior to such Business Combination

beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries), (ii) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 15% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination, and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Incumbent Board, providing for such Business Combination; or

(d) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

## 2. Circumstances Triggering Receipt of Severance Benefits

(a) Subject to Section 2(c), the Company will provide the Executive with the benefits set forth in Section 4 upon any termination of the Executive's employment:

(i) by the Company at any time within the first 24 months after a Change in Control;

(ii) by the Executive for "Good Reason" (as defined in Section 2(b) below) at any time within the first 24 months after a Change in Control;

(iii) by the Executive pursuant to Section 2(d); or

(iv) by the Company or the Executive pursuant to Section 2(e).

(b) In the event of the occurrence of a Change in Control, the Executive may terminate employment with the Company and/or any subsidiary for "Good Reason" with the right to benefits set forth in Section 4 upon the occurrence of one or more of the following events (regardless of whether any other reason, other than Cause as provided below, for such termination exists or has occurred, including without limitation other employment):

(i) Failure to elect or reelect or otherwise to maintain the Executive in the office or the position, or a substantially equivalent office or position, of or with the Company and/or a subsidiary, as the case may be, which the Executive held immediately prior to a Change in Control, or the removal of the Executive as a director of the Company and/or a subsidiary (or any successor thereto) if the Executive shall have been a director of the Company and/or a subsidiary immediately prior to the Change in Control;

(ii) (A) A significant adverse change in the nature or scope of the authorities, powers, functions, responsibilities or duties attached to the position with the Company and/or any subsidiary which the Executive held immediately prior to the Change in Control, (B) a reduction in the aggregate of the Executive's annual base salary rate and annual incentive compensation target to be received from the Company and/or any subsidiary, or (C) the termination or denial of the Executive's rights to Employee Benefits (as defined below) or a reduction in the



scope or value thereof, any of which is not remedied by the Company within 10 calendar days after receipt by the Company of written notice from the Executive of such change, reduction or termination, as the case may be;

(iii) A determination by the Executive (which determination will be conclusive and binding upon the parties hereto provided it has been made in good faith and in all events will be presumed to have been made in good faith unless otherwise shown by the Company by clear and convincing evidence) that a change in circumstances has occurred following a Change in Control, including, without limitation, a change in the scope of the business or other activities for which the Executive was responsible immediately prior to the Change in Control, which has rendered the Executive substantially unable to carry out, has substantially hindered Executive's performance of, or has caused the Executive to suffer a substantial reduction in, any of the authorities, powers, functions, responsibilities or duties attached to the position held by the Executive immediately prior to the Change in Control, which situation is not remedied within 10 calendar days after written notice to the Company from the Executive of such determination;

(iv) The liquidation, dissolution, merger, consolidation or reorganization of the Company or transfer of all or substantially all of its business and/or assets, unless the successor or successors (by liquidation, merger, consolidation, reorganization, transfer or otherwise) to which all or substantially all of its business and/or assets have been transferred (directly or by operation of

law) assumed all duties and obligations of the Company under this Agreement pursuant to Section 9(a);

(v) The Company relocates its principal executive offices, or requires the Executive to have his principal location of work changed, to any location that is in excess of 50 miles from the location thereof immediately prior to the Change in Control, or requires the Executive to travel away from his office in the course of discharging his responsibilities or duties hereunder at least 20% more (in terms of aggregate days in any calendar year or in any calendar quarter when annualized for purposes of comparison to any prior year) than was required of Executive in any of the three full years immediately prior to the Change in Control without, in either case, his prior written consent; or

(vi) Without limiting the generality or effect of the foregoing, any material breach of this Agreement by the Company or any successor thereto, which breach is not remedied within 10 calendar days after written notice to the Company from the Executive describing the nature of such breach.

(c) Notwithstanding Sections 2(a) and (b) above, no benefits shall be payable by reason of this Agreement in the event of:

(i) Termination of the Executive's employment with the Company and its subsidiaries by reason of the Executive's death or Disability, provided that the Executive has not previously given a valid "Notice of Termination" pursuant to Section 3. For purposes hereof, "Disability" shall be defined as the inability of Executive due to illness, accident or other physical or mental disability to perform his duties for any period of six consecutive months or for any period of eight

months out of any 12-month period, as determined by an independent physician selected by the Company and reasonably acceptable to the Executive (or his legal representative), provided that the Executive does not return to work on substantially a full-time basis within 30 days after written notice from the Company, pursuant to Section 3, of an intent to terminate the Executive's employment due to Disability;

(ii) Termination of the Executive's employment with the Company and its subsidiaries on account of the Executive's retirement at or after age 65, pursuant to the Company's Retirement Benefit Plan; or

(iii) Termination of the Executive's employment with the Company and its subsidiaries for Cause. For the purposes hereof, "Cause" shall be defined as a felony conviction of the Executive or the failure of the Executive to contest prosecution for a felony, or the Executive's wilful misconduct or dishonesty, any of which is directly and materially harmful to the business or reputation of the Company or any subsidiary or affiliate. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for "Cause" hereunder unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three quarters of the Board then in office at a meeting of the Board called and held for such purpose, after reasonable notice to the Executive and an opportunity for the Executive, together with his counsel (if the Executive chooses to have counsel present at such meeting), to be heard before the Board, finding that, in the good faith opinion of the Board, the Executive had committed an act constituting

"Cause" as herein defined and specifying the particulars thereof in detail. Nothing herein will limit the right of the Executive or his beneficiaries to contest the validity or propriety of any such determination.

This Section 2(c) shall not preclude the payment of any amounts otherwise payable to the Executive under any of the Company's employee benefit plans, stock plans, programs and arrangements and/or under any Employment Agreement.

(d) Notwithstanding anything contained in this Agreement to the contrary, in the event of a Change in Control, the Executive may terminate employment with the Company and any subsidiary for any reason, or without reason, by providing Notice of Termination pursuant to Section 3 during the 30-day period immediately following the first anniversary of the first occurrence of a Change in Control with the right to the benefits set forth in Section 4.

(e) Any termination of employment of the Executive, including a termination for "Good Reason," but excluding a termination for "Cause," or the removal of the Executive from the office or position in the Company or any subsidiary that occurs (i) not more than 180 days prior to the date on which a Change in Control occurs and (ii) following the commencement of any discussion with a third person that ultimately results in a Change in Control shall be deemed to be a termination or removal of the Executive after a Change in Control for purposes of this Agreement.

### 3. Notice of Termination

Any termination of the Executive's employment with the Company and its subsidiaries as contemplated by Section 2 shall be communicated by written "Notice of Termination" to the other party hereto. Any "Notice of Termination" shall indicate the effective date of termination which shall not be less than 30 days or more than 60 days after the date the Notice of

Termination is delivered (the "Termination Date"), the specific provision in this Agreement relied upon, and, except for a termination pursuant to Section 2(d), will set forth in reasonable detail the facts and circumstances claimed to provide a basis for such termination including, if applicable, the failure after provision of written notice by the Executive to effect a remedy pursuant to the final clause of Section 2(b) (ii), 2(b) (iii) or 2(b) (vi).

#### 4. Termination Benefits

Subject to the conditions set forth in Section 2, the following benefits shall be paid or provided to the Executive:

##### (a) Compensation

The Company shall pay to the Executive three times the sum of (i) "Base Pay", which shall be an amount equal to the greater of (A) the Executive's effective annual base salary at the Termination Date or (B) the Executive's effective annual base salary immediately prior to the Change in Control, plus (ii) "Incentive Pay" equal to the greater of (x) the target annual bonus payable to the Executive under the Company's Incentive Compensation Plan or any other annual bonus plan for the fiscal year of the Company in which the Change in Control occurred or (y) the highest annual bonus earned by the Executive under the Company's Incentive Compensation Plan or any other annual bonus plan (whether paid currently or on a deferred basis) with respect to any 12 consecutive month period during the three fiscal years of the Company immediately preceding the fiscal year of the Company in which the Change in Control occurred, plus (iii) "Performance Returns" equal to the highest annual payment of performance returns paid to the Executive with respect to any 12 consecutive month period during the three fiscal years of the Company immediately preceding the fiscal year of the Company in which the Change in Control occurred.

## (b) Welfare Benefits

For a period of 36 months following the Termination Date (the "Continuation Period"), the Company shall arrange to provide the Executive with benefits, including travel accident, major medical, dental, vision care and other welfare benefit programs in effect immediately prior to the Change in Control ("Employee Benefits") substantially similar to those that the Executive was receiving or entitled to receive immediately prior to the Termination Date (or, if greater, immediately prior to the reduction, termination, or denial described in Section 2(b)(ii)(C)). If and to the extent that any benefit described in this Section 4(b) is not or cannot be paid or provided under any policy, plan, program or arrangement of the Company or any subsidiary, as the case may be, then the Company will itself pay or provide for the payment to the Executive, his dependents and beneficiaries, of such Employee Benefits along with, in the case of any benefit which is subject to tax because it is not or cannot be paid or provided under any such policy, plan, program or arrangement of the Company or any subsidiary, an additional amount such that after payment by the Executive, or his dependents or beneficiaries, as the case may be, of all taxes so imposed, the recipient retains an amount equal to such taxes. Employee Benefits otherwise receivable by the Executive pursuant to this Section 4(b) will be reduced to the extent comparable welfare benefits are actually received by the Executive from another employer during the Continuation Period, and any such benefits actually received by the Executive shall be reported by the Executive to the Company.

## (c) Retirement Benefits

The Executive shall be deemed to be completely vested in Executive's currently accrued benefits under the Company's Retirement Benefit Plan and Supplemental Executive Retirement Plan ("SERP") in effect as of the date of Change in Control (collectively, the

"Plans"), regardless of his actual vesting service credit thereunder. In addition, the Executive shall be deemed to earn service credit for benefit calculation purposes thereunder for the Continuation Period. Benefits under the Plans will become payable at any time designated by the Executive following termination of the Executive's employment with the Company and its subsidiaries after the Executive reaches age 55, subject to the terms of the Plans regarding the actuarial adjustment of benefit payments commencing prior to normal retirement age. The benefits to be paid pursuant to the Plans shall be calculated as though the Executive's compensation rate for each of the five years immediately preceding his retirement equaled the sum of Base Pay plus Incentive Pay plus Performance Returns. Any benefits payable pursuant to this Section 4(c) that are not payable out of the Plans for any reason (including but not limited to any applicable benefit limitations under the Employee Retirement Income Security Act of 1974, as amended, or any restrictions relating to the qualification of the Company's Retirement Benefit Plan under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code")) shall be paid directly by the Company out of its general assets.

(d) Relocation Benefits

If the Executive moves his residence in order to pursue other business or employment opportunities during the Continuation Period and requests in writing that the Company provide relocation services, he will be reimbursed for any expenses incurred in that initial relocation (including taxes payable on the reimbursement) which are not reimbursed by another employer. Benefits under this provision will include assistance in selling the Executive's home and all other assistance and benefits which were customarily provided by the Company to transferred executives prior to the Change in Control.

## (e) Executive Outplacement Counseling

At the request of the Executive made in writing during the Continuation Period, the Company shall engage an outplacement counseling service of national reputation to assist the Executive in obtaining employment.

## (f) Stock Based Compensation Plans

(i) Any issued and outstanding Stock Options (to the extent they have not already become exercisable) shall become exercisable as of the date on which the Change in Control occurs, unless otherwise specifically provided at the time such options are granted.

(ii) The Company's right to rescind any award of stock to the Executive under the Company's 1988 Long Term Incentive Plan or the Company's 1998 Long Term Incentive Plan (or any successor plan) shall terminate upon a Change in Control, and all restrictions on the sale, pledge, hypothecation or other disposition of shares of stock awarded pursuant to such plan shall be removed at the Termination Date, unless otherwise specifically provided at the time such award(s) are made.

(iii) The Executive's rights under any other stock based compensation plan shall vest (to the extent they have not already vested) and any performance criteria shall be deemed met at target as of the date on which a Change in Control occurs, unless otherwise specifically provided at the time such right(s) are granted.

## (g) Split Dollar Life Insurance

The Company shall pay to the Executive a lump sum equal to the cost on the Termination Date of purchasing, at standard independent insurance premium rates, an individual



paid up insurance policy providing benefits equal to the benefits provided by the Company's Split Dollar Life Insurance coverage immediately prior to the date of the Change in Control.

(h) Other Benefits

(i) The Executive shall have all flight privileges provided by the Company to Directors as of the date of Change in Control until the Executive reaches age 55, at which time he shall have all flight privileges provided by the Company to its retirees who held the same or similar position as the Executive immediately prior to the Change in Control.

(ii) The Executive, at the Executive's option, shall be entitled to continue the use of the Executive's Company-provided automobile during the Continuation Period under the same terms that applied to the automobile immediately prior to the Change in Control, or to purchase the automobile at its book value as of the Termination Date.

(iii) The Company shall pay to the Executive an amount equal to the cost to the Company of providing any other perquisites and benefits of the Company in effect immediately prior to the Change in Control, calculated as if such benefits were continued during the Continuation Period.

(i) Accrued Amounts

The Company shall pay to the Executive all other amounts accrued or earned by the Executive through the Termination Date and amounts otherwise owing under the then existing plans and policies of the Company, including but not limited to all amounts of compensation previously deferred by the Executive (together with any accrued interest thereon) and not yet paid by the Company, and any accrued vacation pay not yet paid by the Company.

(j) The Company shall pay to the Executive the amounts due pursuant to Sections 4(a), 4(g) and 4(h)(iii) in a lump sum on the first business day of the month following the Termination Date. The Company shall pay to the Executive the amounts due pursuant to Section 4(i) in accordance with the terms and conditions of the existing plans and policies of the Company.

5. Certain Additional Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding, but subject to Section 5(h), in the event that this Agreement shall become operative and it shall be determined (as hereafter provided) that any payment (other than the Gross-Up payments provided for in this Section 5) or distribution by the Company or any of its subsidiaries to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise pursuant to or by reason of any other agreement, policy, plan, program or arrangement, including without limitation any stock option, stock appreciation right or similar right, restricted stock, deferred stock or the lapse or termination of any restriction on, deferral period or the vesting or exercisability of any of the foregoing (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Code (or any successor provision thereto) by reason of being considered "contingent on a change in ownership or control" of the Company, within the meaning of Section 280G of the Code (or any successor provision thereto) or to any similar tax imposed by state or local law, or any interest or penalties with respect to such tax (such tax or taxes, together with any such interest and penalties, being hereafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment or payments (collectively, a "Gross-Up Payment"). The Gross-Up Payment shall be in an amount such that, after payment by the Executive of all taxes (including any interest or

penalties imposed with respect to such taxes), including any Excise Tax and any income tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payment.

(b) Subject to the provisions of Section 5(f), all determinations required to be made under this Section 5, including whether an Excise Tax is payable by the Executive and the amount of such Excise Tax and whether a Gross-Up Payment is required to be paid by the Company to the Executive and the amount of such Gross-Up Payment, if any, shall be made by a nationally recognized accounting firm (the "Accounting Firm") selected by the Executive in his sole discretion. The Executive shall direct the Accounting Firm to submit its determination and detailed supporting calculations to both the Company and the Executive within 30 calendar days after the Change in Control Date, the Termination Date, if applicable, and any such other time or times as may be requested by the Company or the Executive. If the Accounting Firm determines that any Excise Tax is payable by the Executive, the Company shall pay the required Gross-Up Payment to the Executive within five business days after receipt of such determination and calculations with respect to any Payment to the Executive. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall, at the same time as it makes such determination, furnish the Company and the Executive an opinion that the Executive has substantial authority not to report any Excise Tax on his federal, state or local income or other tax return. As a result of the uncertainty in the application of Section 4999 of the Code (or any successor provision thereto) and the possibility of similar uncertainty regarding applicable state or local tax law at the time of any determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made (an "Underpayment"), consistent with the calculations required to be made hereunder. In the

event that the Company exhausts or fails to pursue its remedies pursuant to Section 5(f) and the Executive thereafter is required to make a payment of any Excise Tax, the Executive shall direct the Accounting Firm to determine the amount of the Underpayment that has occurred and to submit its determination and detailed supporting calculations to both the Company and the Executive as promptly as possible. Any such Underpayment shall be promptly paid by the Company to, or for the benefit of, the Executive within five business days after receipt of such determination and calculations.

(c) The Company and the Executive shall each provide the Accounting Firm access to and copies of any books, records and documents in the possession of the Company or the Executive, as the case may be, reasonably requested by the Accounting Firm, and otherwise cooperate with the Accounting Firm in connection with the preparation and issuance of the determinations and calculations contemplated by Section 5(b). Any determination by the Accounting Firm as to the amount of the Gross-Up Payment shall be binding upon the Company and the Executive.

(d) The federal, state and local income or other tax returns filed by the Executive shall be prepared and filed on a consistent basis with the determination of the Accounting Firm with respect to the Excise Tax payable by the Executive. The Executive shall make proper payment of the amount of any Excise Payment, and at the request of the Company, provide to the Company true and correct copies (with any amendments) of his federal income tax return as filed with the Internal Revenue Service and corresponding state and local tax returns, if relevant, as filed with the applicable taxing authority, and such other documents reasonably requested by the Company, evidencing such payment. If prior to the filing of the Executive's federal income tax return, or corresponding state or local tax return, if relevant, the Accounting

Firm determines that the amount of the Gross-Up Payment should be reduced, the Executive shall within five business days pay to the Company the amount of such reduction.

(e) The fees and expenses of the Accounting Firm for its services in connection with the determinations and calculations contemplated by Section 5(b) shall be borne by the Company. If such fees and expenses are initially paid by the Executive, the Company shall reimburse the Executive the full amount of such fees and expenses within five business days after receipt from the Executive of a statement therefor and reasonable evidence of his payment thereof.

(f) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service or any other taxing authority that, if successful, would require the payment by the Company of a Gross-Up Payment or any additional Gross-Up Payment. Such notification shall be given as promptly as practicable but no later than 10 business days after the Executive actually receives notice of such claim and the Executive shall further apprise the Company of the nature of such claim and the date on which such claim is requested to be paid (in each case, to the extent known by the Executive). The Executive shall not pay such claim prior to the earlier of (x) the expiration of the 30-calendar-day period following the date on which he gives such notice to the Company and (y) the date that any payment of amount with respect to such claim is due. If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) provide the Company with any written records or documents in his possession relating to such claim reasonably requested by the Company;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including without

limitation accepting legal representation with respect to such claim by an attorney competent in respect of the subject matter and reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order effectively to contest such claim; and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including interest and penalties) incurred in connection with such contest and shall indemnify and hold harmless the Executive, on an after-tax basis, for and against any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such contest and payment of costs and expenses. Without limiting the foregoing provisions of this Section 5(f), the Company shall control all proceedings taken in connection with the contest of any claim contemplated by this Section 5(f) and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim (provided, however, that the Executive may participate therein at his own cost and expense) and may, at its option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay the tax claimed and sue for a refund, the Company shall advance the amount of such payment to the Executive on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any

Excise Tax or income or other tax, including interest or penalties with respect thereto, imposed with respect to such advance; and provided further, however, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which the contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of any such contested claim shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(g) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 5(f), the Executive receives any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 5(f)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after any taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 5(f), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial or refund prior to the expiration of 30 calendar days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of any such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid by the Company to the Executive pursuant to this Section 5.

(h) Notwithstanding any provision of this Agreement to the contrary, if (i) but for this sentence, the Company would be obligated to make a Gross-Up Payment to the Executive, (ii) the aggregate "present value" of the "parachute payments" to be paid or provided

to the Executive under this Agreement or otherwise does not exceed 1.15 multiplied by three times the Executive's "base amount," and (iii) but for this sentence, the net after-tax benefit to the Executive of the Gross-Up Payment would not exceed \$50,000 (taking into account both income taxes and any Excise Tax), then the payments and benefits to be paid or provided under this Agreement (including any stock based compensation pursuant to Section 4(f)) will be reduced to the minimum extent necessary (but in no event to less than zero) so that no portion of any payment or benefit to the Executive, as so reduced, constitutes an "excess parachute payment." For purposes of this Section 5(h), the terms "excess parachute payment," "present value," "parachute payment," and "base amount" will have the meanings assigned to them by Section 280G of the Code. The determination of whether any reduction in such payments or benefits to be provided under this Agreement is required pursuant to the preceding sentence will be made at the expense of the Company, if requested by the Executive or the Company, by the Accounting Firm. The fact that the Executive's right to payments or benefits may be reduced by reason of the limitations contained in this Section 5(h) will not of itself limit or otherwise affect any other rights of the Executive other than pursuant to this Agreement. In the event that any payment or benefit intended to be provided under this Agreement or otherwise is required to be reduced pursuant to this Section 5(h), the Executive will be entitled to designate the payments and/or benefits to be so reduced in order to give effect to this Section 5(h). The Company will provide the Executive with all information reasonably requested by the Executive to permit the Executive to make such designation. In the event that the Executive fails to make such designation within 10 business days of the Termination Date, the Company may effect such reduction in any manner it deems appropriate.



6. No Mitigation Obligation. The Company hereby acknowledges that it will be difficult and may be impossible for the Executive to find reasonably comparable employment following the Termination Date. Accordingly, the payment of the severance compensation by the Company to the Executive in accordance with the terms of this Agreement is hereby acknowledged by the Company to be reasonable, and the Executive will not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, nor will any profits, income, earnings or other benefits from any source whatsoever create any mitigation, offset, reduction or any other obligation on the part of the Executive hereunder or otherwise, except as expressly provided in the last sentence of Section 4(b).

7. Legal Fees and Expenses.

(a) It is the intent of the Company that the Executive not be required to incur legal fees and the related expenses associated with the interpretation, enforcement or defense of Executive's rights under this Agreement by litigation or otherwise because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Executive hereunder. Accordingly, if it should appear to the Executive that the Company has failed to comply with any of its obligations under this Agreement or in the event that the Company or any other person takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any litigation or other action or proceeding designed to deny, or to recover from, the Executive any or all of the benefits provided or intended to be provided to the Executive hereunder, the Company irrevocably authorizes the Executive from time to time to retain counsel of Executive's choice, at the expense of the Company as hereafter provided, to advise and represent the Executive in connection with any such interpretation, enforcement or

defense, including without limitation the initiation or defense of any litigation or other legal action, whether by or against the Company or any director, officer, stockholder or other person affiliated with the Company, in any jurisdiction. Notwithstanding any existing or prior attorney-client relationship between the Company and such counsel, the Company irrevocably consents to the Executive's entering into an attorney-client relationship with such counsel, and in that connection the Company and the Executive agree that a confidential relationship shall exist between the Executive and such counsel. Without respect to whether the Executive prevails, in whole or in part, in connection with any of the foregoing, the Company will pay and be solely financially responsible for any and all attorneys' and related fees and expenses incurred by the Executive in connection with any of the foregoing.

(b) Without limiting the obligations of the Company pursuant to Section 7(a) hereof, in the event a Change in Control occurs, the performance of the Company's obligations under this Section 7 shall be secured by amounts deposited or to be deposited in trust pursuant to certain trust agreements to which the Company shall be a party, which amounts deposited shall in the aggregate be not less than \$2,000,000, providing that the fees and expenses of counsel selected from time to time by the Executive pursuant to Section 7(a) shall be paid, or reimbursed to the Executive if paid by the Executive, either in accordance with the terms of such trust agreements, or, if not so provided, on a regular, periodic basis upon presentation by the Executive to the trustee of a statement or statements prepared by such counsel in accordance with its customary practices. Any failure by the Company to satisfy any of its obligations under this Section 7(b) shall not limit the rights of the Executive hereunder. Subject to the foregoing, the Executive shall have the status of a general unsecured creditor of the Company and shall have no right to, or security interest in, any assets of the Company or any subsidiary.

#### 8. Continuing Obligations

(a) The Executive hereby agrees that all documents, records, techniques, business secrets and other information which have come into his possession from time to time during his employment with the Company shall be deemed to be confidential and proprietary to the Company and, except for personal documents and records of the Executive, shall be returned to the Company. The Executive further agrees to retain in confidence any confidential information known to him concerning the Company and its subsidiaries and their respective businesses so long as such information is not publicly disclosed, except that Executive may disclose any such information required to be disclosed in the normal course of his employment with the Company or pursuant to any court order or other legal process.

(b) The Executive hereby agrees that during the Continuation Period, he will not directly or indirectly solicit any employee of the Company or any of its subsidiaries or affiliated companies to join the employ of any entity that competes with the Company or any of its subsidiaries or affiliated companies.

#### 9. Successors

(a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to the Executive to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of such successor entity to enter into such agreement prior to the effective date of any such succession (or, if later, within three business days after first receiving a written request for such agreement) shall constitute a breach of this Agreement and shall entitle the Executive to

terminate his employment pursuant to Section 2(a)(ii) and to receive the payments and benefits provided under Section 4. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which executes and delivers the Agreement provided for in this Section 9 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(b) This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive dies while any amounts are payable to him hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to his devisee, legatee or other designee or, if there is no such designee, to his estate.

#### 10. Notices

For all purposes of this Agreement, all communications, including without limitation notices, consents, requests or approvals, required or permitted to be given hereunder will be in writing and will be deemed to have been duly given when hand delivered or dispatched by electronic facsimile transmission (with receipt thereof orally confirmed), or five business days after having been mailed by United States registered or certified mail, return receipt requested, postage prepaid, or three business days after having been sent by a nationally recognized overnight courier service such as FedEx, UPS, or Purolator, addressed to the Company (to the attention of the Secretary of the Company, with a copy to the General Counsel of the Company) at its principal executive office and to the Executive at his principal residence, or to such other address as any party may have furnished to the other in writing and in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

## 11. Governing Law

THE VALIDITY, INTERPRETATION, CONSTRUCTION AND PERFORMANCE OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF DELAWARE.

## 12. Miscellaneous

No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by the Executive and the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement (or in any employment or other written agreement relating to the Executive). Notwithstanding any provision of this Agreement to the contrary, the parties' respective rights and obligations under Sections 4, 5 and 7 will survive any termination or expiration of this Agreement or the termination of the Executive's employment following a Change in Control for any reason whatsoever. Nothing expressed or implied in this Agreement will create any right or duty on the part of the Company or the Executive to have the Executive remain in the employment of the Company or any subsidiary prior to or following any Change in Control. The Company may withhold from any amounts payable under this Agreement all federal, state, city or other taxes as the Company is required to withhold pursuant to any law or government regulation or ruling. In the event that the Company refuses or otherwise fails to make a payment when due and it is ultimately decided that the Executive is entitled to such

payment, such payment shall be increased to reflect an interest factor, compounded annually, equal to the prime rate in effect as of the date the payment was first due plus two points. For this purpose, the prime rate shall be based on the rate identified by Chase Manhattan Bank as its prime rate.

### 13. Separability

The invalidity or unenforceability of any provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

### 14. Non-assignability

This Agreement is personal in nature and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder, except as provided in Section 9. Without limiting the foregoing, the Executive's right to receive payments hereunder shall not be assignable or transferable, whether by pledge, creation of a security interest or otherwise, other than a transfer by his will or by the laws of descent or distribution, and in the event of any attempted assignment or transfer by Executive contrary to this Section 14 the Company shall have no liability to pay any amount so attempted to be assigned or transferred to any person other than the Executive or, in the event of his death, his designated beneficiary or, in the absence of an effective beneficiary designation, the Executive's estate.

### 15. Effectiveness; Term

This Agreement will be effective and binding as of the date first above written immediately upon its execution, but, anything in this Agreement to the contrary notwithstanding, this Agreement will not be operative unless and until a Change in Control occurs. Upon the

occurrence of a Change in Control at any time during the Term (as defined below), without further action, this Agreement shall become immediately operative. For purposes of this Agreement, "Term" means the period commencing as of the date first above written and expiring as of the later of (i) the fifth anniversary of the date first above written or (ii) the second anniversary of the first occurrence of a Change in Control; provided, however, that (A) commencing on the fifth anniversary of the date first above written and each fifth anniversary date thereafter, the Term of this Agreement will automatically be extended for an additional five years unless, not later than 180 days preceding each such fifth anniversary date, the Company or the Executive shall have given notice that it or the Executive, as the case may be, does not wish to have the Term extended and (B) subject to Section 2(e), if, prior to a Change in Control, the Executive ceases for any reason to be an employee of the Company and any subsidiary, thereupon without further action the Term shall be deemed to have expired and this Agreement will immediately terminate and be of no further effect. For purposes of this Section 15, the Executive shall not be deemed to have ceased to be an employee of the Company and any subsidiary by reason of the transfer of Executive's employment between the Company and any subsidiary, or among any subsidiaries.

16. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same agreement.

17. Prior Agreement. This Agreement supersedes and terminates any and all prior Executive Termination Benefits Agreements by and among Company and the Executive.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered as of the day and year first above set forth, thereby mutually and voluntarily agreeing that this Agreement supersedes and replaces any prior similar agreements for such termination benefits.

AMR CORPORATION

By: /s/ Anne H. McNamara  
-----  
AMERICAN AIRLINES, INC.

By: /s/ Thomas J. Kiernan  
-----  
DONALD J. CARTY

/s/ Donald J. Carty  
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AMENDED AND RESTATED  
EXECUTIVE TERMINATION BENEFITS AGREEMENT

THIS AMENDED AND RESTATED EXECUTIVE TERMINATION BENEFITS AGREEMENT (this "Agreement"), dated as of the 21st day of May, 1998 is among AMR CORPORATION, a Delaware corporation, AMERICAN AIRLINES, INC., a Delaware corporation (collectively the "Company"), and PETER J. DOLARA (the "Executive").

W I T N E S S E T H:

WHEREAS, the Company considers it essential to the best interests of the Company and its stockholders that its management be encouraged to remain with the Company and to continue to devote full attention to the Company's business in the event an effort is made to obtain control of the Company through a tender offer or otherwise;

WHEREAS, the Company recognizes that the possibility of a change in control and the uncertainty and questions which it may raise among management may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders;

WHEREAS, the Company's Board of Directors (the "Board") has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management to their assigned duties without distraction in the face of the potentially disturbing circumstances arising from the possibility of a change in control of the Company;

WHEREAS, the Executive is a key Executive of the Company;

WHEREAS, the Company believes the Executive has made valuable contributions to the productivity and profitability of the Company;

WHEREAS, should the Company receive any proposal from a third person concerning a possible business combination with or acquisition of equity securities of the Company, the Board believes it imperative that the Company and the Board be able to rely upon the Executive to continue in his position, and that the Company be able to receive and rely upon his advice as to the best interests of the Company and its stockholders without concern that he might be distracted by the personal uncertainties and risks created by such a proposal; and

WHEREAS, should the Company receive any such proposals, in addition to the Executive's regular duties, he may be called upon to assist in the assessment of such proposals, advise management and the Board as to whether such proposals would be in the best interests of the Company and its stockholders, and to take such other actions as the Board might determine to be appropriate.

NOW, THEREFORE, to assure the Company that it will have the continued undivided attention and services of the Executive and the availability of his advice and counsel notwithstanding the possibility, threat or occurrence of a bid to take over control of the Company, and to induce the Executive to remain in the employ of the Company, and for other good and valuable consideration, the Company and the Executive agree as follows:

1. Change in Control

For purposes of this Agreement, a Change in Control of the Company shall be deemed to have taken place if:

(a) any person as defined in Section 3(a)(9) of the Securities Exchange Act of 1934, as amended from time to time (the "Exchange Act"), and as used in Sections 13(d) and

14(d) thereof, including a "group" as defined in Section 13(d) of the Exchange Act (a "Person"), but excluding the Company, any subsidiary of the Company and any employee benefit plan sponsored or maintained by the Company or any subsidiary of the Company (including any trustee of such plan acting as trustee), directly or indirectly, becomes the "beneficial owner" (as defined in Rule 13(d)-3 under the Exchange Act, as amended from time to time) of securities of the Company representing 15% or more of the combined voting power of the Company's then outstanding securities; or

(b) individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of the assets of another corporation (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the then outstanding shares of common stock of the Company and the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors immediately prior to such Business Combination

beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries), (ii) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 15% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination, and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Incumbent Board, providing for such Business Combination; or

(d) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

## 2. Circumstances Triggering Receipt of Severance Benefits

(a) Subject to Section 2(c), the Company will provide the Executive with the benefits set forth in Section 4 upon any termination of the Executive's employment:

(i) by the Company at any time within the first 24 months after a Change in Control;

(ii) by the Executive for "Good Reason" (as defined in Section 2(b) below) at any time within the first 24 months after a Change in Control;

(iii) by the Executive pursuant to Section 2(d); or

(iv) by the Company or the Executive pursuant to Section 2(e).

(b) In the event of the occurrence of a Change in Control, the Executive may terminate employment with the Company and/or any subsidiary for "Good Reason" with the right to benefits set forth in Section 4 upon the occurrence of one or more of the following events (regardless of whether any other reason, other than Cause as provided below, for such termination exists or has occurred, including without limitation other employment):

(i) Failure to elect or reelect or otherwise to maintain the Executive in the office or the position, or a substantially equivalent office or position, of or with the Company and/or a subsidiary, as the case may be, which the Executive held immediately prior to a Change in Control, or the removal of the Executive as a director of the Company and/or a subsidiary (or any successor thereto) if the Executive shall have been a director of the Company and/or a subsidiary immediately prior to the Change in Control;

(ii) (A) A significant adverse change in the nature or scope of the authorities, powers, functions, responsibilities or duties attached to the position with the Company and/or any subsidiary which the Executive held immediately prior to the Change in Control, (B) a reduction in the aggregate of the Executive's annual base salary rate and annual incentive compensation target to be received from the Company and/or any subsidiary, or (C) the termination or denial of the Executive's rights to Employee Benefits (as defined below) or a reduction in the

scope or value thereof, any of which is not remedied by the Company within 10 calendar days after receipt by the Company of written notice from the Executive of such change, reduction or termination, as the case may be;

(iii) A determination by the Executive (which determination will be conclusive and binding upon the parties hereto provided it has been made in good faith and in all events will be presumed to have been made in good faith unless otherwise shown by the Company by clear and convincing evidence) that a change in circumstances has occurred following a Change in Control, including, without limitation, a change in the scope of the business or other activities for which the Executive was responsible immediately prior to the Change in Control, which has rendered the Executive substantially unable to carry out, has substantially hindered Executive's performance of, or has caused the Executive to suffer a substantial reduction in, any of the authorities, powers, functions, responsibilities or duties attached to the position held by the Executive immediately prior to the Change in Control, which situation is not remedied within 10 calendar days after written notice to the Company from the Executive of such determination;

(iv) The liquidation, dissolution, merger, consolidation or reorganization of the Company or transfer of all or substantially all of its business and/or assets, unless the successor or successors (by liquidation, merger, consolidation, reorganization, transfer or otherwise) to which all or substantially all of its business and/or assets have been transferred (directly or by operation of

law) assumed all duties and obligations of the Company under this Agreement pursuant to Section 9(a);

(v) The Company relocates its principal executive offices, or requires the Executive to have his principal location of work changed, to any location that is in excess of 50 miles from the location thereof immediately prior to the Change in Control, or requires the Executive to travel away from his office in the course of discharging his responsibilities or duties hereunder at least 20% more (in terms of aggregate days in any calendar year or in any calendar quarter when annualized for purposes of comparison to any prior year) than was required of Executive in any of the three full years immediately prior to the Change in Control without, in either case, his prior written consent; or

(vi) Without limiting the generality or effect of the foregoing, any material breach of this Agreement by the Company or any successor thereto, which breach is not remedied within 10 calendar days after written notice to the Company from the Executive describing the nature of such breach.

(c) Notwithstanding Sections 2(a) and (b) above, no benefits shall be payable by reason of this Agreement in the event of:

(i) Termination of the Executive's employment with the Company and its subsidiaries by reason of the Executive's death or Disability, provided that the Executive has not previously given a valid "Notice of Termination" pursuant to Section 3. For purposes hereof, "Disability" shall be defined as the inability of Executive due to illness, accident or other physical or mental disability to perform his duties for any period of six consecutive months or for any period of eight

months out of any 12-month period, as determined by an independent physician selected by the Company and reasonably acceptable to the Executive (or his legal representative), provided that the Executive does not return to work on substantially a full-time basis within 30 days after written notice from the Company, pursuant to Section 3, of an intent to terminate the Executive's employment due to Disability;

(ii) Termination of the Executive's employment with the Company and its subsidiaries on account of the Executive's retirement at or after age 65, pursuant to the Company's Retirement Benefit Plan; or

(iii) Termination of the Executive's employment with the Company and its subsidiaries for Cause. For the purposes hereof, "Cause" shall be defined as a felony conviction of the Executive or the failure of the Executive to contest prosecution for a felony, or the Executive's wilful misconduct or dishonesty, any of which is directly and materially harmful to the business or reputation of the Company or any subsidiary or affiliate. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for "Cause" hereunder unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three quarters of the Board then in office at a meeting of the Board called and held for such purpose, after reasonable notice to the Executive and an opportunity for the Executive, together with his counsel (if the Executive chooses to have counsel present at such meeting), to be heard before the Board, finding that, in the good faith opinion of the Board, the Executive had committed an act constituting



"Cause" as herein defined and specifying the particulars thereof in detail. Nothing herein will limit the right of the Executive or his beneficiaries to contest the validity or propriety of any such determination.

This Section 2(c) shall not preclude the payment of any amounts otherwise payable to the Executive under any of the Company's employee benefit plans, stock plans, programs and arrangements and/or under any Employment Agreement.

(d) Notwithstanding anything contained in this Agreement to the contrary, in the event of a Change in Control, the Executive may terminate employment with the Company and any subsidiary for any reason, or without reason, by providing Notice of Termination pursuant to Section 3 during the 30-day period immediately following the first anniversary of the first occurrence of a Change in Control with the right to the benefits set forth in Section 4.

(e) Any termination of employment of the Executive, including a termination for "Good Reason," but excluding a termination for "Cause," or the removal of the Executive from the office or position in the Company or any subsidiary that occurs (i) not more than 180 days prior to the date on which a Change in Control occurs and (ii) following the commencement of any discussion with a third person that ultimately results in a Change in Control shall be deemed to be a termination or removal of the Executive after a Change in Control for purposes of this Agreement.

### 3. Notice of Termination

Any termination of the Executive's employment with the Company and its subsidiaries as contemplated by Section 2 shall be communicated by written "Notice of Termination" to the other party hereto. Any "Notice of Termination" shall indicate the effective date of termination which shall not be less than 30 days or more than 60 days after the date the Notice of

Termination is delivered (the "Termination Date"), the specific provision in this Agreement relied upon, and, except for a termination pursuant to Section 2(d), will set forth in reasonable detail the facts and circumstances claimed to provide a basis for such termination including, if applicable, the failure after provision of written notice by the Executive to effect a remedy pursuant to the final clause of Section 2(b)(ii), 2(b)(iii) or 2(b)(vi).

#### 4. Termination Benefits

Subject to the conditions set forth in Section 2, the following benefits shall be paid or provided to the Executive:

##### (a) Compensation

The Company shall pay to the Executive three times the sum of (i) "Base Pay", which shall be an amount equal to the greater of (A) the Executive's effective annual base salary at the Termination Date or (B) the Executive's effective annual base salary immediately prior to the Change in Control, plus (ii) "Incentive Pay" equal to the greater of (x) the target annual bonus payable to the Executive under the Company's Incentive Compensation Plan or any other annual bonus plan for the fiscal year of the Company in which the Change in Control occurred or (y) the highest annual bonus earned by the Executive under the Company's Incentive Compensation Plan or any other annual bonus plan (whether paid currently or on a deferred basis) with respect to any 12 consecutive month period during the three fiscal years of the Company immediately preceding the fiscal year of the Company in which the Change in Control occurred, plus (iii) "Performance Returns" equal to the highest annual payment of performance returns paid to the Executive with respect to any 12 consecutive month period during the three fiscal years of the Company immediately preceding the fiscal year of the Company in which the Change in Control occurred.

## (b) Welfare Benefits

For a period of 36 months following the Termination Date (the "Continuation Period"), the Company shall arrange to provide the Executive with benefits, including travel accident, major medical, dental, vision care and other welfare benefit programs in effect immediately prior to the Change in Control ("Employee Benefits") substantially similar to those that the Executive was receiving or entitled to receive immediately prior to the Termination Date (or, if greater, immediately prior to the reduction, termination, or denial described in Section 2(b)(ii)(C)). If and to the extent that any benefit described in this Section 4(b) is not or cannot be paid or provided under any policy, plan, program or arrangement of the Company or any subsidiary, as the case may be, then the Company will itself pay or provide for the payment to the Executive, his dependents and beneficiaries, of such Employee Benefits along with, in the case of any benefit which is subject to tax because it is not or cannot be paid or provided under any such policy, plan, program or arrangement of the Company or any subsidiary, an additional amount such that after payment by the Executive, or his dependents or beneficiaries, as the case may be, of all taxes so imposed, the recipient retains an amount equal to such taxes. Employee Benefits otherwise receivable by the Executive pursuant to this Section 4(b) will be reduced to the extent comparable welfare benefits are actually received by the Executive from another employer during the Continuation Period, and any such benefits actually received by the Executive shall be reported by the Executive to the Company.

## (c) Retirement Benefits

The Executive shall be deemed to be completely vested in Executive's currently accrued benefits under the Company's Retirement Benefit Plan and Supplemental Executive Retirement Plan ("SERP") in effect as of the date of Change in Control (collectively, the

"Plans"), regardless of his actual vesting service credit thereunder. In addition, the Executive shall be deemed to earn service credit for benefit calculation purposes thereunder for the Continuation Period. Benefits under the Plans will become payable at any time designated by the Executive following termination of the Executive's employment with the Company and its subsidiaries after the Executive reaches age 55, subject to the terms of the Plans regarding the actuarial adjustment of benefit payments commencing prior to normal retirement age. The benefits to be paid pursuant to the Plans shall be calculated as though the Executive's compensation rate for each of the five years immediately preceding his retirement equaled the sum of Base Pay plus Incentive Pay plus Performance Returns. Any benefits payable pursuant to this Section 4(c) that are not payable out of the Plans for any reason (including but not limited to any applicable benefit limitations under the Employee Retirement Income Security Act of 1974, as amended, or any restrictions relating to the qualification of the Company's Retirement Benefit Plan under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code")) shall be paid directly by the Company out of its general assets.

(d) Relocation Benefits

If the Executive moves his residence in order to pursue other business or employment opportunities during the Continuation Period and requests in writing that the Company provide relocation services, he will be reimbursed for any expenses incurred in that initial relocation (including taxes payable on the reimbursement) which are not reimbursed by another employer. Benefits under this provision will include assistance in selling the Executive's home and all other assistance and benefits which were customarily provided by the Company to transferred executives prior to the Change in Control.

(e) Executive Outplacement Counseling

At the request of the Executive made in writing during the Continuation Period, the Company shall engage an outplacement counseling service of national reputation to assist the Executive in obtaining employment.

(f) Stock Based Compensation Plans

(i) Any issued and outstanding Stock Options (to the extent they have not already become exercisable) shall become exercisable as of the date on which the Change in Control occurs, unless otherwise specifically provided at the time such options are granted.

(ii) The Company's right to rescind any award of stock to the Executive under the Company's 1988 Long Term Incentive Plan or the Company's 1998 Long Term Incentive Plan (or any successor plan) shall terminate upon a Change in Control, and all restrictions on the sale, pledge, hypothecation or other disposition of shares of stock awarded pursuant to such plan shall be removed at the Termination Date, unless otherwise specifically provided at the time such award(s) are made.

(iii) The Executive's rights under any other stock based compensation plan shall vest (to the extent they have not already vested) and any performance criteria shall be deemed met at target as of the date on which a Change in Control occurs, unless otherwise specifically provided at the time such right(s) are granted.

(g) Split Dollar Life Insurance

The Company shall pay to the Executive a lump sum equal to the cost on the Termination Date of purchasing, at standard independent insurance premium rates, an individual

paid up insurance policy providing benefits equal to the benefits provided by the Company's Split Dollar Life Insurance coverage immediately prior to the date of the Change in Control.

(h) Other Benefits

(i) The Executive shall have all flight privileges provided by the Company to Directors as of the date of Change in Control until the Executive reaches age 55, at which time he shall have all flight privileges provided by the Company to its retirees who held the same or similar position as the Executive immediately prior to the Change in Control.

(ii) The Executive, at the Executive's option, shall be entitled to continue the use of the Executive's Company-provided automobile during the Continuation Period under the same terms that applied to the automobile immediately prior to the Change in Control, or to purchase the automobile at its book value as of the Termination Date.

(iii) The Company shall pay to the Executive an amount equal to the cost to the Company of providing any other perquisites and benefits of the Company in effect immediately prior to the Change in Control, calculated as if such benefits were continued during the Continuation Period.

(i) Accrued Amounts

The Company shall pay to the Executive all other amounts accrued or earned by the Executive through the Termination Date and amounts otherwise owing under the then existing plans and policies of the Company, including but not limited to all amounts of compensation previously deferred by the Executive (together with any accrued interest thereon) and not yet paid by the Company, and any accrued vacation pay not yet paid by the Company.

(j) The Company shall pay to the Executive the amounts due pursuant to Sections 4(a), 4(g) and 4(h)(iii) in a lump sum on the first business day of the month following the Termination Date. The Company shall pay to the Executive the amounts due pursuant to Section 4(i) in accordance with the terms and conditions of the existing plans and policies of the Company.

5. Certain Additional Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding, but subject to Section 5(h), in the event that this Agreement shall become operative and it shall be determined (as hereafter provided) that any payment (other than the Gross-Up payments provided for in this Section 5) or distribution by the Company or any of its subsidiaries to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise pursuant to or by reason of any other agreement, policy, plan, program or arrangement, including without limitation any stock option, stock appreciation right or similar right, restricted stock, deferred stock or the lapse or termination of any restriction on, deferral period or the vesting or exercisability of any of the foregoing (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Code (or any successor provision thereto) by reason of being considered "contingent on a change in ownership or control" of the Company, within the meaning of Section 280G of the Code (or any successor provision thereto) or to any similar tax imposed by state or local law, or any interest or penalties with respect to such tax (such tax or taxes, together with any such interest and penalties, being hereafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment or payments (collectively, a "Gross-Up Payment"). The Gross-Up Payment shall be in an amount such that, after payment by the Executive of all taxes (including any interest or

penalties imposed with respect to such taxes), including any Excise Tax and any income tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payment.

(b) Subject to the provisions of Section 5(f), all determinations required to be made under this Section 5, including whether an Excise Tax is payable by the Executive and the amount of such Excise Tax and whether a Gross-Up Payment is required to be paid by the Company to the Executive and the amount of such Gross-Up Payment, if any, shall be made by a nationally recognized accounting firm (the "Accounting Firm") selected by the Executive in his sole discretion. The Executive shall direct the Accounting Firm to submit its determination and detailed supporting calculations to both the Company and the Executive within 30 calendar days after the Change in Control Date, the Termination Date, if applicable, and any such other time or times as may be requested by the Company or the Executive. If the Accounting Firm determines that any Excise Tax is payable by the Executive, the Company shall pay the required Gross-Up Payment to the Executive within five business days after receipt of such determination and calculations with respect to any Payment to the Executive. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall, at the same time as it makes such determination, furnish the Company and the Executive an opinion that the Executive has substantial authority not to report any Excise Tax on his federal, state or local income or other tax return. As a result of the uncertainty in the application of Section 4999 of the Code (or any successor provision thereto) and the possibility of similar uncertainty regarding applicable state or local tax law at the time of any determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made (an "Underpayment"), consistent with the calculations required to be made hereunder. In the



event that the Company exhausts or fails to pursue its remedies pursuant to Section 5(f) and the Executive thereafter is required to make a payment of any Excise Tax, the Executive shall direct the Accounting Firm to determine the amount of the Underpayment that has occurred and to submit its determination and detailed supporting calculations to both the Company and the Executive as promptly as possible. Any such Underpayment shall be promptly paid by the Company to, or for the benefit of, the Executive within five business days after receipt of such determination and calculations.

(c) The Company and the Executive shall each provide the Accounting Firm access to and copies of any books, records and documents in the possession of the Company or the Executive, as the case may be, reasonably requested by the Accounting Firm, and otherwise cooperate with the Accounting Firm in connection with the preparation and issuance of the determinations and calculations contemplated by Section 5(b). Any determination by the Accounting Firm as to the amount of the Gross-Up Payment shall be binding upon the Company and the Executive.

(d) The federal, state and local income or other tax returns filed by the Executive shall be prepared and filed on a consistent basis with the determination of the Accounting Firm with respect to the Excise Tax payable by the Executive. The Executive shall make proper payment of the amount of any Excise Payment, and at the request of the Company, provide to the Company true and correct copies (with any amendments) of his federal income tax return as filed with the Internal Revenue Service and corresponding state and local tax returns, if relevant, as filed with the applicable taxing authority, and such other documents reasonably requested by the Company, evidencing such payment. If prior to the filing of the Executive's federal income tax return, or corresponding state or local tax return, if relevant, the Accounting

Firm determines that the amount of the Gross-Up Payment should be reduced, the Executive shall within five business days pay to the Company the amount of such reduction.

(e) The fees and expenses of the Accounting Firm for its services in connection with the determinations and calculations contemplated by Section 5(b) shall be borne by the Company. If such fees and expenses are initially paid by the Executive, the Company shall reimburse the Executive the full amount of such fees and expenses within five business days after receipt from the Executive of a statement therefor and reasonable evidence of his payment thereof.

(f) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service or any other taxing authority that, if successful, would require the payment by the Company of a Gross-Up Payment or any additional Gross-Up Payment. Such notification shall be given as promptly as practicable but no later than 10 business days after the Executive actually receives notice of such claim and the Executive shall further apprise the Company of the nature of such claim and the date on which such claim is requested to be paid (in each case, to the extent known by the Executive). The Executive shall not pay such claim prior to the earlier of (x) the expiration of the 30-calendar-day period following the date on which he gives such notice to the Company and (y) the date that any payment of amount with respect to such claim is due. If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) provide the Company with any written records or documents in his possession relating to such claim reasonably requested by the Company;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including without

limitation accepting legal representation with respect to such claim by an attorney competent in respect of the subject matter and reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order effectively to contest such claim; and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including interest and penalties) incurred in connection with such contest and shall indemnify and hold harmless the Executive, on an after-tax basis, for and against any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such contest and payment of costs and expenses. Without limiting the foregoing provisions of this Section 5(f), the Company shall control all proceedings taken in connection with the contest of any claim contemplated by this Section 5(f) and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim (provided, however, that the Executive may participate therein at his own cost and expense) and may, at its option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay the tax claimed and sue for a refund, the Company shall advance the amount of such payment to the Executive on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any

Excise Tax or income or other tax, including interest or penalties with respect thereto, imposed with respect to such advance; and provided further, however, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which the contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of any such contested claim shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(g) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 5(f), the Executive receives any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 5(f)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after any taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 5(f), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial or refund prior to the expiration of 30 calendar days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of any such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid by the Company to the Executive pursuant to this Section 5.

(h) Notwithstanding any provision of this Agreement to the contrary, if (i) but for this sentence, the Company would be obligated to make a Gross-Up Payment to the Executive, (ii) the aggregate "present value" of the "parachute payments" to be paid or provided

to the Executive under this Agreement or otherwise does not exceed 1.15 multiplied by three times the Executive's "base amount," and (iii) but for this sentence, the net after-tax benefit to the Executive of the Gross-Up Payment would not exceed \$50,000 (taking into account both income taxes and any Excise Tax), then the payments and benefits to be paid or provided under this Agreement (including any stock based compensation pursuant to Section 4(f)) will be reduced to the minimum extent necessary (but in no event to less than zero) so that no portion of any payment or benefit to the Executive, as so reduced, constitutes an "excess parachute payment." For purposes of this Section 5(h), the terms "excess parachute payment," "present value," "parachute payment," and "base amount" will have the meanings assigned to them by Section 280G of the Code. The determination of whether any reduction in such payments or benefits to be provided under this Agreement is required pursuant to the preceding sentence will be made at the expense of the Company, if requested by the Executive or the Company, by the Accounting Firm. The fact that the Executive's right to payments or benefits may be reduced by reason of the limitations contained in this Section 5(h) will not of itself limit or otherwise affect any other rights of the Executive other than pursuant to this Agreement. In the event that any payment or benefit intended to be provided under this Agreement or otherwise is required to be reduced pursuant to this Section 5(h), the Executive will be entitled to designate the payments and/or benefits to be so reduced in order to give effect to this Section 5(h). The Company will provide the Executive with all information reasonably requested by the Executive to permit the Executive to make such designation. In the event that the Executive fails to make such designation within 10 business days of the Termination Date, the Company may effect such reduction in any manner it deems appropriate.

6. No Mitigation Obligation. The Company hereby acknowledges that it will be difficult and may be impossible for the Executive to find reasonably comparable employment following the Termination Date. Accordingly, the payment of the severance compensation by the Company to the Executive in accordance with the terms of this Agreement is hereby acknowledged by the Company to be reasonable, and the Executive will not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, nor will any profits, income, earnings or other benefits from any source whatsoever create any mitigation, offset, reduction or any other obligation on the part of the Executive hereunder or otherwise, except as expressly provided in the last sentence of Section 4(b).

7. Legal Fees and Expenses.

(a) It is the intent of the Company that the Executive not be required to incur legal fees and the related expenses associated with the interpretation, enforcement or defense of Executive's rights under this Agreement by litigation or otherwise because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Executive hereunder. Accordingly, if it should appear to the Executive that the Company has failed to comply with any of its obligations under this Agreement or in the event that the Company or any other person takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any litigation or other action or proceeding designed to deny, or to recover from, the Executive any or all of the benefits provided or intended to be provided to the Executive hereunder, the Company irrevocably authorizes the Executive from time to time to retain counsel of Executive's choice, at the expense of the Company as hereafter provided, to advise and represent the Executive in connection with any such interpretation, enforcement or

defense, including without limitation the initiation or defense of any litigation or other legal action, whether by or against the Company or any director, officer, stockholder or other person affiliated with the Company, in any jurisdiction. Notwithstanding any existing or prior attorney-client relationship between the Company and such counsel, the Company irrevocably consents to the Executive's entering into an attorney-client relationship with such counsel, and in that connection the Company and the Executive agree that a confidential relationship shall exist between the Executive and such counsel. Without respect to whether the Executive prevails, in whole or in part, in connection with any of the foregoing, the Company will pay and be solely financially responsible for any and all attorneys' and related fees and expenses incurred by the Executive in connection with any of the foregoing.

(b) Without limiting the obligations of the Company pursuant to Section 7(a) hereof, in the event a Change in Control occurs, the performance of the Company's obligations under this Section 7 shall be secured by amounts deposited or to be deposited in trust pursuant to certain trust agreements to which the Company shall be a party, which amounts deposited shall in the aggregate be not less than \$2,000,000, providing that the fees and expenses of counsel selected from time to time by the Executive pursuant to Section 7(a) shall be paid, or reimbursed to the Executive if paid by the Executive, either in accordance with the terms of such trust agreements, or, if not so provided, on a regular, periodic basis upon presentation by the Executive to the trustee of a statement or statements prepared by such counsel in accordance with its customary practices. Any failure by the Company to satisfy any of its obligations under this Section 7(b) shall not limit the rights of the Executive hereunder. Subject to the foregoing, the Executive shall have the status of a general unsecured creditor of the Company and shall have no right to, or security interest in, any assets of the Company or any subsidiary.

## 8. Continuing Obligations

(a) The Executive hereby agrees that all documents, records, techniques, business secrets and other information which have come into his possession from time to time during his employment with the Company shall be deemed to be confidential and proprietary to the Company and, except for personal documents and records of the Executive, shall be returned to the Company. The Executive further agrees to retain in confidence any confidential information known to him concerning the Company and its subsidiaries and their respective businesses so long as such information is not publicly disclosed, except that Executive may disclose any such information required to be disclosed in the normal course of his employment with the Company or pursuant to any court order or other legal process.

(b) The Executive hereby agrees that during the Continuation Period, he will not directly or indirectly solicit any employee of the Company or any of its subsidiaries or affiliated companies to join the employ of any entity that competes with the Company or any of its subsidiaries or affiliated companies.

## 9. Successors

(a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to the Executive to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of such successor entity to enter into such agreement prior to the effective date of any such succession (or, if later, within three business days after first receiving a written request for such agreement) shall constitute a breach of this Agreement and shall entitle the Executive to



terminate his employment pursuant to Section 2(a)(ii) and to receive the payments and benefits provided under Section 4. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which executes and delivers the Agreement provided for in this Section 9 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(b) This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive dies while any amounts are payable to him hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to his devisee, legatee or other designee or, if there is no such designee, to his estate.

#### 10. Notices

For all purposes of this Agreement, all communications, including without limitation notices, consents, requests or approvals, required or permitted to be given hereunder will be in writing and will be deemed to have been duly given when hand delivered or dispatched by electronic facsimile transmission (with receipt thereof orally confirmed), or five business days after having been mailed by United States registered or certified mail, return receipt requested, postage prepaid, or three business days after having been sent by a nationally recognized overnight courier service such as FedEx, UPS, or Purolator, addressed to the Company (to the attention of the Secretary of the Company, with a copy to the General Counsel of the Company) at its principal executive office and to the Executive at his principal residence, or to such other address as any party may have furnished to the other in writing and in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

## 11. Governing Law

THE VALIDITY, INTERPRETATION, CONSTRUCTION AND PERFORMANCE OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF DELAWARE.

## 12. Miscellaneous

No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by the Executive and the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement (or in any employment or other written agreement relating to the Executive). Notwithstanding any provision of this Agreement to the contrary, the parties' respective rights and obligations under Sections 4, 5 and 7 will survive any termination or expiration of this Agreement or the termination of the Executive's employment following a Change in Control for any reason whatsoever. Nothing expressed or implied in this Agreement will create any right or duty on the part of the Company or the Executive to have the Executive remain in the employment of the Company or any subsidiary prior to or following any Change in Control. The Company may withhold from any amounts payable under this Agreement all federal, state, city or other taxes as the Company is required to withhold pursuant to any law or government regulation or ruling. In the event that the Company refuses or otherwise fails to make a payment when due and it is ultimately decided that the Executive is entitled to such

payment, such payment shall be increased to reflect an interest factor, compounded annually, equal to the prime rate in effect as of the date the payment was first due plus two points. For this purpose, the prime rate shall be based on the rate identified by Chase Manhattan Bank as its prime rate.

### 13. Separability

The invalidity or unenforceability of any provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

### 14. Non-assignability

This Agreement is personal in nature and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder, except as provided in Section 9. Without limiting the foregoing, the Executive's right to receive payments hereunder shall not be assignable or transferable, whether by pledge, creation of a security interest or otherwise, other than a transfer by his will or by the laws of descent or distribution, and in the event of any attempted assignment or transfer by Executive contrary to this Section 14 the Company shall have no liability to pay any amount so attempted to be assigned or transferred to any person other than the Executive or, in the event of his death, his designated beneficiary or, in the absence of an effective beneficiary designation, the Executive's estate.

### 15. Effectiveness; Term

This Agreement will be effective and binding as of the date first above written immediately upon its execution, but, anything in this Agreement to the contrary notwithstanding, this Agreement will not be operative unless and until a Change in Control occurs. Upon the

occurrence of a Change in Control at any time during the Term (as defined below), without further action, this Agreement shall become immediately operative. For purposes of this Agreement, "Term" means the period commencing as of the date first above written and expiring as of the later of (i) the fifth anniversary of the date first above written or (ii) the second anniversary of the first occurrence of a Change in Control; provided, however, that (A) commencing on the fifth anniversary of the date first above written and each fifth anniversary date thereafter, the Term of this Agreement will automatically be extended for an additional five years unless, not later than 180 days preceding each such fifth anniversary date, the Company or the Executive shall have given notice that it or the Executive, as the case may be, does not wish to have the Term extended and (B) subject to Section 2(e), if, prior to a Change in Control, the Executive ceases for any reason to be an employee of the Company and any subsidiary, thereupon without further action the Term shall be deemed to have expired and this Agreement will immediately terminate and be of no further effect. For purposes of this Section 15, the Executive shall not be deemed to have ceased to be an employee of the Company and any subsidiary by reason of the transfer of Executive's employment between the Company and any subsidiary, or among any subsidiaries.

16 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same agreement.

17 Prior Agreement. This Agreement supersedes and terminates any and all prior Executive Termination Benefits Agreements by and among Company and the Executive.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered as of the day and year first above set forth, thereby mutually and voluntarily agreeing that this Agreement supersedes and replaces any prior similar agreements for such termination benefits.

AMR CORPORATION

By: /s/ Donald J. Carty  
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AMERICAN AIRLINES, INC.

By: /s/ Thomas J. Kiernan  
-----

PETER J. DOLARA

/s/ Peter J. Dolara  
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AMENDED AND RESTATED  
EXECUTIVE TERMINATION BENEFITS AGREEMENT

THIS AMENDED AND RESTATED EXECUTIVE TERMINATION BENEFITS AGREEMENT (this "Agreement"), dated as of the 21st day of May, 1998 is among AMR CORPORATION, a Delaware corporation, AMERICAN AIRLINES, INC., a Delaware corporation (collectively the "Company"), and DANIEL P. GARTON (the "Executive").

W I T N E S S E T H:

WHEREAS, the Company considers it essential to the best interests of the Company and its stockholders that its management be encouraged to remain with the Company and to continue to devote full attention to the Company's business in the event an effort is made to obtain control of the Company through a tender offer or otherwise;

WHEREAS, the Company recognizes that the possibility of a change in control and the uncertainty and questions which it may raise among management may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders;

WHEREAS, the Company's Board of Directors (the "Board") has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management to their assigned duties without distraction in the face of the potentially disturbing circumstances arising from the possibility of a change in control of the Company;

WHEREAS, the Executive is a key Executive of the Company;

WHEREAS, the Company believes the Executive has made valuable contributions to the productivity and profitability of the Company;

WHEREAS, should the Company receive any proposal from a third person concerning a possible business combination with or acquisition of equity securities of the Company, the Board believes it imperative that the Company and the Board be able to rely upon the Executive to continue in his position, and that the Company be able to receive and rely upon his advice as to the best interests of the Company and its stockholders without concern that he might be distracted by the personal uncertainties and risks created by such a proposal; and

WHEREAS, should the Company receive any such proposals, in addition to the Executive's regular duties, he may be called upon to assist in the assessment of such proposals, advise management and the Board as to whether such proposals would be in the best interests of the Company and its stockholders, and to take such other actions as the Board might determine to be appropriate.

NOW, THEREFORE, to assure the Company that it will have the continued undivided attention and services of the Executive and the availability of his advice and counsel notwithstanding the possibility, threat or occurrence of a bid to take over control of the Company, and to induce the Executive to remain in the employ of the Company, and for other good and valuable consideration, the Company and the Executive agree as follows:

1. Change in Control

For purposes of this Agreement, a Change in Control of the Company shall be deemed to have taken place if:

(a) any person as defined in Section 3(a)(9) of the Securities Exchange Act of 1934, as amended from time to time (the "Exchange Act"), and as used in Sections 13(d) and

14(d) thereof, including a "group" as defined in Section 13(d) of the Exchange Act (a "Person"), but excluding the Company, any subsidiary of the Company and any employee benefit plan sponsored or maintained by the Company or any subsidiary of the Company (including any trustee of such plan acting as trustee), directly or indirectly, becomes the "beneficial owner" (as defined in Rule 13(d)-3 under the Exchange Act, as amended from time to time) of securities of the Company representing 15% or more of the combined voting power of the Company's then outstanding securities; or

(b) individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of the assets of another corporation (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the then outstanding shares of common stock of the Company and the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors immediately prior to such Business Combination



beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries), (ii) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 15% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination, and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Incumbent Board, providing for such Business Combination; or

(d) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

2. Circumstances Triggering Receipt of Severance Benefits

(a) Subject to Section 2(c), the Company will provide the Executive with the benefits set forth in Section 4 upon any termination of the Executive's employment:

(i) by the Company at any time within the first 24 months after a Change in Control;

(ii) by the Executive for "Good Reason" (as defined in Section 2(b) below) at any time within the first 24 months after a Change in Control;

(iii) by the Executive pursuant to Section 2(d); or

(iv) by the Company or the Executive pursuant to Section 2(e).

(b) In the event of the occurrence of a Change in Control, the Executive may terminate employment with the Company and/or any subsidiary for "Good Reason" with the right to benefits set forth in Section 4 upon the occurrence of one or more of the following events (regardless of whether any other reason, other than Cause as provided below, for such termination exists or has occurred, including without limitation other employment):

(i) Failure to elect or reelect or otherwise to maintain the Executive in the office or the position, or a substantially equivalent office or position, of or with the Company and/or a subsidiary, as the case may be, which the Executive held immediately prior to a Change in Control, or the removal of the Executive as a director of the Company and/or a subsidiary (or any successor thereto) if the Executive shall have been a director of the Company and/or a subsidiary immediately prior to the Change in Control;

(ii) (A) A significant adverse change in the nature or scope of the authorities, powers, functions, responsibilities or duties attached to the position with the Company and/or any subsidiary which the Executive held immediately prior to the Change in Control, (B) a reduction in the aggregate of the Executive's annual base salary rate and annual incentive compensation target to be received from the Company and/or any subsidiary, or (C) the termination or denial of the Executive's rights to Employee Benefits (as defined below) or a reduction in the

scope or value thereof, any of which is not remedied by the Company within 10 calendar days after receipt by the Company of written notice from the Executive of such change, reduction or termination, as the case may be;

(iii) A determination by the Executive (which determination will be conclusive and binding upon the parties hereto provided it has been made in good faith and in all events will be presumed to have been made in good faith unless otherwise shown by the Company by clear and convincing evidence) that a change in circumstances has occurred following a Change in Control, including, without limitation, a change in the scope of the business or other activities for which the Executive was responsible immediately prior to the Change in Control, which has rendered the Executive substantially unable to carry out, has substantially hindered Executive's performance of, or has caused the Executive to suffer a substantial reduction in, any of the authorities, powers, functions, responsibilities or duties attached to the position held by the Executive immediately prior to the Change in Control, which situation is not remedied within 10 calendar days after written notice to the Company from the Executive of such determination;

(iv) The liquidation, dissolution, merger, consolidation or reorganization of the Company or transfer of all or substantially all of its business and/or assets, unless the successor or successors (by liquidation, merger, consolidation, reorganization, transfer or otherwise) to which all or substantially all of its business and/or assets have been transferred (directly or by operation of law) assumed all duties and obligations of the Company under this Agreement pursuant to Section 9(a);

(v) The Company relocates its principal executive offices, or requires the Executive to have his principal location of work changed, to any location that is in excess of 50 miles from the location thereof immediately prior to the Change in Control, or requires the Executive to travel away from his office in the course of discharging his responsibilities or duties hereunder at least 20% more (in terms of aggregate days in any calendar year or in any calendar quarter when annualized for purposes of comparison to any prior year) than was required of Executive in any of the three full years immediately prior to the Change in Control without, in either case, his prior written consent; or

(vi) Without limiting the generality or effect of the foregoing, any material breach of this Agreement by the Company or any successor thereto, which breach is not remedied within 10 calendar days after written notice to the Company from the Executive describing the nature of such breach.

(c) Notwithstanding Sections 2(a) and (b) above, no benefits shall be payable by reason of this Agreement in the event of:

(i) Termination of the Executive's employment with the Company and its subsidiaries by reason of the Executive's death or Disability, provided that the Executive has not previously given a valid "Notice of Termination" pursuant to Section 3. For purposes hereof, "Disability" shall be defined as the inability of Executive due to illness, accident or other physical or mental disability to perform his duties for any period of six consecutive months or for any period of eight

months out of any 12-month period, as determined by an independent physician selected by the Company and reasonably acceptable to the Executive (or his legal representative), provided that the Executive does not return to work on substantially a full-time basis within 30 days after written notice from the Company, pursuant to Section 3, of an intent to terminate the Executive's employment due to Disability;

(ii) Termination of the Executive's employment with the Company and its subsidiaries on account of the Executive's retirement at or after age 65, pursuant to the Company's Retirement Benefit Plan; or

(iii) Termination of the Executive's employment with the Company and its subsidiaries for Cause. For the purposes hereof, "Cause" shall be defined as a felony conviction of the Executive or the failure of the Executive to contest prosecution for a felony, or the Executive's wilful misconduct or dishonesty, any of which is directly and materially harmful to the business or reputation of the Company or any subsidiary or affiliate. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for "Cause" hereunder unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three quarters of the Board then in office at a meeting of the Board called and held for such purpose, after reasonable notice to the Executive and an opportunity for the Executive, together with his counsel (if the Executive chooses to have counsel present at such meeting), to be heard before the Board, finding that, in the good faith opinion of the Board, the Executive had committed an act constituting

"Cause" as herein defined and specifying the particulars thereof in detail. Nothing herein will limit the right of the Executive or his beneficiaries to contest the validity or propriety of any such determination.

This Section 2(c) shall not preclude the payment of any amounts otherwise payable to the Executive under any of the Company's employee benefit plans, stock plans, programs and arrangements and/or under any Employment Agreement.

(d) Notwithstanding anything contained in this Agreement to the contrary, in the event of a Change in Control, the Executive may terminate employment with the Company and any subsidiary for any reason, or without reason, by providing Notice of Termination pursuant to Section 3 during the 30-day period immediately following the first anniversary of the first occurrence of a Change in Control with the right to the benefits set forth in Section 4.

(e) Any termination of employment of the Executive, including a termination for "Good Reason," but excluding a termination for "Cause," or the removal of the Executive from the office or position in the Company or any subsidiary that occurs (i) not more than 180 days prior to the date on which a Change in Control occurs and (ii) following the commencement of any discussion with a third person that ultimately results in a Change in Control shall be deemed to be a termination or removal of the Executive after a Change in Control for purposes of this Agreement.

### 3. Notice of Termination

Any termination of the Executive's employment with the Company and its subsidiaries as contemplated by Section 2 shall be communicated by written "Notice of Termination" to the other party hereto. Any "Notice of Termination" shall indicate the effective date of termination which shall not be less than 30 days or more than 60 days after the date the Notice of

Termination is delivered (the "Termination Date"), the specific provision in this Agreement relied upon, and, except for a termination pursuant to Section 2(d), will set forth in reasonable detail the facts and circumstances claimed to provide a basis for such termination including, if applicable, the failure after provision of written notice by the Executive to effect a remedy pursuant to the final clause of Section 2(b)(ii), 2(b)(iii) or 2(b)(vi).

4. Termination Benefits

Subject to the conditions set forth in Section 2, the following benefits shall be paid or provided to the Executive:

(a) Compensation

The Company shall pay to the Executive three times the sum of (i) "Base Pay", which shall be an amount equal to the greater of (A) the Executive's effective annual base salary at the Termination Date or (B) the Executive's effective annual base salary immediately prior to the Change in Control, plus (ii) "Incentive Pay" equal to the greater of (x) the target annual bonus payable to the Executive under the Company's Incentive Compensation Plan or any other annual bonus plan for the fiscal year of the Company in which the Change in Control occurred or (y) the highest annual bonus earned by the Executive under the Company's Incentive Compensation Plan or any other annual bonus plan (whether paid currently or on a deferred basis) with respect to any 12 consecutive month period during the three fiscal years of the Company immediately preceding the fiscal year of the Company in which the Change in Control occurred, plus (iii) "Performance Returns" equal to the highest annual payment of performance returns paid to the Executive with respect to any 12 consecutive month period during the three fiscal years of the Company immediately preceding the fiscal year of the Company in which the Change in Control occurred.

## (b) Welfare Benefits

For a period of 36 months following the Termination Date (the "Continuation Period"), the Company shall arrange to provide the Executive with benefits, including travel accident, major medical, dental, vision care and other welfare benefit programs in effect immediately prior to the Change in Control ("Employee Benefits") substantially similar to those that the Executive was receiving or entitled to receive immediately prior to the Termination Date (or, if greater, immediately prior to the reduction, termination, or denial described in Section 2(b)(ii)(C)). If and to the extent that any benefit described in this Section 4(b) is not or cannot be paid or provided under any policy, plan, program or arrangement of the Company or any subsidiary, as the case may be, then the Company will itself pay or provide for the payment to the Executive, his dependents and beneficiaries, of such Employee Benefits along with, in the case of any benefit which is subject to tax because it is not or cannot be paid or provided under any such policy, plan, program or arrangement of the Company or any subsidiary, an additional amount such that after payment by the Executive, or his dependents or beneficiaries, as the case may be, of all taxes so imposed, the recipient retains an amount equal to such taxes. Employee Benefits otherwise receivable by the Executive pursuant to this Section 4(b) will be reduced to the extent comparable welfare benefits are actually received by the Executive from another employer during the Continuation Period, and any such benefits actually received by the Executive shall be reported by the Executive to the Company.

## (c) Retirement Benefits

The Executive shall be deemed to be completely vested in Executive's currently accrued benefits under the Company's Retirement Benefit Plan and Supplemental Executive Retirement Plan ("SERP") in effect as of the date of Change in Control (collectively, the



"Plans"), regardless of his actual vesting service credit thereunder. In addition, the Executive shall be deemed to earn service credit for benefit calculation purposes thereunder for the Continuation Period. Benefits under the Plans will become payable at any time designated by the Executive following termination of the Executive's employment with the Company and its subsidiaries after the Executive reaches age 55, subject to the terms of the Plans regarding the actuarial adjustment of benefit payments commencing prior to normal retirement age. The benefits to be paid pursuant to the Plans shall be calculated as though the Executive's compensation rate for each of the five years immediately preceding his retirement equaled the sum of Base Pay plus Incentive Pay plus Performance Returns. Any benefits payable pursuant to this Section 4(c) that are not payable out of the Plans for any reason (including but not limited to any applicable benefit limitations under the Employee Retirement Income Security Act of 1974, as amended, or any restrictions relating to the qualification of the Company's Retirement Benefit Plan under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code")) shall be paid directly by the Company out of its general assets.

(d) Relocation Benefits

If the Executive moves his residence in order to pursue other business or employment opportunities during the Continuation Period and requests in writing that the Company provide relocation services, he will be reimbursed for any expenses incurred in that initial relocation (including taxes payable on the reimbursement) which are not reimbursed by another employer. Benefits under this provision will include assistance in selling the Executive's home and all other assistance and benefits which were customarily provided by the Company to transferred executives prior to the Change in Control.

## (e) Executive Outplacement Counseling

At the request of the Executive made in writing during the Continuation Period, the Company shall engage an outplacement counseling service of national reputation to assist the Executive in obtaining employment.

## (f) Stock Based Compensation Plans

(i) Any issued and outstanding Stock Options (to the extent they have not already become exercisable) shall become exercisable as of the date on which the Change in Control occurs, unless otherwise specifically provided at the time such options are granted.

(ii) The Company's right to rescind any award of stock to the Executive under the Company's 1988 Long Term Incentive Plan or the Company's 1998 Long Term Incentive Plan (or any successor plan) shall terminate upon a Change in Control, and all restrictions on the sale, pledge, hypothecation or other disposition of shares of stock awarded pursuant to such plan shall be removed at the Termination Date, unless otherwise specifically provided at the time such award(s) are made.

(iii) The Executive's rights under any other stock based compensation plan shall vest (to the extent they have not already vested) and any performance criteria shall be deemed met at target as of the date on which a Change in Control occurs, unless otherwise specifically provided at the time such right(s) are granted.

## (g) Split Dollar Life Insurance

The Company shall pay to the Executive a lump sum equal to the cost on the Termination Date of purchasing, at standard independent insurance premium rates, an individual

paid up insurance policy providing benefits equal to the benefits provided by the Company's Split Dollar Life Insurance coverage immediately prior to the date of the Change in Control.

(h) Other Benefits

(i) The Executive shall have all flight privileges provided by the Company to Directors as of the date of Change in Control until the Executive reaches age 55, at which time he shall have all flight privileges provided by the Company to its retirees who held the same or similar position as the Executive immediately prior to the Change in Control.

(ii) The Executive, at the Executive's option, shall be entitled to continue the use of the Executive's Company-provided automobile during the Continuation Period under the same terms that applied to the automobile immediately prior to the Change in Control, or to purchase the automobile at its book value as of the Termination Date.

(iii) The Company shall pay to the Executive an amount equal to the cost to the Company of providing any other perquisites and benefits of the Company in effect immediately prior to the Change in Control, calculated as if such benefits were continued during the Continuation Period.

(i) Accrued Amounts

The Company shall pay to the Executive all other amounts accrued or earned by the Executive through the Termination Date and amounts otherwise owing under the then existing plans and policies of the Company, including but not limited to all amounts of compensation previously deferred by the Executive (together with any accrued interest thereon) and not yet paid by the Company, and any accrued vacation pay not yet paid by the Company.

(j) The Company shall pay to the Executive the amounts due pursuant to Sections 4(a), 4(g) and 4(h)(iii) in a lump sum on the first business day of the month following the Termination Date. The Company shall pay to the Executive the amounts due pursuant to Section 4(i) in accordance with the terms and conditions of the existing plans and policies of the Company.

5. Certain Additional Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding, but subject to Section 5(h), in the event that this Agreement shall become operative and it shall be determined (as hereafter provided) that any payment (other than the Gross-Up payments provided for in this Section 5) or distribution by the Company or any of its subsidiaries to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise pursuant to or by reason of any other agreement, policy, plan, program or arrangement, including without limitation any stock option, stock appreciation right or similar right, restricted stock, deferred stock or the lapse or termination of any restriction on, deferral period or the vesting or exercisability of any of the foregoing (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Code (or any successor provision thereto) by reason of being considered "contingent on a change in ownership or control" of the Company, within the meaning of Section 280G of the Code (or any successor provision thereto) or to any similar tax imposed by state or local law, or any interest or penalties with respect to such tax (such tax or taxes, together with any such interest and penalties, being hereafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment or payments (collectively, a "Gross-Up Payment"). The Gross-Up Payment shall be in an amount such that, after payment by the Executive of all taxes (including any interest or

penalties imposed with respect to such taxes), including any Excise Tax and any income tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payment.

(b) Subject to the provisions of Section 5(f), all determinations required to be made under this Section 5, including whether an Excise Tax is payable by the Executive and the amount of such Excise Tax and whether a Gross-Up Payment is required to be paid by the Company to the Executive and the amount of such Gross-Up Payment, if any, shall be made by a nationally recognized accounting firm (the "Accounting Firm") selected by the Executive in his sole discretion. The Executive shall direct the Accounting Firm to submit its determination and detailed supporting calculations to both the Company and the Executive within 30 calendar days after the Change in Control Date, the Termination Date, if applicable, and any such other time or times as may be requested by the Company or the Executive. If the Accounting Firm determines that any Excise Tax is payable by the Executive, the Company shall pay the required Gross-Up Payment to the Executive within five business days after receipt of such determination and calculations with respect to any Payment to the Executive. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall, at the same time as it makes such determination, furnish the Company and the Executive an opinion that the Executive has substantial authority not to report any Excise Tax on his federal, state or local income or other tax return. As a result of the uncertainty in the application of Section 4999 of the Code (or any successor provision thereto) and the possibility of similar uncertainty regarding applicable state or local tax law at the time of any determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made (an "Underpayment"), consistent with the calculations required to be made hereunder. In the

event that the Company exhausts or fails to pursue its remedies pursuant to Section 5(f) and the Executive thereafter is required to make a payment of any Excise Tax, the Executive shall direct the Accounting Firm to determine the amount of the Underpayment that has occurred and to submit its determination and detailed supporting calculations to both the Company and the Executive as promptly as possible. Any such Underpayment shall be promptly paid by the Company to, or for the benefit of, the Executive within five business days after receipt of such determination and calculations.

(c) The Company and the Executive shall each provide the Accounting Firm access to and copies of any books, records and documents in the possession of the Company or the Executive, as the case may be, reasonably requested by the Accounting Firm, and otherwise cooperate with the Accounting Firm in connection with the preparation and issuance of the determinations and calculations contemplated by Section 5(b). Any determination by the Accounting Firm as to the amount of the Gross-Up Payment shall be binding upon the Company and the Executive.

(d) The federal, state and local income or other tax returns filed by the Executive shall be prepared and filed on a consistent basis with the determination of the Accounting Firm with respect to the Excise Tax payable by the Executive. The Executive shall make proper payment of the amount of any Excise Payment, and at the request of the Company, provide to the Company true and correct copies (with any amendments) of his federal income tax return as filed with the Internal Revenue Service and corresponding state and local tax returns, if relevant, as filed with the applicable taxing authority, and such other documents reasonably requested by the Company, evidencing such payment. If prior to the filing of the Executive's federal income tax return, or corresponding state or local tax return, if relevant, the Accounting

Firm determines that the amount of the Gross-Up Payment should be reduced, the Executive shall within five business days pay to the Company the amount of such reduction.

(e) The fees and expenses of the Accounting Firm for its services in connection with the determinations and calculations contemplated by Section 5(b) shall be borne by the Company. If such fees and expenses are initially paid by the Executive, the Company shall reimburse the Executive the full amount of such fees and expenses within five business days after receipt from the Executive of a statement therefor and reasonable evidence of his payment thereof.

(f) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service or any other taxing authority that, if successful, would require the payment by the Company of a Gross-Up Payment or any additional Gross-Up Payment. Such notification shall be given as promptly as practicable but no later than 10 business days after the Executive actually receives notice of such claim and the Executive shall further apprise the Company of the nature of such claim and the date on which such claim is requested to be paid (in each case, to the extent known by the Executive). The Executive shall not pay such claim prior to the earlier of (x) the expiration of the 30-calendar-day period following the date on which he gives such notice to the Company and (y) the date that any payment of amount with respect to such claim is due. If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) provide the Company with any written records or documents in his possession relating to such claim reasonably requested by the Company;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including without

limitation accepting legal representation with respect to such claim by an attorney competent in respect of the subject matter and reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order effectively to contest such claim; and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including interest and penalties) incurred in connection with such contest and shall indemnify and hold harmless the Executive, on an after-tax basis, for and against any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such contest and payment of costs and expenses. Without limiting the foregoing provisions of this Section 5(f), the Company shall control all proceedings taken in connection with the contest of any claim contemplated by this Section 5(f) and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim (provided, however, that the Executive may participate therein at his own cost and expense) and may, at its option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay the tax claimed and sue for a refund, the Company shall advance the amount of such payment to the Executive on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any



Excise Tax or income or other tax, including interest or penalties with respect thereto, imposed with respect to such advance; and provided further, however, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which the contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of any such contested claim shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(g) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 5(f), the Executive receives any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 5(f)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after any taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 5(f), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial or refund prior to the expiration of 30 calendar days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of any such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid by the Company to the Executive pursuant to this Section 5.

(h) Notwithstanding any provision of this Agreement to the contrary, if (i) but for this sentence, the Company would be obligated to make a Gross-Up Payment to the Executive, (ii) the aggregate "present value" of the "parachute payments" to be paid or provided

to the Executive under this Agreement or otherwise does not exceed 1.15 multiplied by three times the Executive's "base amount," and (iii) but for this sentence, the net after-tax benefit to the Executive of the Gross-Up Payment would not exceed \$50,000 (taking into account both income taxes and any Excise Tax), then the payments and benefits to be paid or provided under this Agreement (including any stock based compensation pursuant to Section 4(f)) will be reduced to the minimum extent necessary (but in no event to less than zero) so that no portion of any payment or benefit to the Executive, as so reduced, constitutes an "excess parachute payment." For purposes of this Section 5(h), the terms "excess parachute payment," "present value," "parachute payment," and "base amount" will have the meanings assigned to them by Section 280G of the Code. The determination of whether any reduction in such payments or benefits to be provided under this Agreement is required pursuant to the preceding sentence will be made at the expense of the Company, if requested by the Executive or the Company, by the Accounting Firm. The fact that the Executive's right to payments or benefits may be reduced by reason of the limitations contained in this Section 5(h) will not of itself limit or otherwise affect any other rights of the Executive other than pursuant to this Agreement. In the event that any payment or benefit intended to be provided under this Agreement or otherwise is required to be reduced pursuant to this Section 5(h), the Executive will be entitled to designate the payments and/or benefits to be so reduced in order to give effect to this Section 5(h). The Company will provide the Executive with all information reasonably requested by the Executive to permit the Executive to make such designation. In the event that the Executive fails to make such designation within 10 business days of the Termination Date, the Company may effect such reduction in any manner it deems appropriate.

6. No Mitigation Obligation. The Company hereby acknowledges that it will be difficult and may be impossible for the Executive to find reasonably comparable employment following the Termination Date. Accordingly, the payment of the severance compensation by the Company to the Executive in accordance with the terms of this Agreement is hereby acknowledged by the Company to be reasonable, and the Executive will not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, nor will any profits, income, earnings or other benefits from any source whatsoever create any mitigation, offset, reduction or any other obligation on the part of the Executive hereunder or otherwise, except as expressly provided in the last sentence of Section 4(b).

7. Legal Fees and Expenses.

(a) It is the intent of the Company that the Executive not be required to incur legal fees and the related expenses associated with the interpretation, enforcement or defense of Executive's rights under this Agreement by litigation or otherwise because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Executive hereunder. Accordingly, if it should appear to the Executive that the Company has failed to comply with any of its obligations under this Agreement or in the event that the Company or any other person takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any litigation or other action or proceeding designed to deny, or to recover from, the Executive any or all of the benefits provided or intended to be provided to the Executive hereunder, the Company irrevocably authorizes the Executive from time to time to retain counsel of Executive's choice, at the expense of the Company as hereafter provided, to advise and represent the Executive in connection with any such interpretation, enforcement or

defense, including without limitation the initiation or defense of any litigation or other legal action, whether by or against the Company or any director, officer, stockholder or other person affiliated with the Company, in any jurisdiction. Notwithstanding any existing or prior attorney-client relationship between the Company and such counsel, the Company irrevocably consents to the Executive's entering into an attorney-client relationship with such counsel, and in that connection the Company and the Executive agree that a confidential relationship shall exist between the Executive and such counsel. Without respect to whether the Executive prevails, in whole or in part, in connection with any of the foregoing, the Company will pay and be solely financially responsible for any and all attorneys' and related fees and expenses incurred by the Executive in connection with any of the foregoing.

(b) Without limiting the obligations of the Company pursuant to Section 7(a) hereof, in the event a Change in Control occurs, the performance of the Company's obligations under this Section 7 shall be secured by amounts deposited or to be deposited in trust pursuant to certain trust agreements to which the Company shall be a party, which amounts deposited shall in the aggregate be not less than \$2,000,000, providing that the fees and expenses of counsel selected from time to time by the Executive pursuant to Section 7(a) shall be paid, or reimbursed to the Executive if paid by the Executive, either in accordance with the terms of such trust agreements, or, if not so provided, on a regular, periodic basis upon presentation by the Executive to the trustee of a statement or statements prepared by such counsel in accordance with its customary practices. Any failure by the Company to satisfy any of its obligations under this Section 7(b) shall not limit the rights of the Executive hereunder. Subject to the foregoing, the Executive shall have the status of a general unsecured creditor of the Company and shall have no right to, or security interest in, any assets of the Company or any subsidiary.

## 8. Continuing Obligations

(a) The Executive hereby agrees that all documents, records, techniques, business secrets and other information which have come into his possession from time to time during his employment with the Company shall be deemed to be confidential and proprietary to the Company and, except for personal documents and records of the Executive, shall be returned to the Company. The Executive further agrees to retain in confidence any confidential information known to him concerning the Company and its subsidiaries and their respective businesses so long as such information is not publicly disclosed, except that Executive may disclose any such information required to be disclosed in the normal course of his employment with the Company or pursuant to any court order or other legal process.

(b) The Executive hereby agrees that during the Continuation Period, he will not directly or indirectly solicit any employee of the Company or any of its subsidiaries or affiliated companies to join the employ of any entity that competes with the Company or any of its subsidiaries or affiliated companies.

## 9. Successors

(a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to the Executive to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of such successor entity to enter into such agreement prior to the effective date of any such succession (or, if later, within three business days after first receiving a written request for such agreement) shall constitute a breach of this Agreement and shall entitle the Executive to

terminate his employment pursuant to Section 2(a)(ii) and to receive the payments and benefits provided under Section 4. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which executes and delivers the Agreement provided for in this Section 9 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(b) This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive dies while any amounts are payable to him hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to his devisee, legatee or other designee or, if there is no such designee, to his estate.

#### 10. Notices

For all purposes of this Agreement, all communications, including without limitation notices, consents, requests or approvals, required or permitted to be given hereunder will be in writing and will be deemed to have been duly given when hand delivered or dispatched by electronic facsimile transmission (with receipt thereof orally confirmed), or five business days after having been mailed by United States registered or certified mail, return receipt requested, postage prepaid, or three business days after having been sent by a nationally recognized overnight courier service such as FedEx, UPS, or Purolator, addressed to the Company (to the attention of the Secretary of the Company, with a copy to the General Counsel of the Company) at its principal executive office and to the Executive at his principal residence, or to such other address as any party may have furnished to the other in writing and in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

## 11. Governing Law

THE VALIDITY, INTERPRETATION, CONSTRUCTION AND PERFORMANCE OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF DELAWARE.

## 12. Miscellaneous

No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by the Executive and the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement (or in any employment or other written agreement relating to the Executive). Notwithstanding any provision of this Agreement to the contrary, the parties' respective rights and obligations under Sections 4, 5 and 7 will survive any termination or expiration of this Agreement or the termination of the Executive's employment following a Change in Control for any reason whatsoever. Nothing expressed or implied in this Agreement will create any right or duty on the part of the Company or the Executive to have the Executive remain in the employment of the Company or any subsidiary prior to or following any Change in Control. The Company may withhold from any amounts payable under this Agreement all federal, state, city or other taxes as the Company is required to withhold pursuant to any law or government regulation or ruling. In the event that the Company refuses or otherwise fails to make a payment when due and it is ultimately decided that the Executive is entitled to such

payment, such payment shall be increased to reflect an interest factor, compounded annually, equal to the prime rate in effect as of the date the payment was first due plus two points. For this purpose, the prime rate shall be based on the rate identified by Chase Manhattan Bank as its prime rate.

13. Separability

The invalidity or unenforceability of any provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

14. Non-assignability

This Agreement is personal in nature and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder, except as provided in Section 9. Without limiting the foregoing, the Executive's right to receive payments hereunder shall not be assignable or transferable, whether by pledge, creation of a security interest or otherwise, other than a transfer by his will or by the laws of descent or distribution, and in the event of any attempted assignment or transfer by Executive contrary to this Section 14 the Company shall have no liability to pay any amount so attempted to be assigned or transferred to any person other than the Executive or, in the event of his death, his designated beneficiary or, in the absence of an effective beneficiary designation, the Executive's estate.

15. Effectiveness; Term

This Agreement will be effective and binding as of the date first above written immediately upon its execution, but, anything in this Agreement to the contrary notwithstanding, this Agreement will not be operative unless and until a Change in Control occurs. Upon the



occurrence of a Change in Control at any time during the Term (as defined below), without further action, this Agreement shall become immediately operative. For purposes of this Agreement, "Term" means the period commencing as of the date first above written and expiring as of the later of (i) the fifth anniversary of the date first above written or (ii) the second anniversary of the first occurrence of a Change in Control; provided, however, that (A) commencing on the fifth anniversary of the date first above written and each fifth anniversary date thereafter, the Term of this Agreement will automatically be extended for an additional five years unless, not later than 180 days preceding each such fifth anniversary date, the Company or the Executive shall have given notice that it or the Executive, as the case may be, does not wish to have the Term extended and (B) subject to Section 2(e), if, prior to a Change in Control, the Executive ceases for any reason to be an employee of the Company and any subsidiary, thereupon without further action the Term shall be deemed to have expired and this Agreement will immediately terminate and be of no further effect. For purposes of this Section 15, the Executive shall not be deemed to have ceased to be an employee of the Company and any subsidiary by reason of the transfer of Executive's employment between the Company and any subsidiary, or among any subsidiaries.

16 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same agreement.

17 Prior Agreement. This Agreement supersedes and terminates any and all prior Executive Termination Benefits Agreements by and among Company and the Executive.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered as of the day and year first above set forth, thereby mutually and voluntarily agreeing that this Agreement supersedes and replaces any prior similar agreements for such termination benefits.

AMR CORPORATION

By: /s/ Donald J. Carty  
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AMERICAN AIRLINES, INC.

By: /s/ Thomas J. Kiernan  
-----

DANIEL P. GARTON

/s/ Daniel P. Garton  
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AMENDED AND RESTATED  
EXECUTIVE TERMINATION BENEFITS AGREEMENT

THIS AMENDED AND RESTATED EXECUTIVE TERMINATION BENEFITS AGREEMENT (this "Agreement"), dated as of the 21st day of May, 1998 is among AMR CORPORATION, a Delaware corporation, AMERICAN AIRLINES, INC., a Delaware corporation (collectively the "Company"), and MICHAEL W. GUNN (the "Executive").

W I T N E S S E T H:

WHEREAS, the Company considers it essential to the best interests of the Company and its stockholders that its management be encouraged to remain with the Company and to continue to devote full attention to the Company's business in the event an effort is made to obtain control of the Company through a tender offer or otherwise;

WHEREAS, the Company recognizes that the possibility of a change in control and the uncertainty and questions which it may raise among management may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders;

WHEREAS, the Company's Board of Directors (the "Board") has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management to their assigned duties without distraction in the face of the potentially disturbing circumstances arising from the possibility of a change in control of the Company;

WHEREAS, the Executive is a key Executive of the Company;

WHEREAS, the Company believes the Executive has made valuable contributions to the productivity and profitability of the Company;

WHEREAS, should the Company receive any proposal from a third person concerning a possible business combination with or acquisition of equity securities of the Company, the Board believes it imperative that the Company and the Board be able to rely upon the Executive to continue in his position, and that the Company be able to receive and rely upon his advice as to the best interests of the Company and its stockholders without concern that he might be distracted by the personal uncertainties and risks created by such a proposal; and

WHEREAS, should the Company receive any such proposals, in addition to the Executive's regular duties, he may be called upon to assist in the assessment of such proposals, advise management and the Board as to whether such proposals would be in the best interests of the Company and its stockholders, and to take such other actions as the Board might determine to be appropriate.

NOW, THEREFORE, to assure the Company that it will have the continued undivided attention and services of the Executive and the availability of his advice and counsel notwithstanding the possibility, threat or occurrence of a bid to take over control of the Company, and to induce the Executive to remain in the employ of the Company, and for other good and valuable consideration, the Company and the Executive agree as follows:

1. Change in Control

For purposes of this Agreement, a Change in Control of the Company shall be deemed to have taken place if:

(a) any person as defined in Section 3(a)(9) of the Securities Exchange Act of 1934, as amended from time to time (the "Exchange Act"), and as used in Sections 13(d) and

14(d) thereof, including a "group" as defined in Section 13(d) of the Exchange Act (a "Person"), but excluding the Company, any subsidiary of the Company and any employee benefit plan sponsored or maintained by the Company or any subsidiary of the Company (including any trustee of such plan acting as trustee), directly or indirectly, becomes the "beneficial owner" (as defined in Rule 13(d)-3 under the Exchange Act, as amended from time to time) of securities of the Company representing 15% or more of the combined voting power of the Company's then outstanding securities; or

(b) individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of the assets of another corporation (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the then outstanding shares of common stock of the Company and the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors immediately prior to such Business Combination

beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries), (ii) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 15% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination, and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Incumbent Board, providing for such Business Combination; or

(d) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

## 2. Circumstances Triggering Receipt of Severance Benefits

(a) Subject to Section 2(c), the Company will provide the Executive with the benefits set forth in Section 4 upon any termination of the Executive's employment:

(i) by the Company at any time within the first 24 months after a Change in Control;

(ii) by the Executive for "Good Reason" (as defined in Section 2(b) below) at any time within the first 24 months after a Change in Control;

(iii) by the Executive pursuant to Section 2(d); or

(iv) by the Company or the Executive pursuant to Section 2(e).

(b) In the event of the occurrence of a Change in Control, the Executive may terminate employment with the Company and/or any subsidiary for "Good Reason" with the right to benefits set forth in Section 4 upon the occurrence of one or more of the following events (regardless of whether any other reason, other than Cause as provided below, for such termination exists or has occurred, including without limitation other employment):

(i) Failure to elect or reelect or otherwise to maintain the Executive in the office or the position, or a substantially equivalent office or position, of or with the Company and/or a subsidiary, as the case may be, which the Executive held immediately prior to a Change in Control, or the removal of the Executive as a director of the Company and/or a subsidiary (or any successor thereto) if the Executive shall have been a director of the Company and/or a subsidiary immediately prior to the Change in Control;

(ii) (A) A significant adverse change in the nature or scope of the authorities, powers, functions, responsibilities or duties attached to the position with the Company and/or any subsidiary which the Executive held immediately prior to the Change in Control, (B) a reduction in the aggregate of the Executive's annual base salary rate and annual incentive compensation target to be received from the Company and/or any subsidiary, or (C) the termination or denial of the Executive's rights to Employee Benefits (as defined below) or a reduction in the

scope or value thereof, any of which is not remedied by the Company within 10 calendar days after receipt by the Company of written notice from the Executive of such change, reduction or termination, as the case may be;

(iii) A determination by the Executive (which determination will be conclusive and binding upon the parties hereto provided it has been made in good faith and in all events will be presumed to have been made in good faith unless otherwise shown by the Company by clear and convincing evidence) that a change in circumstances has occurred following a Change in Control, including, without limitation, a change in the scope of the business or other activities for which the Executive was responsible immediately prior to the Change in Control, which has rendered the Executive substantially unable to carry out, has substantially hindered Executive's performance of, or has caused the Executive to suffer a substantial reduction in, any of the authorities, powers, functions, responsibilities or duties attached to the position held by the Executive immediately prior to the Change in Control, which situation is not remedied within 10 calendar days after written notice to the Company from the Executive of such determination;

(iv) The liquidation, dissolution, merger, consolidation or reorganization of the Company or transfer of all or substantially all of its business and/or assets, unless the successor or successors (by liquidation, merger, consolidation, reorganization, transfer or otherwise) to which all or substantially all of its business and/or assets have been transferred (directly or by operation of



law) assumed all duties and obligations of the Company under this Agreement pursuant to Section 9(a);

(v) The Company relocates its principal executive offices, or requires the Executive to have his principal location of work changed, to any location that is in excess of 50 miles from the location thereof immediately prior to the Change in Control, or requires the Executive to travel away from his office in the course of discharging his responsibilities or duties hereunder at least 20% more (in terms of aggregate days in any calendar year or in any calendar quarter when annualized for purposes of comparison to any prior year) than was required of Executive in any of the three full years immediately prior to the Change in Control without, in either case, his prior written consent; or

(vi) Without limiting the generality or effect of the foregoing, any material breach of this Agreement by the Company or any successor thereto, which breach is not remedied within 10 calendar days after written notice to the Company from the Executive describing the nature of such breach.

(c) Notwithstanding Sections 2(a) and (b) above, no benefits shall be payable by reason of this Agreement in the event of:

(i) Termination of the Executive's employment with the Company and its subsidiaries by reason of the Executive's death or Disability, provided that the Executive has not previously given a valid "Notice of Termination" pursuant to Section 3. For purposes hereof, "Disability" shall be defined as the inability of Executive due to illness, accident or other physical or mental disability to perform his duties for any period of six consecutive months or for any period of eight

months out of any 12-month period, as determined by an independent physician selected by the Company and reasonably acceptable to the Executive (or his legal representative), provided that the Executive does not return to work on substantially a full-time basis within 30 days after written notice from the Company, pursuant to Section 3, of an intent to terminate the Executive's employment due to Disability;

(ii) Termination of the Executive's employment with the Company and its subsidiaries on account of the Executive's retirement at or after age 65, pursuant to the Company's Retirement Benefit Plan; or

(iii) Termination of the Executive's employment with the Company and its subsidiaries for Cause. For the purposes hereof, "Cause" shall be defined as a felony conviction of the Executive or the failure of the Executive to contest prosecution for a felony, or the Executive's willful misconduct or dishonesty, any of which is directly and materially harmful to the business or reputation of the Company or any subsidiary or affiliate. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for "Cause" hereunder unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three quarters of the Board then in office at a meeting of the Board called and held for such purpose, after reasonable notice to the Executive and an opportunity for the Executive, together with his counsel (if the Executive chooses to have counsel present at such meeting), to be heard before the Board, finding that, in the good faith opinion of the Board, the Executive had committed an act constituting

"Cause" as herein defined and specifying the particulars thereof in detail. Nothing herein will limit the right of the Executive or his beneficiaries to contest the validity or propriety of any such determination.

This Section 2(c) shall not preclude the payment of any amounts otherwise payable to the Executive under any of the Company's employee benefit plans, stock plans, programs and arrangements and/or under any Employment Agreement.

(d) Notwithstanding anything contained in this Agreement to the contrary, in the event of a Change in Control, the Executive may terminate employment with the Company and any subsidiary for any reason, or without reason, by providing Notice of Termination pursuant to Section 3 during the 30-day period immediately following the first anniversary of the first occurrence of a Change in Control with the right to the benefits set forth in Section 4.

(e) Any termination of employment of the Executive, including a termination for "Good Reason," but excluding a termination for "Cause," or the removal of the Executive from the office or position in the Company or any subsidiary that occurs (i) not more than 180 days prior to the date on which a Change in Control occurs and (ii) following the commencement of any discussion with a third person that ultimately results in a Change in Control shall be deemed to be a termination or removal of the Executive after a Change in Control for purposes of this Agreement.

### 3. Notice of Termination

Any termination of the Executive's employment with the Company and its subsidiaries as contemplated by Section 2 shall be communicated by written "Notice of Termination" to the other party hereto. Any "Notice of Termination" shall indicate the effective date of termination which shall not be less than 30 days or more than 60 days after the date the Notice of

Termination is delivered (the "Termination Date"), the specific provision in this Agreement relied upon, and, except for a termination pursuant to Section 2(d), will set forth in reasonable detail the facts and circumstances claimed to provide a basis for such termination including, if applicable, the failure after provision of written notice by the Executive to effect a remedy pursuant to the final clause of Section 2(b)(ii), 2(b)(iii) or 2(b)(vi).

#### 4. Termination Benefits

Subject to the conditions set forth in Section 2, the following benefits shall be paid or provided to the Executive:

##### (a) Compensation

The Company shall pay to the Executive three times the sum of (i) "Base Pay", which shall be an amount equal to the greater of (A) the Executive's effective annual base salary at the Termination Date or (B) the Executive's effective annual base salary immediately prior to the Change in Control, plus (ii) "Incentive Pay" equal to the greater of (x) the target annual bonus payable to the Executive under the Company's Incentive Compensation Plan or any other annual bonus plan for the fiscal year of the Company in which the Change in Control occurred or (y) the highest annual bonus earned by the Executive under the Company's Incentive Compensation Plan or any other annual bonus plan (whether paid currently or on a deferred basis) with respect to any 12 consecutive month period during the three fiscal years of the Company immediately preceding the fiscal year of the Company in which the Change in Control occurred, plus (iii) "Performance Returns" equal to the highest annual payment of performance returns paid to the Executive with respect to any 12 consecutive month period during the three fiscal years of the Company immediately preceding the fiscal year of the Company in which the Change in Control occurred.

## (b) Welfare Benefits

For a period of 36 months following the Termination Date (the "Continuation Period"), the Company shall arrange to provide the Executive with benefits, including travel accident, major medical, dental, vision care and other welfare benefit programs in effect immediately prior to the Change in Control ("Employee Benefits") substantially similar to those that the Executive was receiving or entitled to receive immediately prior to the Termination Date (or, if greater, immediately prior to the reduction, termination, or denial described in Section 2(b)(ii)(C)). If and to the extent that any benefit described in this Section 4(b) is not or cannot be paid or provided under any policy, plan, program or arrangement of the Company or any subsidiary, as the case may be, then the Company will itself pay or provide for the payment to the Executive, his dependents and beneficiaries, of such Employee Benefits along with, in the case of any benefit which is subject to tax because it is not or cannot be paid or provided under any such policy, plan, program or arrangement of the Company or any subsidiary, an additional amount such that after payment by the Executive, or his dependents or beneficiaries, as the case may be, of all taxes so imposed, the recipient retains an amount equal to such taxes. Employee Benefits otherwise receivable by the Executive pursuant to this Section 4(b) will be reduced to the extent comparable welfare benefits are actually received by the Executive from another employer during the Continuation Period, and any such benefits actually received by the Executive shall be reported by the Executive to the Company.

## (c) Retirement Benefits

The Executive shall be deemed to be completely vested in Executive's currently accrued benefits under the Company's Retirement Benefit Plan and Supplemental Executive Retirement Plan ("SERP") in effect as of the date of Change in Control (collectively, the

"Plans"), regardless of his actual vesting service credit thereunder. In addition, the Executive shall be deemed to earn service credit for benefit calculation purposes thereunder for the Continuation Period. Benefits under the Plans will become payable at any time designated by the Executive following termination of the Executive's employment with the Company and its subsidiaries after the Executive reaches age 55, subject to the terms of the Plans regarding the actuarial adjustment of benefit payments commencing prior to normal retirement age. The benefits to be paid pursuant to the Plans shall be calculated as though the Executive's compensation rate for each of the five years immediately preceding his retirement equaled the sum of Base Pay plus Incentive Pay plus Performance Returns. Any benefits payable pursuant to this Section 4(c) that are not payable out of the Plans for any reason (including but not limited to any applicable benefit limitations under the Employee Retirement Income Security Act of 1974, as amended, or any restrictions relating to the qualification of the Company's Retirement Benefit Plan under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code")) shall be paid directly by the Company out of its general assets.

(d) Relocation Benefits

If the Executive moves his residence in order to pursue other business or employment opportunities during the Continuation Period and requests in writing that the Company provide relocation services, he will be reimbursed for any expenses incurred in that initial relocation (including taxes payable on the reimbursement) which are not reimbursed by another employer. Benefits under this provision will include assistance in selling the Executive's home and all other assistance and benefits which were customarily provided by the Company to transferred executives prior to the Change in Control.

(e) Executive Outplacement Counseling

At the request of the Executive made in writing during the Continuation Period, the Company shall engage an outplacement counseling service of national reputation to assist the Executive in obtaining employment.

(f) Stock Based Compensation Plans

(i) Any issued and outstanding Stock Options (to the extent they have not already become exercisable) shall become exercisable as of the date on which the Change in Control occurs, unless otherwise specifically provided at the time such options are granted.

(ii) The Company's right to rescind any award of stock to the Executive under the Company's 1988 Long Term Incentive Plan or the Company's 1998 Long Term Incentive Plan (or any successor plan) shall terminate upon a Change in Control, and all restrictions on the sale, pledge, hypothecation or other disposition of shares of stock awarded pursuant to such plan shall be removed at the Termination Date, unless otherwise specifically provided at the time such award(s) are made.

(iii) The Executive's rights under any other stock based compensation plan shall vest (to the extent they have not already vested) and any performance criteria shall be deemed met at target as of the date on which a Change in Control occurs, unless otherwise specifically provided at the time such right(s) are granted.

(g) Split Dollar Life Insurance

The Company shall pay to the Executive a lump sum equal to the cost on the Termination Date of purchasing, at standard independent insurance premium rates, an individual

paid up insurance policy providing benefits equal to the benefits provided by the Company's Split Dollar Life Insurance coverage immediately prior to the date of the Change in Control.

(h) Other Benefits

(i) The Executive shall have all flight privileges provided by the Company to Directors as of the date of Change in Control until the Executive reaches age 55, at which time he shall have all flight privileges provided by the Company to its retirees who held the same or similar position as the Executive immediately prior to the Change in Control.

(ii) The Executive, at the Executive's option, shall be entitled to continue the use of the Executive's Company-provided automobile during the Continuation Period under the same terms that applied to the automobile immediately prior to the Change in Control, or to purchase the automobile at its book value as of the Termination Date.

(iii) The Company shall pay to the Executive an amount equal to the cost to the Company of providing any other perquisites and benefits of the Company in effect immediately prior to the Change in Control, calculated as if such benefits were continued during the Continuation Period. (i) Accrued Amounts The Company shall pay to the Executive all other amounts accrued or earned by the Executive through the Termination Date and amounts otherwise owing under the then existing plans and policies of the Company, including but not limited to all amounts of compensation previously deferred by the Executive (together with any accrued interest thereon) and not yet paid by the Company, and any accrued vacation pay not yet paid by the Company.



(j) The Company shall pay to the Executive the amounts due pursuant to Sections 4(a), 4(g) and 4(h)(iii) in a lump sum on the first business day of the month following the Termination Date. The Company shall pay to the Executive the amounts due pursuant to Section 4(i) in accordance with the terms and conditions of the existing plans and policies of the Company.

5. Certain Additional Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding, but subject to Section 5(h), in the event that this Agreement shall become operative and it shall be determined (as hereafter provided) that any payment (other than the Gross-Up payments provided for in this Section 5) or distribution by the Company or any of its subsidiaries to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise pursuant to or by reason of any other agreement, policy, plan, program or arrangement, including without limitation any stock option, stock appreciation right or similar right, restricted stock, deferred stock or the lapse or termination of any restriction on, deferral period or the vesting or exercisability of any of the foregoing (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Code (or any successor provision thereto) by reason of being considered "contingent on a change in ownership or control" of the Company, within the meaning of Section 280G of the Code (or any successor provision thereto) or to any similar tax imposed by state or local law, or any interest or penalties with respect to such tax (such tax or taxes, together with any such interest and penalties, being hereafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment or payments (collectively, a "Gross-Up Payment"). The Gross-Up Payment shall be in an amount such that, after payment by the Executive of all taxes (including any interest or

penalties imposed with respect to such taxes), including any Excise Tax and any income tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payment.

(b) Subject to the provisions of Section 5(f), all determinations required to be made under this Section 5, including whether an Excise Tax is payable by the Executive and the amount of such Excise Tax and whether a Gross-Up Payment is required to be paid by the Company to the Executive and the amount of such Gross-Up Payment, if any, shall be made by a nationally recognized accounting firm (the "Accounting Firm") selected by the Executive in his sole discretion. The Executive shall direct the Accounting Firm to submit its determination and detailed supporting calculations to both the Company and the Executive within 30 calendar days after the Change in Control Date, the Termination Date, if applicable, and any such other time or times as may be requested by the Company or the Executive. If the Accounting Firm determines that any Excise Tax is payable by the Executive, the Company shall pay the required Gross-Up Payment to the Executive within five business days after receipt of such determination and calculations with respect to any Payment to the Executive. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall, at the same time as it makes such determination, furnish the Company and the Executive an opinion that the Executive has substantial authority not to report any Excise Tax on his federal, state or local income or other tax return. As a result of the uncertainty in the application of Section 4999 of the Code (or any successor provision thereto) and the possibility of similar uncertainty regarding applicable state or local tax law at the time of any determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made (an "Underpayment"), consistent with the calculations required to be made hereunder. In the

event that the Company exhausts or fails to pursue its remedies pursuant to Section 5(f) and the Executive thereafter is required to make a payment of any Excise Tax, the Executive shall direct the Accounting Firm to determine the amount of the Underpayment that has occurred and to submit its determination and detailed supporting calculations to both the Company and the Executive as promptly as possible. Any such Underpayment shall be promptly paid by the Company to, or for the benefit of, the Executive within five business days after receipt of such determination and calculations.

(c) The Company and the Executive shall each provide the Accounting Firm access to and copies of any books, records and documents in the possession of the Company or the Executive, as the case may be, reasonably requested by the Accounting Firm, and otherwise cooperate with the Accounting Firm in connection with the preparation and issuance of the determinations and calculations contemplated by Section 5(b). Any determination by the Accounting Firm as to the amount of the Gross-Up Payment shall be binding upon the Company and the Executive.

(d) The federal, state and local income or other tax returns filed by the Executive shall be prepared and filed on a consistent basis with the determination of the Accounting Firm with respect to the Excise Tax payable by the Executive. The Executive shall make proper payment of the amount of any Excise Payment, and at the request of the Company, provide to the Company true and correct copies (with any amendments) of his federal income tax return as filed with the Internal Revenue Service and corresponding state and local tax returns, if relevant, as filed with the applicable taxing authority, and such other documents reasonably requested by the Company, evidencing such payment. If prior to the filing of the Executive's federal income tax return, or corresponding state or local tax return, if relevant, the Accounting

Firm determines that the amount of the Gross-Up Payment should be reduced, the Executive shall within five business days pay to the Company the amount of such reduction.

(e) The fees and expenses of the Accounting Firm for its services in connection with the determinations and calculations contemplated by Section 5(b) shall be borne by the Company. If such fees and expenses are initially paid by the Executive, the Company shall reimburse the Executive the full amount of such fees and expenses within five business days after receipt from the Executive of a statement therefor and reasonable evidence of his payment thereof.

(f) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service or any other taxing authority that, if successful, would require the payment by the Company of a Gross-Up Payment or any additional Gross-Up Payment. Such notification shall be given as promptly as practicable but no later than 10 business days after the Executive actually receives notice of such claim and the Executive shall further apprise the Company of the nature of such claim and the date on which such claim is requested to be paid (in each case, to the extent known by the Executive). The Executive shall not pay such claim prior to the earlier of (x) the expiration of the 30-calendar-day period following the date on which he gives such notice to the Company and (y) the date that any payment of amount with respect to such claim is due. If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) provide the Company with any written records or documents in his possession relating to such claim reasonably requested by the Company;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including without

limitation accepting legal representation with respect to such claim by an attorney competent in respect of the subject matter and reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order effectively to contest such claim; and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including interest and penalties) incurred in connection with such contest and shall indemnify and hold harmless the Executive, on an after-tax basis, for and against any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such contest and payment of costs and expenses. Without limiting the foregoing provisions of this Section 5(f), the Company shall control all proceedings taken in connection with the contest of any claim contemplated by this Section 5(f) and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim (provided, however, that the Executive may participate therein at his own cost and expense) and may, at its option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay the tax claimed and sue for a refund, the Company shall advance the amount of such payment to the Executive on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any

Excise Tax or income or other tax, including interest or penalties with respect thereto, imposed with respect to such advance; and provided further, however, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which the contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of any such contested claim shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(g) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 5(f), the Executive receives any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 5(f)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after any taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 5(f), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial or refund prior to the expiration of 30 calendar days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of any such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid by the Company to the Executive pursuant to this Section 5.

(h) Notwithstanding any provision of this Agreement to the contrary, if (i) but for this sentence, the Company would be obligated to make a Gross-Up Payment to the Executive, (ii) the aggregate "present value" of the "parachute payments" to be paid or provided

to the Executive under this Agreement or otherwise does not exceed 1.15 multiplied by three times the Executive's "base amount," and (iii) but for this sentence, the net after-tax benefit to the Executive of the Gross-Up Payment would not exceed \$50,000 (taking into account both income taxes and any Excise Tax), then the payments and benefits to be paid or provided under this Agreement (including any stock based compensation pursuant to Section 4(f)) will be reduced to the minimum extent necessary (but in no event to less than zero) so that no portion of any payment or benefit to the Executive, as so reduced, constitutes an "excess parachute payment." For purposes of this Section 5(h), the terms "excess parachute payment," "present value," "parachute payment," and "base amount" will have the meanings assigned to them by Section 280G of the Code. The determination of whether any reduction in such payments or benefits to be provided under this Agreement is required pursuant to the preceding sentence will be made at the expense of the Company, if requested by the Executive or the Company, by the Accounting Firm. The fact that the Executive's right to payments or benefits may be reduced by reason of the limitations contained in this Section 5(h) will not of itself limit or otherwise affect any other rights of the Executive other than pursuant to this Agreement. In the event that any payment or benefit intended to be provided under this Agreement or otherwise is required to be reduced pursuant to this Section 5(h), the Executive will be entitled to designate the payments and/or benefits to be so reduced in order to give effect to this Section 5(h). The Company will provide the Executive with all information reasonably requested by the Executive to permit the Executive to make such designation. In the event that the Executive fails to make such designation within 10 business days of the Termination Date, the Company may effect such reduction in any manner it deems appropriate.

6. No Mitigation Obligation. The Company hereby acknowledges that it will be difficult and may be impossible for the Executive to find reasonably comparable employment following the Termination Date. Accordingly, the payment of the severance compensation by the Company to the Executive in accordance with the terms of this Agreement is hereby acknowledged by the Company to be reasonable, and the Executive will not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, nor will any profits, income, earnings or other benefits from any source whatsoever create any mitigation, offset, reduction or any other obligation on the part of the Executive hereunder or otherwise, except as expressly provided in the last sentence of Section 4(b).

7. Legal Fees and Expenses.

(a) It is the intent of the Company that the Executive not be required to incur legal fees and the related expenses associated with the interpretation, enforcement or defense of Executive's rights under this Agreement by litigation or otherwise because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Executive hereunder. Accordingly, if it should appear to the Executive that the Company has failed to comply with any of its obligations under this Agreement or in the event that the Company or any other person takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any litigation or other action or proceeding designed to deny, or to recover from, the Executive any or all of the benefits provided or intended to be provided to the Executive hereunder, the Company irrevocably authorizes the Executive from time to time to retain counsel of Executive's choice, at the expense of the Company as hereafter provided, to advise and represent the Executive in connection with any such interpretation, enforcement or



defense, including without limitation the initiation or defense of any litigation or other legal action, whether by or against the Company or any director, officer, stockholder or other person affiliated with the Company, in any jurisdiction. Notwithstanding any existing or prior attorney-client relationship between the Company and such counsel, the Company irrevocably consents to the Executive's entering into an attorney-client relationship with such counsel, and in that connection the Company and the Executive agree that a confidential relationship shall exist between the Executive and such counsel. Without respect to whether the Executive prevails, in whole or in part, in connection with any of the foregoing, the Company will pay and be solely financially responsible for any and all attorneys' and related fees and expenses incurred by the Executive in connection with any of the foregoing.

(b) Without limiting the obligations of the Company pursuant to Section 7(a) hereof, in the event a Change in Control occurs, the performance of the Company's obligations under this Section 7 shall be secured by amounts deposited or to be deposited in trust pursuant to certain trust agreements to which the Company shall be a party, which amounts deposited shall in the aggregate be not less than \$2,000,000, providing that the fees and expenses of counsel selected from time to time by the Executive pursuant to Section 7(a) shall be paid, or reimbursed to the Executive if paid by the Executive, either in accordance with the terms of such trust agreements, or, if not so provided, on a regular, periodic basis upon presentation by the Executive to the trustee of a statement or statements prepared by such counsel in accordance with its customary practices. Any failure by the Company to satisfy any of its obligations under this Section 7(b) shall not limit the rights of the Executive hereunder. Subject to the foregoing, the Executive shall have the status of a general unsecured creditor of the Company and shall have no right to, or security interest in, any assets of the Company or any subsidiary.

## 8. Continuing Obligations

(a) The Executive hereby agrees that all documents, records, techniques, business secrets and other information which have come into his possession from time to time during his employment with the Company shall be deemed to be confidential and proprietary to the Company and, except for personal documents and records of the Executive, shall be returned to the Company. The Executive further agrees to retain in confidence any confidential information known to him concerning the Company and its subsidiaries and their respective businesses so long as such information is not publicly disclosed, except that Executive may disclose any such information required to be disclosed in the normal course of his employment with the Company or pursuant to any court order or other legal process.

(b) The Executive hereby agrees that during the Continuation Period, he will not directly or indirectly solicit any employee of the Company or any of its subsidiaries or affiliated companies to join the employ of any entity that competes with the Company or any of its subsidiaries or affiliated companies.

## 9. Successors

(a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to the Executive to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of such successor entity to enter into such agreement prior to the effective date of any such succession (or, if later, within three business days after first receiving a written request for such agreement) shall constitute a breach of this Agreement and shall entitle the Executive to

terminate his employment pursuant to Section 2(a)(ii) and to receive the payments and benefits provided under Section 4. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which executes and delivers the Agreement provided for in this Section 9 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(b) This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive dies while any amounts are payable to him hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to his devisee, legatee or other designee or, if there is no such designee, to his estate.

#### 10. Notices

For all purposes of this Agreement, all communications, including without limitation notices, consents, requests or approvals, required or permitted to be given hereunder will be in writing and will be deemed to have been duly given when hand delivered or dispatched by electronic facsimile transmission (with receipt thereof orally confirmed), or five business days after having been mailed by United States registered or certified mail, return receipt requested, postage prepaid, or three business days after having been sent by a nationally recognized overnight courier service such as FedEx, UPS, or Purolator, addressed to the Company (to the attention of the Secretary of the Company, with a copy to the General Counsel of the Company) at its principal executive office and to the Executive at his principal residence, or to such other address as any party may have furnished to the other in writing and in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

## 11. Governing Law

THE VALIDITY, INTERPRETATION, CONSTRUCTION AND PERFORMANCE OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF DELAWARE.

## 12. Miscellaneous

No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by the Executive and the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement (or in any employment or other written agreement relating to the Executive). Notwithstanding any provision of this Agreement to the contrary, the parties' respective rights and obligations under Sections 4, 5 and 7 will survive any termination or expiration of this Agreement or the termination of the Executive's employment following a Change in Control for any reason whatsoever. Nothing expressed or implied in this Agreement will create any right or duty on the part of the Company or the Executive to have the Executive remain in the employment of the Company or any subsidiary prior to or following any Change in Control. The Company may withhold from any amounts payable under this Agreement all federal, state, city or other taxes as the Company is required to withhold pursuant to any law or government regulation or ruling. In the event that the Company refuses or otherwise fails to make a payment when due and it is ultimately decided that the Executive is entitled to such payment, such

payment shall be increased to reflect an interest factor, compounded annually, equal to the prime rate in effect as of the date the payment was first due plus two points. For this purpose, the prime rate shall be based on the rate identified by Chase Manhattan Bank as its prime rate.

### 13. Separability

The invalidity or unenforceability of any provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

### 14. Non-assignability

This Agreement is personal in nature and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder, except as provided in Section 9. Without limiting the foregoing, the Executive's right to receive payments hereunder shall not be assignable or transferable, whether by pledge, creation of a security interest or otherwise, other than a transfer by his will or by the laws of descent or distribution, and in the event of any attempted assignment or transfer by Executive contrary to this Section 14 the Company shall have no liability to pay any amount so attempted to be assigned or transferred to any person other than the Executive or, in the event of his death, his designated beneficiary or, in the absence of an effective beneficiary designation, the Executive's estate.

### 15. Effectiveness; Term

This Agreement will be effective and binding as of the date first above written immediately upon its execution, but, anything in this Agreement to the contrary notwithstanding, this Agreement will not be operative unless and until a Change in Control occurs. Upon the

occurrence of a Change in Control at any time during the Term (as defined below), without further action, this Agreement shall become immediately operative. For purposes of this Agreement, "Term" means the period commencing as of the date first above written and expiring as of the later of (i) the fifth anniversary of the date first above written or (ii) the second anniversary of the first occurrence of a Change in Control; provided, however, that (A) commencing on the fifth anniversary of the date first above written and each fifth anniversary date thereafter, the Term of this Agreement will automatically be extended for an additional five years unless, not later than 180 days preceding each such fifth anniversary date, the Company or the Executive shall have given notice that it or the Executive, as the case may be, does not wish to have the Term extended and (B) subject to Section 2(e), if, prior to a Change in Control, the Executive ceases for any reason to be an employee of the Company and any subsidiary, thereupon without further action the Term shall be deemed to have expired and this Agreement will immediately terminate and be of no further effect. For purposes of this Section 15, the Executive shall not be deemed to have ceased to be an employee of the Company and any subsidiary by reason of the transfer of Executive's employment between the Company and any subsidiary, or among any subsidiaries.

16. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same agreement.

17. Prior Agreement. This Agreement supersedes and terminates any and all prior Executive Termination Benefits Agreements by and among Company and the Executive.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered as of the day and year first above set forth, thereby mutually and voluntarily agreeing that this Agreement supersedes and replaces any prior similar agreements for such termination benefits.

AMR CORPORATION

By: /s/ Donald J. Carty  
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AMERICAN AIRLINES, INC.

By: /s/ Thomas J. Kiernan  
-----

MICHAEL W. GUNN

/s/ Michael W. Gunn  
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AMENDED AND RESTATED  
EXECUTIVE TERMINATION BENEFITS AGREEMENT

THIS AMENDED AND RESTATED EXECUTIVE TERMINATION BENEFITS AGREEMENT (this "Agreement"), dated as of the 21st day of May, 1998 is among AMR CORPORATION, a Delaware corporation, AMERICAN AIRLINES, INC., a Delaware corporation (collectively the "Company"), and THOMAS J. KIERNAN (the "Executive").

W I T N E S S E T H:

WHEREAS, the Company considers it essential to the best interests of the Company and its stockholders that its management be encouraged to remain with the Company and to continue to devote full attention to the Company's business in the event an effort is made to obtain control of the Company through a tender offer or otherwise;

WHEREAS, the Company recognizes that the possibility of a change in control and the uncertainty and questions which it may raise among management may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders;

WHEREAS, the Company's Board of Directors (the "Board") has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management to their assigned duties without distraction in the face of the potentially disturbing circumstances arising from the possibility of a change in control of the Company;

WHEREAS, the Executive is a key Executive of the Company;



WHEREAS, the Company believes the Executive has made valuable contributions to the productivity and profitability of the Company;

WHEREAS, should the Company receive any proposal from a third person concerning a possible business combination with or acquisition of equity securities of the Company, the Board believes it imperative that the Company and the Board be able to rely upon the Executive to continue in his position, and that the Company be able to receive and rely upon his advice as to the best interests of the Company and its stockholders without concern that he might be distracted by the personal uncertainties and risks created by such a proposal; and

WHEREAS, should the Company receive any such proposals, in addition to the Executive's regular duties, he may be called upon to assist in the assessment of such proposals, advise management and the Board as to whether such proposals would be in the best interests of the Company and its stockholders, and to take such other actions as the Board might determine to be appropriate.

NOW, THEREFORE, to assure the Company that it will have the continued undivided attention and services of the Executive and the availability of his advice and counsel notwithstanding the possibility, threat or occurrence of a bid to take over control of the Company, and to induce the Executive to remain in the employ of the Company, and for other good and valuable consideration, the Company and the Executive agree as follows:

1. Change in Control

For purposes of this Agreement, a Change in Control of the Company shall be deemed to have taken place if:

(a) any person as defined in Section 3(a)(9) of the Securities Exchange Act of 1934, as amended from time to time (the "Exchange Act"), and as used in Sections 13(d) and

14(d) thereof, including a "group" as defined in Section 13(d) of the Exchange Act (a "Person"), but excluding the Company, any subsidiary of the Company and any employee benefit plan sponsored or maintained by the Company or any subsidiary of the Company (including any trustee of such plan acting as trustee), directly or indirectly, becomes the "beneficial owner" (as defined in Rule 13(d)-3 under the Exchange Act, as amended from time to time) of securities of the Company representing 15% or more of the combined voting power of the Company's then outstanding securities; or

(b) individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of the assets of another corporation (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the then outstanding shares of common stock of the Company and the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors immediately prior to such Business Combination

beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries), (ii) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 15% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination, and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Incumbent Board, providing for such Business Combination; or

(d) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

2. Circumstances Triggering Receipt of Severance Benefits

(a) Subject to Section 2(c), the Company will provide the Executive with the benefits set forth in Section 4 upon any termination of the Executive's employment:

(i) by the Company at any time within the first 24 months after a Change in Control;

(ii) by the Executive for "Good Reason" (as defined in Section 2(b) below) at any time within the first 24 months after a Change in Control;

(iii) by the Executive pursuant to Section 2(d); or

(iv) by the Company or the Executive pursuant to Section 2(e).

(b) In the event of the occurrence of a Change in Control, the Executive may terminate employment with the Company and/or any subsidiary for "Good Reason" with the right to benefits set forth in Section 4 upon the occurrence of one or more of the following events (regardless of whether any other reason, other than Cause as provided below, for such termination exists or has occurred, including without limitation other employment):

(i) Failure to elect or reelect or otherwise to maintain the Executive in the office or the position, or a substantially equivalent office or position, of or with the Company and/or a subsidiary, as the case may be, which the Executive held immediately prior to a Change in Control, or the removal of the Executive as a director of the Company and/or a subsidiary (or any successor thereto) if the Executive shall have been a director of the Company and/or a subsidiary immediately prior to the Change in Control;

(ii) (A) A significant adverse change in the nature or scope of the authorities, powers, functions, responsibilities or duties attached to the position with the Company and/or any subsidiary which the Executive held immediately prior to the Change in Control, (B) a reduction in the aggregate of the Executive's annual base salary rate and annual incentive compensation target to be received from the Company and/or any subsidiary, or (C) the termination or denial of the Executive's rights to Employee Benefits (as defined below) or a reduction in the

scope or value thereof, any of which is not remedied by the Company within 10 calendar days after receipt by the Company of written notice from the Executive of such change, reduction or termination, as the case may be;

(iii) A determination by the Executive (which determination will be conclusive and binding upon the parties hereto provided it has been made in good faith and in all events will be presumed to have been made in good faith unless otherwise shown by the Company by clear and convincing evidence) that a change in circumstances has occurred following a Change in Control, including, without limitation, a change in the scope of the business or other activities for which the Executive was responsible immediately prior to the Change in Control, which has rendered the Executive substantially unable to carry out, has substantially hindered Executive's performance of, or has caused the Executive to suffer a substantial reduction in, any of the authorities, powers, functions, responsibilities or duties attached to the position held by the Executive immediately prior to the Change in Control, which situation is not remedied within 10 calendar days after written notice to the Company from the Executive of such determination;

(iv) The liquidation, dissolution, merger, consolidation or reorganization of the Company or transfer of all or substantially all of its business and/or assets, unless the successor or successors (by liquidation, merger, consolidation, reorganization, transfer or otherwise) to which all or substantially all of its business and/or assets have been transferred (directly or by operation of

law) assumed all duties and obligations of the Company under this Agreement pursuant to Section 9(a);

(v) The Company relocates its principal executive offices, or requires the Executive to have his principal location of work changed, to any location that is in excess of 50 miles from the location thereof immediately prior to the Change in Control, or requires the Executive to travel away from his office in the course of discharging his responsibilities or duties hereunder at least 20% more (in terms of aggregate days in any calendar year or in any calendar quarter when annualized for purposes of comparison to any prior year) than was required of Executive in any of the three full years immediately prior to the Change in Control without, in either case, his prior written consent; or

(vi) Without limiting the generality or effect of the foregoing, any material breach of this Agreement by the Company or any successor thereto, which breach is not remedied within 10 calendar days after written notice to the Company from the Executive describing the nature of such breach.

(c) Notwithstanding Sections 2(a) and (b) above, no benefits shall be payable by reason of this Agreement in the event of:

(i) Termination of the Executive's employment with the Company and its subsidiaries by reason of the Executive's death or Disability, provided that the Executive has not previously given a valid "Notice of Termination" pursuant to Section 3. For purposes hereof, "Disability" shall be defined as the inability of Executive due to illness, accident or other physical or mental disability to perform his duties for any period of six consecutive months or for any period of eight

months out of any 12-month period, as determined by an independent physician selected by the Company and reasonably acceptable to the Executive (or his legal representative), provided that the Executive does not return to work on substantially a full-time basis within 30 days after written notice from the Company, pursuant to Section 3, of an intent to terminate the Executive's employment due to Disability;

(ii) Termination of the Executive's employment with the Company and its subsidiaries on account of the Executive's retirement at or after age 65, pursuant to the Company's Retirement Benefit Plan; or

(iii) Termination of the Executive's employment with the Company and its subsidiaries for Cause. For the purposes hereof, "Cause" shall be defined as a felony conviction of the Executive or the failure of the Executive to contest prosecution for a felony, or the Executive's wilful misconduct or dishonesty, any of which is directly and materially harmful to the business or reputation of the Company or any subsidiary or affiliate. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for "Cause" hereunder unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three quarters of the Board then in office at a meeting of the Board called and held for such purpose, after reasonable notice to the Executive and an opportunity for the Executive, together with his counsel (if the Executive chooses to have counsel present at such meeting), to be heard before the Board, finding that, in the good faith opinion of the Board, the Executive had committed an act constituting

"Cause" as herein defined and specifying the particulars thereof in detail. Nothing herein will limit the right of the Executive or his beneficiaries to contest the validity or propriety of any such determination.

This Section 2(c) shall not preclude the payment of any amounts otherwise payable to the Executive under any of the Company's employee benefit plans, stock plans, programs and arrangements and/or under any Employment Agreement.

(d) Notwithstanding anything contained in this Agreement to the contrary, in the event of a Change in Control, the Executive may terminate employment with the Company and any subsidiary for any reason, or without reason, by providing Notice of Termination pursuant to Section 3 during the 30-day period immediately following the first anniversary of the first occurrence of a Change in Control with the right to the benefits set forth in Section 4.

(e) Any termination of employment of the Executive, including a termination for "Good Reason," but excluding a termination for "Cause," or the removal of the Executive from the office or position in the Company or any subsidiary that occurs (i) not more than 180 days prior to the date on which a Change in Control occurs and (ii) following the commencement of any discussion with a third person that ultimately results in a Change in Control shall be deemed to be a termination or removal of the Executive after a Change in Control for purposes of this Agreement.

### 3. Notice of Termination

Any termination of the Executive's employment with the Company and its subsidiaries as contemplated by Section 2 shall be communicated by written "Notice of Termination" to the other party hereto. Any "Notice of Termination" shall indicate the effective date of termination which shall not be less than 30 days or more than 60 days after the date the Notice of



Termination is delivered (the "Termination Date"), the specific provision in this Agreement relied upon, and, except for a termination pursuant to Section 2(d), will set forth in reasonable detail the facts and circumstances claimed to provide a basis for such termination including, if applicable, the failure after provision of written notice by the Executive to effect a remedy pursuant to the final clause of Section 2(b)(ii), 2(b)(iii) or 2(b)(vi).

4. Termination Benefits

Subject to the conditions set forth in Section 2, the following benefits shall be paid or provided to the Executive:

(a) Compensation

The Company shall pay to the Executive three times the sum of (i) "Base Pay", which shall be an amount equal to the greater of (A) the Executive's effective annual base salary at the Termination Date or (B) the Executive's effective annual base salary immediately prior to the Change in Control, plus (ii) "Incentive Pay" equal to the greater of (x) the target annual bonus payable to the Executive under the Company's Incentive Compensation Plan or any other annual bonus plan for the fiscal year of the Company in which the Change in Control occurred or (y) the highest annual bonus earned by the Executive under the Company's Incentive Compensation Plan or any other annual bonus plan (whether paid currently or on a deferred basis) with respect to any 12 consecutive month period during the three fiscal years of the Company immediately preceding the fiscal year of the Company in which the Change in Control occurred, plus (iii) "Performance Returns" equal to the highest annual payment of performance returns paid to the Executive with respect to any 12 consecutive month period during the three fiscal years of the Company immediately preceding the fiscal year of the Company in which the Change in Control occurred.

## (b) Welfare Benefits

For a period of 36 months following the Termination Date (the "Continuation Period"), the Company shall arrange to provide the Executive with benefits, including travel accident, major medical, dental, vision care and other welfare benefit programs in effect immediately prior to the Change in Control ("Employee Benefits") substantially similar to those that the Executive was receiving or entitled to receive immediately prior to the Termination Date (or, if greater, immediately prior to the reduction, termination, or denial described in Section 2(b)(ii)(C)). If and to the extent that any benefit described in this Section 4(b) is not or cannot be paid or provided under any policy, plan, program or arrangement of the Company or any subsidiary, as the case may be, then the Company will itself pay or provide for the payment to the Executive, his dependents and beneficiaries, of such Employee Benefits along with, in the case of any benefit which is subject to tax because it is not or cannot be paid or provided under any such policy, plan, program or arrangement of the Company or any subsidiary, an additional amount such that after payment by the Executive, or his dependents or beneficiaries, as the case may be, of all taxes so imposed, the recipient retains an amount equal to such taxes. Employee Benefits otherwise receivable by the Executive pursuant to this Section 4(b) will be reduced to the extent comparable welfare benefits are actually received by the Executive from another employer during the Continuation Period, and any such benefits actually received by the Executive shall be reported by the Executive to the Company.

## (c) Retirement Benefits

The Executive shall be deemed to be completely vested in Executive's currently accrued benefits under the Company's Retirement Benefit Plan and Supplemental Executive Retirement Plan ("SERP") in effect as of the date of Change in Control (collectively, the

"Plans"), regardless of his actual vesting service credit thereunder. In addition, the Executive shall be deemed to earn service credit for benefit calculation purposes thereunder for the Continuation Period. Benefits under the Plans will become payable at any time designated by the Executive following termination of the Executive's employment with the Company and its subsidiaries after the Executive reaches age 55, subject to the terms of the Plans regarding the actuarial adjustment of benefit payments commencing prior to normal retirement age. The benefits to be paid pursuant to the Plans shall be calculated as though the Executive's compensation rate for each of the five years immediately preceding his retirement equaled the sum of Base Pay plus Incentive Pay plus Performance Returns. Any benefits payable pursuant to this Section 4(c) that are not payable out of the Plans for any reason (including but not limited to any applicable benefit limitations under the Employee Retirement Income Security Act of 1974, as amended, or any restrictions relating to the qualification of the Company's Retirement Benefit Plan under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code")) shall be paid directly by the Company out of its general assets.

(d) Relocation Benefits

If the Executive moves his residence in order to pursue other business or employment opportunities during the Continuation Period and requests in writing that the Company provide relocation services, he will be reimbursed for any expenses incurred in that initial relocation (including taxes payable on the reimbursement) which are not reimbursed by another employer. Benefits under this provision will include assistance in selling the Executive's home and all other assistance and benefits which were customarily provided by the Company to transferred executives prior to the Change in Control.

(e) Executive Outplacement Counseling

At the request of the Executive made in writing during the Continuation Period, the Company shall engage an outplacement counseling service of national reputation to assist the Executive in obtaining employment.

(f) Stock Based Compensation Plans

(i) Any issued and outstanding Stock Options (to the extent they have not already become exercisable) shall become exercisable as of the date on which the Change in Control occurs, unless otherwise specifically provided at the time such options are granted.

(ii) The Company's right to rescind any award of stock to the Executive under the Company's 1988 Long Term Incentive Plan or the Company's 1998 Long Term Incentive Plan (or any successor plan) shall terminate upon a Change in Control, and all restrictions on the sale, pledge, hypothecation or other disposition of shares of stock awarded pursuant to such plan shall be removed at the Termination Date, unless otherwise specifically provided at the time such award(s) are made.

(iii) The Executive's rights under any other stock based compensation plan shall vest (to the extent they have not already vested) and any performance criteria shall be deemed met at target as of the date on which a Change in Control occurs, unless otherwise specifically provided at the time such right(s) are granted.

(g) Split Dollar Life Insurance

The Company shall pay to the Executive a lump sum equal to the cost on the Termination Date of purchasing, at standard independent insurance premium rates, an individual

paid up insurance policy providing benefits equal to the benefits provided by the Company's Split Dollar Life Insurance coverage immediately prior to the date of the Change in Control.

(h) Other Benefits

(i) The Executive shall have all flight privileges provided by the Company to Directors as of the date of Change in Control until the Executive reaches age 55, at which time he shall have all flight privileges provided by the Company to its retirees who held the same or similar position as the Executive immediately prior to the Change in Control.

(ii) The Executive, at the Executive's option, shall be entitled to continue the use of the Executive's Company-provided automobile during the Continuation Period under the same terms that applied to the automobile immediately prior to the Change in Control, or to purchase the automobile at its book value as of the Termination Date.

(iii) The Company shall pay to the Executive an amount equal to the cost to the Company of providing any other perquisites and benefits of the Company in effect immediately prior to the Change in Control, calculated as if such benefits were continued during the Continuation Period.

(i) Accrued Amounts

The Company shall pay to the Executive all other amounts accrued or earned by the Executive through the Termination Date and amounts otherwise owing under the then existing plans and policies of the Company, including but not limited to all amounts of compensation previously deferred by the Executive (together with any accrued interest thereon) and not yet paid by the Company, and any accrued vacation pay not yet paid by the Company.

(j) The Company shall pay to the Executive the amounts due pursuant to Sections 4(a), 4(g) and 4(h)(iii) in a lump sum on the first business day of the month following the Termination Date. The Company shall pay to the Executive the amounts due pursuant to Section 4(i) in accordance with the terms and conditions of the existing plans and policies of the Company.

5. Certain Additional Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding, but subject to Section 5(h), in the event that this Agreement shall become operative and it shall be determined (as hereafter provided) that any payment (other than the Gross-Up payments provided for in this Section 5) or distribution by the Company or any of its subsidiaries to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise pursuant to or by reason of any other agreement, policy, plan, program or arrangement, including without limitation any stock option, stock appreciation right or similar right, restricted stock, deferred stock or the lapse or termination of any restriction on, deferral period or the vesting or exercisability of any of the foregoing (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Code (or any successor provision thereto) by reason of being considered "contingent on a change in ownership or control" of the Company, within the meaning of Section 280G of the Code (or any successor provision thereto) or to any similar tax imposed by state or local law, or any interest or penalties with respect to such tax (such tax or taxes, together with any such interest and penalties, being hereafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment or payments (collectively, a "Gross-Up Payment"). The Gross-Up Payment shall be in an amount such that, after payment by the Executive of all taxes (including any interest or

penalties imposed with respect to such taxes), including any Excise Tax and any income tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payment.

(b) Subject to the provisions of Section 5(f), all determinations required to be made under this Section 5, including whether an Excise Tax is payable by the Executive and the amount of such Excise Tax and whether a Gross-Up Payment is required to be paid by the Company to the Executive and the amount of such Gross-Up Payment, if any, shall be made by a nationally recognized accounting firm (the "Accounting Firm") selected by the Executive in his sole discretion. The Executive shall direct the Accounting Firm to submit its determination and detailed supporting calculations to both the Company and the Executive within 30 calendar days after the Change in Control Date, the Termination Date, if applicable, and any such other time or times as may be requested by the Company or the Executive. If the Accounting Firm determines that any Excise Tax is payable by the Executive, the Company shall pay the required Gross-Up Payment to the Executive within five business days after receipt of such determination and calculations with respect to any Payment to the Executive. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall, at the same time as it makes such determination, furnish the Company and the Executive an opinion that the Executive has substantial authority not to report any Excise Tax on his federal, state or local income or other tax return. As a result of the uncertainty in the application of Section 4999 of the Code (or any successor provision thereto) and the possibility of similar uncertainty regarding applicable state or local tax law at the time of any determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made (an "Underpayment"), consistent with the calculations required to be made hereunder. In the

event that the Company exhausts or fails to pursue its remedies pursuant to Section 5(f) and the Executive thereafter is required to make a payment of any Excise Tax, the Executive shall direct the Accounting Firm to determine the amount of the Underpayment that has occurred and to submit its determination and detailed supporting calculations to both the Company and the Executive as promptly as possible. Any such Underpayment shall be promptly paid by the Company to, or for the benefit of, the Executive within five business days after receipt of such determination and calculations.

(c) The Company and the Executive shall each provide the Accounting Firm access to and copies of any books, records and documents in the possession of the Company or the Executive, as the case may be, reasonably requested by the Accounting Firm, and otherwise cooperate with the Accounting Firm in connection with the preparation and issuance of the determinations and calculations contemplated by Section 5(b). Any determination by the Accounting Firm as to the amount of the Gross-Up Payment shall be binding upon the Company and the Executive.

(d) The federal, state and local income or other tax returns filed by the Executive shall be prepared and filed on a consistent basis with the determination of the Accounting Firm with respect to the Excise Tax payable by the Executive. The Executive shall make proper payment of the amount of any Excise Payment, and at the request of the Company, provide to the Company true and correct copies (with any amendments) of his federal income tax return as filed with the Internal Revenue Service and corresponding state and local tax returns, if relevant, as filed with the applicable taxing authority, and such other documents reasonably requested by the Company, evidencing such payment. If prior to the filing of the Executive's federal income tax return, or corresponding state or local tax return, if relevant, the Accounting



Firm determines that the amount of the Gross-Up Payment should be reduced, the Executive shall within five business days pay to the Company the amount of such reduction.

(e) The fees and expenses of the Accounting Firm for its services in connection with the determinations and calculations contemplated by Section 5(b) shall be borne by the Company. If such fees and expenses are initially paid by the Executive, the Company shall reimburse the Executive the full amount of such fees and expenses within five business days after receipt from the Executive of a statement therefor and reasonable evidence of his payment thereof.

(f) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service or any other taxing authority that, if successful, would require the payment by the Company of a Gross-Up Payment or any additional Gross-Up Payment. Such notification shall be given as promptly as practicable but no later than 10 business days after the Executive actually receives notice of such claim and the Executive shall further apprise the Company of the nature of such claim and the date on which such claim is requested to be paid (in each case, to the extent known by the Executive). The Executive shall not pay such claim prior to the earlier of (x) the expiration of the 30-calendar-day period following the date on which he gives such notice to the Company and (y) the date that any payment of amount with respect to such claim is due. If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) provide the Company with any written records or documents in his possession relating to such claim reasonably requested by the Company;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including without

limitation accepting legal representation with respect to such claim by an attorney competent in respect of the subject matter and reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order effectively to contest such claim; and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including interest and penalties) incurred in connection with such contest and shall indemnify and hold harmless the Executive, on an after-tax basis, for and against any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such contest and payment of costs and expenses. Without limiting the foregoing provisions of this Section 5(f), the Company shall control all proceedings taken in connection with the contest of any claim contemplated by this Section 5(f) and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim (provided, however, that the Executive may participate therein at his own cost and expense) and may, at its option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay the tax claimed and sue for a refund, the Company shall advance the amount of such payment to the Executive on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any

Excise Tax or income or other tax, including interest or penalties with respect thereto, imposed with respect to such advance; and provided further, however, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which the contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of any such contested claim shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(g) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 5(f), the Executive receives any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 5(f)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after any taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 5(f), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial or refund prior to the expiration of 30 calendar days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of any such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid by the Company to the Executive pursuant to this Section 5.

(h) Notwithstanding any provision of this Agreement to the contrary, if (i) but for this sentence, the Company would be obligated to make a Gross-Up Payment to the Executive, (ii) the aggregate "present value" of the "parachute payments" to be paid or provided

to the Executive under this Agreement or otherwise does not exceed 1.15 multiplied by three times the Executive's "base amount," and (iii) but for this sentence, the net after-tax benefit to the Executive of the Gross-Up Payment would not exceed \$50,000 (taking into account both income taxes and any Excise Tax), then the payments and benefits to be paid or provided under this Agreement (including any stock based compensation pursuant to Section 4(f)) will be reduced to the minimum extent necessary (but in no event to less than zero) so that no portion of any payment or benefit to the Executive, as so reduced, constitutes an "excess parachute payment." For purposes of this Section 5(h), the terms "excess parachute payment," "present value," "parachute payment," and "base amount" will have the meanings assigned to them by Section 280G of the Code. The determination of whether any reduction in such payments or benefits to be provided under this Agreement is required pursuant to the preceding sentence will be made at the expense of the Company, if requested by the Executive or the Company, by the Accounting Firm. The fact that the Executive's right to payments or benefits may be reduced by reason of the limitations contained in this Section 5(h) will not of itself limit or otherwise affect any other rights of the Executive other than pursuant to this Agreement. In the event that any payment or benefit intended to be provided under this Agreement or otherwise is required to be reduced pursuant to this Section 5(h), the Executive will be entitled to designate the payments and/or benefits to be so reduced in order to give effect to this Section 5(h). The Company will provide the Executive with all information reasonably requested by the Executive to permit the Executive to make such designation. In the event that the Executive fails to make such designation within 10 business days of the Termination Date, the Company may effect such reduction in any manner it deems appropriate.

6. No Mitigation Obligation. The Company hereby acknowledges that it will be difficult and may be impossible for the Executive to find reasonably comparable employment following the Termination Date. Accordingly, the payment of the severance compensation by the Company to the Executive in accordance with the terms of this Agreement is hereby acknowledged by the Company to be reasonable, and the Executive will not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, nor will any profits, income, earnings or other benefits from any source whatsoever create any mitigation, offset, reduction or any other obligation on the part of the Executive hereunder or otherwise, except as expressly provided in the last sentence of Section 4(b).

7. Legal Fees and Expenses.

(a) It is the intent of the Company that the Executive not be required to incur legal fees and the related expenses associated with the interpretation, enforcement or defense of Executive's rights under this Agreement by litigation or otherwise because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Executive hereunder. Accordingly, if it should appear to the Executive that the Company has failed to comply with any of its obligations under this Agreement or in the event that the Company or any other person takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any litigation or other action or proceeding designed to deny, or to recover from, the Executive any or all of the benefits provided or intended to be provided to the Executive hereunder, the Company irrevocably authorizes the Executive from time to time to retain counsel of Executive's choice, at the expense of the Company as hereafter provided, to advise and represent the Executive in connection with any such interpretation, enforcement or

defense, including without limitation the initiation or defense of any litigation or other legal action, whether by or against the Company or any director, officer, stockholder or other person affiliated with the Company, in any jurisdiction. Notwithstanding any existing or prior attorney-client relationship between the Company and such counsel, the Company irrevocably consents to the Executive's entering into an attorney-client relationship with such counsel, and in that connection the Company and the Executive agree that a confidential relationship shall exist between the Executive and such counsel. Without respect to whether the Executive prevails, in whole or in part, in connection with any of the foregoing, the Company will pay and be solely financially responsible for any and all attorneys' and related fees and expenses incurred by the Executive in connection with any of the foregoing.

(b) Without limiting the obligations of the Company pursuant to Section 7(a) hereof, in the event a Change in Control occurs, the performance of the Company's obligations under this Section 7 shall be secured by amounts deposited or to be deposited in trust pursuant to certain trust agreements to which the Company shall be a party, which amounts deposited shall in the aggregate be not less than \$2,000,000, providing that the fees and expenses of counsel selected from time to time by the Executive pursuant to Section 7(a) shall be paid, or reimbursed to the Executive if paid by the Executive, either in accordance with the terms of such trust agreements, or, if not so provided, on a regular, periodic basis upon presentation by the Executive to the trustee of a statement or statements prepared by such counsel in accordance with its customary practices. Any failure by the Company to satisfy any of its obligations under this Section 7(b) shall not limit the rights of the Executive hereunder. Subject to the foregoing, the Executive shall have the status of a general unsecured creditor of the Company and shall have no right to, or security interest in, any assets of the Company or any subsidiary.

## 8. Continuing Obligations

(a) The Executive hereby agrees that all documents, records, techniques, business secrets and other information which have come into his possession from time to time during his employment with the Company shall be deemed to be confidential and proprietary to the Company and, except for personal documents and records of the Executive, shall be returned to the Company. The Executive further agrees to retain in confidence any confidential information known to him concerning the Company and its subsidiaries and their respective businesses so long as such information is not publicly disclosed, except that Executive may disclose any such information required to be disclosed in the normal course of his employment with the Company or pursuant to any court order or other legal process.

(b) The Executive hereby agrees that during the Continuation Period, he will not directly or indirectly solicit any employee of the Company or any of its subsidiaries or affiliated companies to join the employ of any entity that competes with the Company or any of its subsidiaries or affiliated companies.

## 9. Successors

(a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to the Executive to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of such successor entity to enter into such agreement prior to the effective date of any such succession (or, if later, within three business days after first receiving a written request for such agreement) shall constitute a breach of this Agreement and shall entitle the Executive to

terminate his employment pursuant to Section 2(a)(ii) and to receive the payments and benefits provided under Section 4. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which executes and delivers the Agreement provided for in this Section 9 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(b) This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive dies while any amounts are payable to him hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to his devisee, legatee or other designee or, if there is no such designee, to his estate.

10. Notices

For all purposes of this Agreement, all communications, including without limitation notices, consents, requests or approvals, required or permitted to be given hereunder will be in writing and will be deemed to have been duly given when hand delivered or dispatched by electronic facsimile transmission (with receipt thereof orally confirmed), or five business days after having been mailed by United States registered or certified mail, return receipt requested, postage prepaid, or three business days after having been sent by a nationally recognized overnight courier service such as FedEx, UPS, or Purolator, addressed to the Company (to the attention of the Secretary of the Company, with a copy to the General Counsel of the Company) at its principal executive office and to the Executive at his principal residence, or to such other address as any party may have furnished to the other in writing and in accordance herewith, except that notices of changes of address shall be effective only upon receipt.



## 11. Governing Law

THE VALIDITY, INTERPRETATION, CONSTRUCTION AND PERFORMANCE OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF DELAWARE.

## 12. Miscellaneous

No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by the Executive and the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement (or in any employment or other written agreement relating to the Executive). Notwithstanding any provision of this Agreement to the contrary, the parties' respective rights and obligations under Sections 4, 5 and 7 will survive any termination or expiration of this Agreement or the termination of the Executive's employment following a Change in Control for any reason whatsoever. Nothing expressed or implied in this Agreement will create any right or duty on the part of the Company or the Executive to have the Executive remain in the employment of the Company or any subsidiary prior to or following any Change in Control. The Company may withhold from any amounts payable under this Agreement all federal, state, city or other taxes as the Company is required to withhold pursuant to any law or government regulation or ruling. In the event that the Company refuses or otherwise fails to make a payment when due and it is ultimately decided that the Executive is entitled to such

payment, such payment shall be increased to reflect an interest factor, compounded annually, equal to the prime rate in effect as of the date the payment was first due plus two points. For this purpose, the prime rate shall be based on the rate identified by Chase Manhattan Bank as its prime rate.

13. Separability

The invalidity or unenforceability of any provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

14. Non-assignability

This Agreement is personal in nature and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder, except as provided in Section 9. Without limiting the foregoing, the Executive's right to receive payments hereunder shall not be assignable or transferable, whether by pledge, creation of a security interest or otherwise, other than a transfer by his will or by the laws of descent or distribution, and in the event of any attempted assignment or transfer by Executive contrary to this Section 14 the Company shall have no liability to pay any amount so attempted to be assigned or transferred to any person other than the Executive or, in the event of his death, his designated beneficiary or, in the absence of an effective beneficiary designation, the Executive's estate.

15. Effectiveness; Term

This Agreement will be effective and binding as of the date first above written immediately upon its execution, but, anything in this Agreement to the contrary notwithstanding, this Agreement will not be operative unless and until a Change in Control occurs. Upon the

occurrence of a Change in Control at any time during the Term (as defined below), without further action, this Agreement shall become immediately operative. For purposes of this Agreement, "Term" means the period commencing as of the date first above written and expiring as of the later of (i) the fifth anniversary of the date first above written or (ii) the second anniversary of the first occurrence of a Change in Control; provided, however, that (A) commencing on the fifth anniversary of the date first above written and each fifth anniversary date thereafter, the Term of this Agreement will automatically be extended for an additional five years unless, not later than 180 days preceding each such fifth anniversary date, the Company or the Executive shall have given notice that it or the Executive, as the case may be, does not wish to have the Term extended and (B) subject to Section 2(e), if, prior to a Change in Control, the Executive ceases for any reason to be an employee of the Company and any subsidiary, thereupon without further action the Term shall be deemed to have expired and this Agreement will immediately terminate and be of no further effect. For purposes of this Section 15, the Executive shall not be deemed to have ceased to be an employee of the Company and any subsidiary by reason of the transfer of Executive's employment between the Company and any subsidiary, or among any subsidiaries.

16 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same agreement.

17 Prior Agreement. This Agreement supersedes and terminates any and all prior Executive Termination Benefits Agreements by and among Company and the Executive.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered as of the day and year first above set forth, thereby mutually and voluntarily agreeing that this Agreement supersedes and replaces any prior similar agreements for such termination benefits.

AMR CORPORATION

By: /s/ Donald J. Carty

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AMERICAN AIRLINES, INC.

By: /s/ Anne H. McNamara

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THOMAS J. KIERNAN

/s/ Thomas J. Kiernan

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AMENDED AND RESTATED  
EXECUTIVE TERMINATION BENEFITS AGREEMENT

THIS AMENDED AND RESTATED EXECUTIVE TERMINATION BENEFITS AGREEMENT (this "Agreement"), dated as of the 21st day of May, 1998 is among AMR CORPORATION, a Delaware corporation, AMERICAN AIRLINES, INC., a Delaware corporation (collectively the "Company"), and DAVID L. KRUSE (the "Executive").

W I T N E S S E T H:

WHEREAS, the Company considers it essential to the best interests of the Company and its stockholders that its management be encouraged to remain with the Company and to continue to devote full attention to the Company's business in the event an effort is made to obtain control of the Company through a tender offer or otherwise;

WHEREAS, the Company recognizes that the possibility of a change in control and the uncertainty and questions which it may raise among management may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders;

WHEREAS, the Company's Board of Directors (the "Board") has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management to their assigned duties without distraction in the face of the potentially disturbing circumstances arising from the possibility of a change in control of the Company;

WHEREAS, the Executive is a key Executive of the Company;

WHEREAS, the Company believes the Executive has made valuable contributions to the productivity and profitability of the Company;

WHEREAS, should the Company receive any proposal from a third person concerning a possible business combination with or acquisition of equity securities of the Company, the Board believes it imperative that the Company and the Board be able to rely upon the Executive to continue in his position, and that the Company be able to receive and rely upon his advice as to the best interests of the Company and its stockholders without concern that he might be distracted by the personal uncertainties and risks created by such a proposal; and

WHEREAS, should the Company receive any such proposals, in addition to the Executive's regular duties, he may be called upon to assist in the assessment of such proposals, advise management and the Board as to whether such proposals would be in the best interests of the Company and its stockholders, and to take such other actions as the Board might determine to be appropriate.

NOW, THEREFORE, to assure the Company that it will have the continued undivided attention and services of the Executive and the availability of his advice and counsel notwithstanding the possibility, threat or occurrence of a bid to take over control of the Company, and to induce the Executive to remain in the employ of the Company, and for other good and valuable consideration, the Company and the Executive agree as follows:

1. Change in Control

For purposes of this Agreement, a Change in Control of the Company shall be deemed to have taken place if:

(a) any person as defined in Section 3(a)(9) of the Securities Exchange Act of 1934, as amended from time to time (the "Exchange Act"), and as used in Sections 13(d) and

14(d) thereof, including a "group" as defined in Section 13(d) of the Exchange Act (a "Person"), but excluding the Company, any subsidiary of the Company and any employee benefit plan sponsored or maintained by the Company or any subsidiary of the Company (including any trustee of such plan acting as trustee), directly or indirectly, becomes the "beneficial owner" (as defined in Rule 13(d)-3 under the Exchange Act, as amended from time to time) of securities of the Company representing 15% or more of the combined voting power of the Company's then outstanding securities; or

(b) individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of the assets of another corporation (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the then outstanding shares of common stock of the Company and the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors immediately prior to such Business Combination

beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries), (ii) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 15% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination, and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Incumbent Board, providing for such Business Combination; or

(d) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

2. Circumstances Triggering Receipt of Severance Benefits

(a) Subject to Section 2(c), the Company will provide the Executive with the benefits set forth in Section 4 upon any termination of the Executive's employment:

(i) by the Company at any time within the first 24 months after a Change in Control;



(ii) by the Executive for "Good Reason" (as defined in Section 2(b) below) at any time within the first 24 months after a Change in Control;

(iii) by the Executive pursuant to Section 2(d); or

(iv) by the Company or the Executive pursuant to Section 2(e).

(b) In the event of the occurrence of a Change in Control, the Executive may terminate employment with the Company and/or any subsidiary for "Good Reason" with the right to benefits set forth in Section 4 upon the occurrence of one or more of the following events (regardless of whether any other reason, other than Cause as provided below, for such termination exists or has occurred, including without limitation other employment):

(i) Failure to elect or reelect or otherwise to maintain the Executive in the office or the position, or a substantially equivalent office or position, of or with the Company and/or a subsidiary, as the case may be, which the Executive held immediately prior to a Change in Control, or the removal of the Executive as a director of the Company and/or a subsidiary (or any successor thereto) if the Executive shall have been a director of the Company and/or a subsidiary immediately prior to the Change in Control;

(ii) (A) A significant adverse change in the nature or scope of the authorities, powers, functions, responsibilities or duties attached to the position with the Company and/or any subsidiary which the Executive held immediately prior to the Change in Control, (B) a reduction in the aggregate of the Executive's annual base salary rate and annual incentive compensation target to be received from the Company and/or any subsidiary, or (C) the termination or denial of the Executive's rights to Employee Benefits (as defined below) or a reduction in the

scope or value thereof, any of which is not remedied by the Company within 10 calendar days after receipt by the Company of written notice from the Executive of such change, reduction or termination, as the case may be;

(iii) A determination by the Executive (which determination will be conclusive and binding upon the parties hereto provided it has been made in good faith and in all events will be presumed to have been made in good faith unless otherwise shown by the Company by clear and convincing evidence) that a change in circumstances has occurred following a Change in Control, including, without limitation, a change in the scope of the business or other activities for which the Executive was responsible immediately prior to the Change in Control, which has rendered the Executive substantially unable to carry out, has substantially hindered Executive's performance of, or has caused the Executive to suffer a substantial reduction in, any of the authorities, powers, functions, responsibilities or duties attached to the position held by the Executive immediately prior to the Change in Control, which situation is not remedied within 10 calendar days after written notice to the Company from the Executive of such determination;

(iv) The liquidation, dissolution, merger, consolidation or reorganization of the Company or transfer of all or substantially all of its business and/or assets, unless the successor or successors (by liquidation, merger, consolidation, reorganization, transfer or otherwise) to which all or substantially all of its business and/or assets have been transferred (directly or by operation of

law) assumed all duties and obligations of the Company under this Agreement pursuant to Section 9(a);

(v) The Company relocates its principal executive offices, or requires the Executive to have his principal location of work changed, to any location that is in excess of 50 miles from the location thereof immediately prior to the Change in Control, or requires the Executive to travel away from his office in the course of discharging his responsibilities or duties hereunder at least 20% more (in terms of aggregate days in any calendar year or in any calendar quarter when annualized for purposes of comparison to any prior year) than was required of Executive in any of the three full years immediately prior to the Change in Control without, in either case, his prior written consent; or

(vi) Without limiting the generality or effect of the foregoing, any material breach of this Agreement by the Company or any successor thereto, which breach is not remedied within 10 calendar days after written notice to the Company from the Executive describing the nature of such breach.

(c) Notwithstanding Sections 2(a) and (b) above, no benefits shall be payable by reason of this Agreement in the event of:

(i) Termination of the Executive's employment with the Company and its subsidiaries by reason of the Executive's death or Disability, provided that the Executive has not previously given a valid "Notice of Termination" pursuant to Section 3. For purposes hereof, "Disability" shall be defined as the inability of Executive due to illness, accident or other physical or mental disability to perform his duties for any period of six consecutive months or for any period of eight

months out of any 12-month period, as determined by an independent physician selected by the Company and reasonably acceptable to the Executive (or his legal representative), provided that the Executive does not return to work on substantially a full-time basis within 30 days after written notice from the Company, pursuant to Section 3, of an intent to terminate the Executive's employment due to Disability;

(ii) Termination of the Executive's employment with the Company and its subsidiaries on account of the Executive's retirement at or after age 65, pursuant to the Company's Retirement Benefit Plan; or

(iii) Termination of the Executive's employment with the Company and its subsidiaries for Cause. For the purposes hereof, "Cause" shall be defined as a felony conviction of the Executive or the failure of the Executive to contest prosecution for a felony, or the Executive's wilful misconduct or dishonesty, any of which is directly and materially harmful to the business or reputation of the Company or any subsidiary or affiliate. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for "Cause" hereunder unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three quarters of the Board then in office at a meeting of the Board called and held for such purpose, after reasonable notice to the Executive and an opportunity for the Executive, together with his counsel (if the Executive chooses to have counsel present at such meeting), to be heard before the Board, finding that, in the good faith opinion of the Board, the Executive had committed an act constituting

"Cause" as herein defined and specifying the particulars thereof in detail. Nothing herein will limit the right of the Executive or his beneficiaries to contest the validity or propriety of any such determination.

This Section 2(c) shall not preclude the payment of any amounts otherwise payable to the Executive under any of the Company's employee benefit plans, stock plans, programs and arrangements and/or under any Employment Agreement.

(d) Notwithstanding anything contained in this Agreement to the contrary, in the event of a Change in Control, the Executive may terminate employment with the Company and any subsidiary for any reason, or without reason, by providing Notice of Termination pursuant to Section 3 during the 30-day period immediately following the first anniversary of the first occurrence of a Change in Control with the right to the benefits set forth in Section 4.

(e) Any termination of employment of the Executive, including a termination for "Good Reason," but excluding a termination for "Cause," or the removal of the Executive from the office or position in the Company or any subsidiary that occurs (i) not more than 180 days prior to the date on which a Change in Control occurs and (ii) following the commencement of any discussion with a third person that ultimately results in a Change in Control shall be deemed to be a termination or removal of the Executive after a Change in Control for purposes of this Agreement.

### 3. Notice of Termination

Any termination of the Executive's employment with the Company and its subsidiaries as contemplated by Section 2 shall be communicated by written "Notice of Termination" to the other party hereto. Any "Notice of Termination" shall indicate the effective date of termination which shall not be less than 30 days or more than 60 days after the date the Notice of

Termination is delivered (the "Termination Date"), the specific provision in this Agreement relied upon, and, except for a termination pursuant to Section 2(d), will set forth in reasonable detail the facts and circumstances claimed to provide a basis for such termination including, if applicable, the failure after provision of written notice by the Executive to effect a remedy pursuant to the final clause of Section 2(b) (ii), 2(b) (iii) or 2(b) (vi).

4. Termination Benefits

Subject to the conditions set forth in Section 2, the following benefits shall be paid or provided to the Executive:

(a) Compensation

The Company shall pay to the Executive three times the sum of (i) "Base Pay", which shall be an amount equal to the greater of (A) the Executive's effective annual base salary at the Termination Date or (B) the Executive's effective annual base salary immediately prior to the Change in Control, plus (ii) "Incentive Pay" equal to the greater of (x) the target annual bonus payable to the Executive under the Company's Incentive Compensation Plan or any other annual bonus plan for the fiscal year of the Company in which the Change in Control occurred or (y) the highest annual bonus earned by the Executive under the Company's Incentive Compensation Plan or any other annual bonus plan (whether paid currently or on a deferred basis) with respect to any 12 consecutive month period during the three fiscal years of the Company immediately preceding the fiscal year of the Company in which the Change in Control occurred, plus (iii) "Performance Returns" equal to the highest annual payment of performance returns paid to the Executive with respect to any 12 consecutive month period during the three fiscal years of the Company immediately preceding the fiscal year of the Company in which the Change in Control occurred.

## (b) Welfare Benefits

For a period of 36 months following the Termination Date (the "Continuation Period"), the Company shall arrange to provide the Executive with benefits, including travel accident, major medical, dental, vision care and other welfare benefit programs in effect immediately prior to the Change in Control ("Employee Benefits") substantially similar to those that the Executive was receiving or entitled to receive immediately prior to the Termination Date (or, if greater, immediately prior to the reduction, termination, or denial described in Section 2(b)(ii)(C)). If and to the extent that any benefit described in this Section 4(b) is not or cannot be paid or provided under any policy, plan, program or arrangement of the Company or any subsidiary, as the case may be, then the Company will itself pay or provide for the payment to the Executive, his dependents and beneficiaries, of such Employee Benefits along with, in the case of any benefit which is subject to tax because it is not or cannot be paid or provided under any such policy, plan, program or arrangement of the Company or any subsidiary, an additional amount such that after payment by the Executive, or his dependents or beneficiaries, as the case may be, of all taxes so imposed, the recipient retains an amount equal to such taxes. Employee Benefits otherwise receivable by the Executive pursuant to this Section 4(b) will be reduced to the extent comparable welfare benefits are actually received by the Executive from another employer during the Continuation Period, and any such benefits actually received by the Executive shall be reported by the Executive to the Company.

## (c) Retirement Benefits

The Executive shall be deemed to be completely vested in Executive's currently accrued benefits under the Company's Retirement Benefit Plan and Supplemental Executive Retirement Plan ("SERP") in effect as of the date of Change in Control (collectively, the

"Plans"), regardless of his actual vesting service credit thereunder. In addition, the Executive shall be deemed to earn service credit for benefit calculation purposes thereunder for the Continuation Period. Benefits under the Plans will become payable at any time designated by the Executive following termination of the Executive's employment with the Company and its subsidiaries after the Executive reaches age 55, subject to the terms of the Plans regarding the actuarial adjustment of benefit payments commencing prior to normal retirement age. The benefits to be paid pursuant to the Plans shall be calculated as though the Executive's compensation rate for each of the five years immediately preceding his retirement equaled the sum of Base Pay plus Incentive Pay plus Performance Returns. Any benefits payable pursuant to this Section 4(c) that are not payable out of the Plans for any reason (including but not limited to any applicable benefit limitations under the Employee Retirement Income Security Act of 1974, as amended, or any restrictions relating to the qualification of the Company's Retirement Benefit Plan under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code")) shall be paid directly by the Company out of its general assets.

(d) Relocation Benefits

If the Executive moves his residence in order to pursue other business or employment opportunities during the Continuation Period and requests in writing that the Company provide relocation services, he will be reimbursed for any expenses incurred in that initial relocation (including taxes payable on the reimbursement) which are not reimbursed by another employer. Benefits under this provision will include assistance in selling the Executive's home and all other assistance and benefits which were customarily provided by the Company to transferred executives prior to the Change in Control.



(e) Executive Outplacement Counseling

At the request of the Executive made in writing during the Continuation Period, the Company shall engage an outplacement counseling service of national reputation to assist the Executive in obtaining employment.

(f) Stock Based Compensation Plans

(i) Any issued and outstanding Stock Options (to the extent they have not already become exercisable) shall become exercisable as of the date on which the Change in Control occurs, unless otherwise specifically provided at the time such options are granted.

(ii) The Company's right to rescind any award of stock to the Executive under the Company's 1988 Long Term Incentive Plan or the Company's 1998 Long Term Incentive Plan (or any successor plan) shall terminate upon a Change in Control, and all restrictions on the sale, pledge, hypothecation or other disposition of shares of stock awarded pursuant to such plan shall be removed at the Termination Date, unless otherwise specifically provided at the time such award(s) are made.

(iii) The Executive's rights under any other stock based compensation plan shall vest (to the extent they have not already vested) and any performance criteria shall be deemed met at target as of the date on which a Change in Control occurs, unless otherwise specifically provided at the time such right(s) are granted.

(g) Split Dollar Life Insurance

The Company shall pay to the Executive a lump sum equal to the cost on the Termination Date of purchasing, at standard independent insurance premium rates, an individual

paid up insurance policy providing benefits equal to the benefits provided by the Company's Split Dollar Life Insurance coverage immediately prior to the date of the Change in Control.

(h) Other Benefits

(i) The Executive shall have all flight privileges provided by the Company to Directors as of the date of Change in Control until the Executive reaches age 55, at which time he shall have all flight privileges provided by the Company to its retirees who held the same or similar position as the Executive immediately prior to the Change in Control.

(ii) The Executive, at the Executive's option, shall be entitled to continue the use of the Executive's Company-provided automobile during the Continuation Period under the same terms that applied to the automobile immediately prior to the Change in Control, or to purchase the automobile at its book value as of the Termination Date.

(iii) The Company shall pay to the Executive an amount equal to the cost to the Company of providing any other perquisites and benefits of the Company in effect immediately prior to the Change in Control, calculated as if such benefits were continued during the Continuation Period.

(i) Accrued Amounts The Company shall pay to the Executive all other amounts accrued or earned by the Executive

through the Termination Date and amounts otherwise owing under the then existing plans and policies of the Company, including but not limited to all amounts of compensation previously deferred by the Executive (together with any accrued interest thereon) and not yet paid by the Company, and any accrued vacation pay not yet paid by the Company.

(j) The Company shall pay to the Executive the amounts due pursuant to Sections 4(a), 4(g) and 4(h)(iii) in a lump sum on the first business day of the month following the Termination Date. The Company shall pay to the Executive the amounts due pursuant to Section 4(i) in accordance with the terms and conditions of the existing plans and policies of the Company.

5. Certain Additional Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding, but subject to Section 5(h), in the event that this Agreement shall become operative and it shall be determined (as hereafter provided) that any payment (other than the Gross-Up payments provided for in this Section 5) or distribution by the Company or any of its subsidiaries to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise pursuant to or by reason of any other agreement, policy, plan, program or arrangement, including without limitation any stock option, stock appreciation right or similar right, restricted stock, deferred stock or the lapse or termination of any restriction on, deferral period or the vesting or exercisability of any of the foregoing (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Code (or any successor provision thereto) by reason of being considered "contingent on a change in ownership or control" of the Company, within the meaning of Section 280G of the Code (or any successor provision thereto) or to any similar tax imposed by state or local law, or any interest or penalties with respect to such tax (such tax or taxes, together with any such interest and penalties, being hereafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment or payments (collectively, a "Gross-Up Payment"). The Gross-Up Payment shall be in an amount such that, after payment by the Executive of all taxes (including any interest or

penalties imposed with respect to such taxes), including any Excise Tax and any income tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payment.

(b) Subject to the provisions of Section 5(f), all determinations required to be made under this Section 5, including whether an Excise Tax is payable by the Executive and the amount of such Excise Tax and whether a Gross-Up Payment is required to be paid by the Company to the Executive and the amount of such Gross-Up Payment, if any, shall be made by a nationally recognized accounting firm (the "Accounting Firm") selected by the Executive in his sole discretion. The Executive shall direct the Accounting Firm to submit its determination and detailed supporting calculations to both the Company and the Executive within 30 calendar days after the Change in Control Date, the Termination Date, if applicable, and any such other time or times as may be requested by the Company or the Executive. If the Accounting Firm determines that any Excise Tax is payable by the Executive, the Company shall pay the required Gross-Up Payment to the Executive within five business days after receipt of such determination and calculations with respect to any Payment to the Executive. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall, at the same time as it makes such determination, furnish the Company and the Executive an opinion that the Executive has substantial authority not to report any Excise Tax on his federal, state or local income or other tax return. As a result of the uncertainty in the application of Section 4999 of the Code (or any successor provision thereto) and the possibility of similar uncertainty regarding applicable state or local tax law at the time of any determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made (an "Underpayment"), consistent with the calculations required to be made hereunder. In the

event that the Company exhausts or fails to pursue its remedies pursuant to Section 5(f) and the Executive thereafter is required to make a payment of any Excise Tax, the Executive shall direct the Accounting Firm to determine the amount of the Underpayment that has occurred and to submit its determination and detailed supporting calculations to both the Company and the Executive as promptly as possible. Any such Underpayment shall be promptly paid by the Company to, or for the benefit of, the Executive within five business days after receipt of such determination and calculations.

(c) The Company and the Executive shall each provide the Accounting Firm access to and copies of any books, records and documents in the possession of the Company or the Executive, as the case may be, reasonably requested by the Accounting Firm, and otherwise cooperate with the Accounting Firm in connection with the preparation and issuance of the determinations and calculations contemplated by Section 5(b). Any determination by the Accounting Firm as to the amount of the Gross-Up Payment shall be binding upon the Company and the Executive.

(d) The federal, state and local income or other tax returns filed by the Executive shall be prepared and filed on a consistent basis with the determination of the Accounting Firm with respect to the Excise Tax payable by the Executive. The Executive shall make proper payment of the amount of any Excise Payment, and at the request of the Company, provide to the Company true and correct copies (with any amendments) of his federal income tax return as filed with the Internal Revenue Service and corresponding state and local tax returns, if relevant, as filed with the applicable taxing authority, and such other documents reasonably requested by the Company, evidencing such payment. If prior to the filing of the Executive's federal income tax return, or corresponding state or local tax return, if relevant, the Accounting

Firm determines that the amount of the Gross-Up Payment should be reduced, the Executive shall within five business days pay to the Company the amount of such reduction.

(e) The fees and expenses of the Accounting Firm for its services in connection with the determinations and calculations contemplated by Section 5(b) shall be borne by the Company. If such fees and expenses are initially paid by the Executive, the Company shall reimburse the Executive the full amount of such fees and expenses within five business days after receipt from the Executive of a statement therefor and reasonable evidence of his payment thereof.

(f) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service or any other taxing authority that, if successful, would require the payment by the Company of a Gross-Up Payment or any additional Gross-Up Payment. Such notification shall be given as promptly as practicable but no later than 10 business days after the Executive actually receives notice of such claim and the Executive shall further apprise the Company of the nature of such claim and the date on which such claim is requested to be paid (in each case, to the extent known by the Executive). The Executive shall not pay such claim prior to the earlier of (x) the expiration of the 30-calendar-day period following the date on which he gives such notice to the Company and (y) the date that any payment of amount with respect to such claim is due. If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) provide the Company with any written records or documents in his possession relating to such claim reasonably requested by the Company;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including without

limitation accepting legal representation with respect to such claim by an attorney competent in respect of the subject matter and reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order effectively to contest such claim; and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including interest and penalties) incurred in connection with such contest and shall indemnify and hold harmless the Executive, on an after-tax basis, for and against any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such contest and payment of costs and expenses. Without limiting the foregoing provisions of this Section 5(f), the Company shall control all proceedings taken in connection with the contest of any claim contemplated by this Section 5(f) and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim (provided, however, that the Executive may participate therein at his own cost and expense) and may, at its option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay the tax claimed and sue for a refund, the Company shall advance the amount of such payment to the Executive on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any

Excise Tax or income or other tax, including interest or penalties with respect thereto, imposed with respect to such advance; and provided further, however, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which the contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of any such contested claim shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(g) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 5(f), the Executive receives any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 5(f)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after any taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 5(f), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial or refund prior to the expiration of 30 calendar days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of any such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid by the Company to the Executive pursuant to this Section 5.

(h) Notwithstanding any provision of this Agreement to the contrary, if (i) but for this sentence, the Company would be obligated to make a Gross-Up Payment to the Executive, (ii) the aggregate "present value" of the "parachute payments" to be paid or provided



to the Executive under this Agreement or otherwise does not exceed 1.15 multiplied by three times the Executive's "base amount," and (iii) but for this sentence, the net after-tax benefit to the Executive of the Gross-Up Payment would not exceed \$50,000 (taking into account both income taxes and any Excise Tax), then the payments and benefits to be paid or provided under this Agreement (including any stock based compensation pursuant to Section 4(f)) will be reduced to the minimum extent necessary (but in no event to less than zero) so that no portion of any payment or benefit to the Executive, as so reduced, constitutes an "excess parachute payment." For purposes of this Section 5(h), the terms "excess parachute payment," "present value," "parachute payment," and "base amount" will have the meanings assigned to them by Section 280G of the Code. The determination of whether any reduction in such payments or benefits to be provided under this Agreement is required pursuant to the preceding sentence will be made at the expense of the Company, if requested by the Executive or the Company, by the Accounting Firm. The fact that the Executive's right to payments or benefits may be reduced by reason of the limitations contained in this Section 5(h) will not of itself limit or otherwise affect any other rights of the Executive other than pursuant to this Agreement. In the event that any payment or benefit intended to be provided under this Agreement or otherwise is required to be reduced pursuant to this Section 5(h), the Executive will be entitled to designate the payments and/or benefits to be so reduced in order to give effect to this Section 5(h). The Company will provide the Executive with all information reasonably requested by the Executive to permit the Executive to make such designation. In the event that the Executive fails to make such designation within 10 business days of the Termination Date, the Company may effect such reduction in any manner it deems appropriate.

6. No Mitigation Obligation. The Company hereby acknowledges that it will be difficult and may be impossible for the Executive to find reasonably comparable employment following the Termination Date. Accordingly, the payment of the severance compensation by the Company to the Executive in accordance with the terms of this Agreement is hereby acknowledged by the Company to be reasonable, and the Executive will not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, nor will any profits, income, earnings or other benefits from any source whatsoever create any mitigation, offset, reduction or any other obligation on the part of the Executive hereunder or otherwise, except as expressly provided in the last sentence of Section 4(b).

7. Legal Fees and Expenses.

(a) It is the intent of the Company that the Executive not be required to incur legal fees and the related expenses associated with the interpretation, enforcement or defense of Executive's rights under this Agreement by litigation or otherwise because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Executive hereunder. Accordingly, if it should appear to the Executive that the Company has failed to comply with any of its obligations under this Agreement or in the event that the Company or any other person takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any litigation or other action or proceeding designed to deny, or to recover from, the Executive any or all of the benefits provided or intended to be provided to the Executive hereunder, the Company irrevocably authorizes the Executive from time to time to retain counsel of Executive's choice, at the expense of the Company as hereafter provided, to advise and represent the Executive in connection with any such interpretation, enforcement or

defense, including without limitation the initiation or defense of any litigation or other legal action, whether by or against the Company or any director, officer, stockholder or other person affiliated with the Company, in any jurisdiction. Notwithstanding any existing or prior attorney-client relationship between the Company and such counsel, the Company irrevocably consents to the Executive's entering into an attorney-client relationship with such counsel, and in that connection the Company and the Executive agree that a confidential relationship shall exist between the Executive and such counsel. Without respect to whether the Executive prevails, in whole or in part, in connection with any of the foregoing, the Company will pay and be solely financially responsible for any and all attorneys' and related fees and expenses incurred by the Executive in connection with any of the foregoing.

(b) Without limiting the obligations of the Company pursuant to Section 7(a) hereof, in the event a Change in Control occurs, the performance of the Company's obligations under this Section 7 shall be secured by amounts deposited or to be deposited in trust pursuant to certain trust agreements to which the Company shall be a party, which amounts deposited shall in the aggregate be not less than \$2,000,000, providing that the fees and expenses of counsel selected from time to time by the Executive pursuant to Section 7(a) shall be paid, or reimbursed to the Executive if paid by the Executive, either in accordance with the terms of such trust agreements, or, if not so provided, on a regular, periodic basis upon presentation by the Executive to the trustee of a statement or statements prepared by such counsel in accordance with its customary practices. Any failure by the Company to satisfy any of its obligations under this Section 7(b) shall not limit the rights of the Executive hereunder. Subject to the foregoing, the Executive shall have the status of a general unsecured creditor of the Company and shall have no right to, or security interest in, any assets of the Company or any subsidiary.

## 8. Continuing Obligations

(a) The Executive hereby agrees that all documents, records, techniques, business secrets and other information which have come into his possession from time to time during his employment with the Company shall be deemed to be confidential and proprietary to the Company and, except for personal documents and records of the Executive, shall be returned to the Company. The Executive further agrees to retain in confidence any confidential information known to him concerning the Company and its subsidiaries and their respective businesses so long as such information is not publicly disclosed, except that Executive may disclose any such information required to be disclosed in the normal course of his employment with the Company or pursuant to any court order or other legal process.

(b) The Executive hereby agrees that during the Continuation Period, he will not directly or indirectly solicit any employee of the Company or any of its subsidiaries or affiliated companies to join the employ of any entity that competes with the Company or any of its subsidiaries or affiliated companies.

## 9. Successors

(a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to the Executive to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of such successor entity to enter into such agreement prior to the effective date of any such succession (or, if later, within three business days after first receiving a written request for such agreement) shall constitute a breach of this Agreement and shall entitle the Executive to

terminate his employment pursuant to Section 2(a)(ii) and to receive the payments and benefits provided under Section 4. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which executes and delivers the Agreement provided for in this Section 9 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(b) This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive dies while any amounts are payable to him hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to his devisee, legatee or other designee or, if there is no such designee, to his estate.

#### 10. Notices

For all purposes of this Agreement, all communications, including without limitation notices, consents, requests or approvals, required or permitted to be given hereunder will be in writing and will be deemed to have been duly given when hand delivered or dispatched by electronic facsimile transmission (with receipt thereof orally confirmed), or five business days after having been mailed by United States registered or certified mail, return receipt requested, postage prepaid, or three business days after having been sent by a nationally recognized overnight courier service such as FedEx, UPS, or Purolator, addressed to the Company (to the attention of the Secretary of the Company, with a copy to the General Counsel of the Company) at its principal executive office and to the Executive at his principal residence, or to such other address as any party may have furnished to the other in writing and in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

## 11. Governing Law

THE VALIDITY, INTERPRETATION, CONSTRUCTION AND PERFORMANCE OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF DELAWARE.

## 12. Miscellaneous

No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by the Executive and the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement (or in any employment or other written agreement relating to the Executive). Notwithstanding any provision of this Agreement to the contrary, the parties' respective rights and obligations under Sections 4, 5 and 7 will survive any termination or expiration of this Agreement or the termination of the Executive's employment following a Change in Control for any reason whatsoever. Nothing expressed or implied in this Agreement will create any right or duty on the part of the Company or the Executive to have the Executive remain in the employment of the Company or any subsidiary prior to or following any Change in Control. The Company may withhold from any amounts payable under this Agreement all federal, state, city or other taxes as the Company is required to withhold pursuant to any law or government regulation or ruling. In the event that the Company refuses or otherwise fails to make a payment when due and it is ultimately decided that the Executive is entitled to such

payment, such payment shall be increased to reflect an interest factor, compounded annually, equal to the prime rate in effect as of the date the payment was first due plus two points. For this purpose, the prime rate shall be based on the rate identified by Chase Manhattan Bank as its prime rate.

13. Separability

The invalidity or unenforceability of any provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

14. Non-assignability

This Agreement is personal in nature and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder, except as provided in Section 9. Without limiting the foregoing, the Executive's right to receive payments hereunder shall not be assignable or transferable, whether by pledge, creation of a security interest or otherwise, other than a transfer by his will or by the laws of descent or distribution, and in the event of any attempted assignment or transfer by Executive contrary to this Section 14 the Company shall have no liability to pay any amount so attempted to be assigned or transferred to any person other than the Executive or, in the event of his death, his designated beneficiary or, in the absence of an effective beneficiary designation, the Executive's estate.

15. Effectiveness; Term

This Agreement will be effective and binding as of the date first above written immediately upon its execution, but, anything in this Agreement to the contrary notwithstanding, this Agreement will not be operative unless and until a Change in Control occurs. Upon the

occurrence of a Change in Control at any time during the Term (as defined below), without further action, this Agreement shall become immediately operative. For purposes of this Agreement, "Term" means the period commencing as of the date first above written and expiring as of the later of (i) the fifth anniversary of the date first above written or (ii) the second anniversary of the first occurrence of a Change in Control; provided, however, that (A) commencing on the fifth anniversary of the date first above written and each fifth anniversary date thereafter, the Term of this Agreement will automatically be extended for an additional five years unless, not later than 180 days preceding each such fifth anniversary date, the Company or the Executive shall have given notice that it or the Executive, as the case may be, does not wish to have the Term extended and (B) subject to Section 2(e), if, prior to a Change in Control, the Executive ceases for any reason to be an employee of the Company and any subsidiary, thereupon without further action the Term shall be deemed to have expired and this Agreement will immediately terminate and be of no further effect. For purposes of this Section 15, the Executive shall not be deemed to have ceased to be an employee of the Company and any subsidiary by reason of the transfer of Executive's employment between the Company and any subsidiary, or among any subsidiaries.

16 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same agreement.

17 Prior Agreement. This Agreement supersedes and terminates any and all prior Executive Termination Benefits Agreements by and among Company and the Executive.



IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered as of the day and year first above set forth, thereby mutually and voluntarily agreeing that this Agreement supersedes and replaces any prior similar agreements for such termination benefits.

AMR CORPORATION

By: /s/ Donald J. Carty  
-----  
AMERICAN AIRLINES, INC.

By: /s/ Thomas J. Kiernan  
-----  
DAVID L. KRUSE

/s/ David L. Kruse  
-----

AMENDED AND RESTATED  
EXECUTIVE TERMINATION BENEFITS AGREEMENT

THIS AMENDED AND RESTATED EXECUTIVE TERMINATION BENEFITS AGREEMENT (this "Agreement"), dated as of the 21st day of May, 1998 is among AMR CORPORATION, a Delaware corporation, AMERICAN AIRLINES, INC., a Delaware corporation (collectively the "Company"), and CHARLES D. MARLETT (the "Executive").

W I T N E S S E T H:

WHEREAS, the Company considers it essential to the best interests of the Company and its stockholders that its management be encouraged to remain with the Company and to continue to devote full attention to the Company's business in the event an effort is made to obtain control of the Company through a tender offer or otherwise;

WHEREAS, the Company recognizes that the possibility of a change in control and the uncertainty and questions which it may raise among management may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders;

WHEREAS, the Company's Board of Directors (the "Board") has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management to their assigned duties without distraction in the face of the potentially disturbing circumstances arising from the possibility of a change in control of the Company;

WHEREAS, the Executive is a key Executive of the Company;

WHEREAS, the Company believes the Executive has made valuable contributions to the productivity and profitability of the Company;

WHEREAS, should the Company receive any proposal from a third person concerning a possible business combination with or acquisition of equity securities of the Company, the Board believes it imperative that the Company and the Board be able to rely upon the Executive to continue in his position, and that the Company be able to receive and rely upon his advice as to the best interests of the Company and its stockholders without concern that he might be distracted by the personal uncertainties and risks created by such a proposal; and

WHEREAS, should the Company receive any such proposals, in addition to the Executive's regular duties, he may be called upon to assist in the assessment of such proposals, advise management and the Board as to whether such proposals would be in the best interests of the Company and its stockholders, and to take such other actions as the Board might determine to be appropriate.

NOW, THEREFORE, to assure the Company that it will have the continued undivided attention and services of the Executive and the availability of his advice and counsel notwithstanding the possibility, threat or occurrence of a bid to take over control of the Company, and to induce the Executive to remain in the employ of the Company, and for other good and valuable consideration, the Company and the Executive agree as follows:

1. Change in Control

For purposes of this Agreement, a Change in Control of the Company shall be deemed to have taken place if:

(a) any person as defined in Section 3(a)(9) of the Securities Exchange Act of 1934, as amended from time to time (the "Exchange Act"), and as used in Sections 13(d) and

14(d) thereof, including a "group" as defined in Section 13(d) of the Exchange Act (a "Person"), but excluding the Company, any subsidiary of the Company and any employee benefit plan sponsored or maintained by the Company or any subsidiary of the Company (including any trustee of such plan acting as trustee), directly or indirectly, becomes the "beneficial owner" (as defined in Rule 13(d)-3 under the Exchange Act, as amended from time to time) of securities of the Company representing 15% or more of the combined voting power of the Company's then outstanding securities; or

(b) individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of the assets of another corporation (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the then outstanding shares of common stock of the Company and the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors immediately prior to such Business Combination

beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries), (ii) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 15% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination, and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Incumbent Board, providing for such Business Combination; or

(d) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

## 2. Circumstances Triggering Receipt of Severance Benefits

(a) Subject to Section 2(c), the Company will provide the Executive with the benefits set forth in Section 4 upon any termination of the Executive's employment:

(i) by the Company at any time within the first 24 months after a Change in Control;

(ii) by the Executive for "Good Reason" (as defined in Section 2(b) below) at any time within the first 24 months after a Change in Control;

(iii) by the Executive pursuant to Section 2(d); or

(iv) by the Company or the Executive pursuant to Section 2(e).

(b) In the event of the occurrence of a Change in Control, the Executive may terminate employment with the Company and/or any subsidiary for "Good Reason" with the right to benefits set forth in Section 4 upon the occurrence of one or more of the following events (regardless of whether any other reason, other than Cause as provided below, for such termination exists or has occurred, including without limitation other employment):

(i) Failure to elect or reelect or otherwise to maintain the Executive in the office or the position, or a substantially equivalent office or position, of or with the Company and/or a subsidiary, as the case may be, which the Executive held immediately prior to a Change in Control, or the removal of the Executive as a director of the Company and/or a subsidiary (or any successor thereto) if the Executive shall have been a director of the Company and/or a subsidiary immediately prior to the Change in Control;

(ii) (A) A significant adverse change in the nature or scope of the authorities, powers, functions, responsibilities or duties attached to the position with the Company and/or any subsidiary which the Executive held immediately prior to the Change in Control, (B) a reduction in the aggregate of the Executive's annual base salary rate and annual incentive compensation target to be received from the Company and/or any subsidiary, or (C) the termination or denial of the Executive's rights to Employee Benefits (as defined below) or a reduction in the

scope or value thereof, any of which is not remedied by the Company within 10 calendar days after receipt by the Company of written notice from the Executive of such change, reduction or termination, as the case may be;

(iii) A determination by the Executive (which determination will be conclusive and binding upon the parties hereto provided it has been made in good faith and in all events will be presumed to have been made in good faith unless otherwise shown by the Company by clear and convincing evidence) that a change in circumstances has occurred following a Change in Control, including, without limitation, a change in the scope of the business or other activities for which the Executive was responsible immediately prior to the Change in Control, which has rendered the Executive substantially unable to carry out, has substantially hindered Executive's performance of, or has caused the Executive to suffer a substantial reduction in, any of the authorities, powers, functions, responsibilities or duties attached to the position held by the Executive immediately prior to the Change in Control, which situation is not remedied within 10 calendar days after written notice to the Company from the Executive of such determination;

(iv) The liquidation, dissolution, merger, consolidation or reorganization of the Company or transfer of all or substantially all of its business and/or assets, unless the successor or successors (by liquidation, merger, consolidation, reorganization, transfer or otherwise) to which all or substantially all of its business and/or assets have been transferred (directly or by operation of

law) assumed all duties and obligations of the Company under this Agreement pursuant to Section 9(a);

(v) The Company relocates its principal executive offices, or requires the Executive to have his principal location of work changed, to any location that is in excess of 50 miles from the location thereof immediately prior to the Change in Control, or requires the Executive to travel away from his office in the course of discharging his responsibilities or duties hereunder at least 20% more (in terms of aggregate days in any calendar year or in any calendar quarter when annualized for purposes of comparison to any prior year) than was required of Executive in any of the three full years immediately prior to the Change in Control without, in either case, his prior written consent; or

(vi) Without limiting the generality or effect of the foregoing, any material breach of this Agreement by the Company or any successor thereto, which breach is not remedied within 10 calendar days after written notice to the Company from the Executive describing the nature of such breach.

(c) Notwithstanding Sections 2(a) and (b) above, no benefits shall be payable by reason of this Agreement in the event of:

(i) Termination of the Executive's employment with the Company and its subsidiaries by reason of the Executive's death or Disability, provided that the Executive has not previously given a valid "Notice of Termination" pursuant to Section 3. For purposes hereof, "Disability" shall be defined as the inability of Executive due to illness, accident or other physical or mental disability to perform his duties for any period of six consecutive months or for any period of eight



months out of any 12-month period, as determined by an independent physician selected by the Company and reasonably acceptable to the Executive (or his legal representative), provided that the Executive does not return to work on substantially a full-time basis within 30 days after written notice from the Company, pursuant to Section 3, of an intent to terminate the Executive's employment due to Disability;

(ii) Termination of the Executive's employment with the Company and its subsidiaries on account of the Executive's retirement at or after age 65, pursuant to the Company's Retirement Benefit Plan; or

(iii) Termination of the Executive's employment with the Company and its subsidiaries for Cause. For the purposes hereof, "Cause" shall be defined as a felony conviction of the Executive or the failure of the Executive to contest prosecution for a felony, or the Executive's wilful misconduct or dishonesty, any of which is directly and materially harmful to the business or reputation of the Company or any subsidiary or affiliate. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for "Cause" hereunder unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three quarters of the Board then in office at a meeting of the Board called and held for such purpose, after reasonable notice to the Executive and an opportunity for the Executive, together with his counsel (if the Executive chooses to have counsel present at such meeting), to be heard before the Board, finding that, in the good faith opinion of the Board, the Executive had committed an act constituting

"Cause" as herein defined and specifying the particulars thereof in detail. Nothing herein will limit the right of the Executive or his beneficiaries to contest the validity or propriety of any such determination.

This Section 2(c) shall not preclude the payment of any amounts otherwise payable to the Executive under any of the Company's employee benefit plans, stock plans, programs and arrangements and/or under any Employment Agreement.

(d) Notwithstanding anything contained in this Agreement to the contrary, in the event of a Change in Control, the Executive may terminate employment with the Company and any subsidiary for any reason, or without reason, by providing Notice of Termination pursuant to Section 3 during the 30-day period immediately following the first anniversary of the first occurrence of a Change in Control with the right to the benefits set forth in Section 4.

(e) Any termination of employment of the Executive, including a termination for "Good Reason," but excluding a termination for "Cause," or the removal of the Executive from the office or position in the Company or any subsidiary that occurs (i) not more than 180 days prior to the date on which a Change in Control occurs and (ii) following the commencement of any discussion with a third person that ultimately results in a Change in Control shall be deemed to be a termination or removal of the Executive after a Change in Control for purposes of this Agreement.

### 3. Notice of Termination

Any termination of the Executive's employment with the Company and its subsidiaries as contemplated by Section 2 shall be communicated by written "Notice of Termination" to the other party hereto. Any "Notice of Termination" shall indicate the effective date of termination which shall not be less than 30 days or more than 60 days after the date the Notice of

Termination is delivered (the "Termination Date"), the specific provision in this Agreement relied upon, and, except for a termination pursuant to Section 2(d), will set forth in reasonable detail the facts and circumstances claimed to provide a basis for such termination including, if applicable, the failure after provision of written notice by the Executive to effect a remedy pursuant to the final clause of Section 2(b) (ii), 2(b) (iii) or 2(b) (vi).

#### 4. Termination Benefits

Subject to the conditions set forth in Section 2, the following benefits shall be paid or provided to the Executive:

##### (a) Compensation

The Company shall pay to the Executive three times the sum of (i) "Base Pay", which shall be an amount equal to the greater of (A) the Executive's effective annual base salary at the Termination Date or (B) the Executive's effective annual base salary immediately prior to the Change in Control, plus (ii) "Incentive Pay" equal to the greater of (x) the target annual bonus payable to the Executive under the Company's Incentive Compensation Plan or any other annual bonus plan for the fiscal year of the Company in which the Change in Control occurred or (y) the highest annual bonus earned by the Executive under the Company's Incentive Compensation Plan or any other annual bonus plan (whether paid currently or on a deferred basis) with respect to any 12 consecutive month period during the three fiscal years of the Company immediately preceding the fiscal year of the Company in which the Change in Control occurred, plus (iii) "Performance Returns" equal to the highest annual payment of performance returns paid to the Executive with respect to any 12 consecutive month period during the three fiscal years of the Company immediately preceding the fiscal year of the Company in which the Change in Control occurred.

## (b) Welfare Benefits

For a period of 36 months following the Termination Date (the "Continuation Period"), the Company shall arrange to provide the Executive with benefits, including travel accident, major medical, dental, vision care and other welfare benefit programs in effect immediately prior to the Change in Control ("Employee Benefits") substantially similar to those that the Executive was receiving or entitled to receive immediately prior to the Termination Date (or, if greater, immediately prior to the reduction, termination, or denial described in Section 2(b)(ii)(C)). If and to the extent that any benefit described in this Section 4(b) is not or cannot be paid or provided under any policy, plan, program or arrangement of the Company or any subsidiary, as the case may be, then the Company will itself pay or provide for the payment to the Executive, his dependents and beneficiaries, of such Employee Benefits along with, in the case of any benefit which is subject to tax because it is not or cannot be paid or provided under any such policy, plan, program or arrangement of the Company or any subsidiary, an additional amount such that after payment by the Executive, or his dependents or beneficiaries, as the case may be, of all taxes so imposed, the recipient retains an amount equal to such taxes. Employee Benefits otherwise receivable by the Executive pursuant to this Section 4(b) will be reduced to the extent comparable welfare benefits are actually received by the Executive from another employer during the Continuation Period, and any such benefits actually received by the Executive shall be reported by the Executive to the Company.

## (c) Retirement Benefits

The Executive shall be deemed to be completely vested in Executive's currently accrued benefits under the Company's Retirement Benefit Plan and Supplemental Executive Retirement Plan ("SERP") in effect as of the date of Change in Control (collectively, the

"Plans"), regardless of his actual vesting service credit thereunder. In addition, the Executive shall be deemed to earn service credit for benefit calculation purposes thereunder for the Continuation Period. Benefits under the Plans will become payable at any time designated by the Executive following termination of the Executive's employment with the Company and its subsidiaries after the Executive reaches age 55, subject to the terms of the Plans regarding the actuarial adjustment of benefit payments commencing prior to normal retirement age. The benefits to be paid pursuant to the Plans shall be calculated as though the Executive's compensation rate for each of the five years immediately preceding his retirement equaled the sum of Base Pay plus Incentive Pay plus Performance Returns. Any benefits payable pursuant to this Section 4(c) that are not payable out of the Plans for any reason (including but not limited to any applicable benefit limitations under the Employee Retirement Income Security Act of 1974, as amended, or any restrictions relating to the qualification of the Company's Retirement Benefit Plan under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code")) shall be paid directly by the Company out of its general assets.

(d) Relocation Benefits

If the Executive moves his residence in order to pursue other business or employment opportunities during the Continuation Period and requests in writing that the Company provide relocation services, he will be reimbursed for any expenses incurred in that initial relocation (including taxes payable on the reimbursement) which are not reimbursed by another employer. Benefits under this provision will include assistance in selling the Executive's home and all other assistance and benefits which were customarily provided by the Company to transferred executives prior to the Change in Control.

(e) Executive Outplacement Counseling

At the request of the Executive made in writing during the Continuation Period, the Company shall engage an outplacement counseling service of national reputation to assist the Executive in obtaining employment.

(f) Stock Based Compensation Plans

(i) Any issued and outstanding Stock Options (to the extent they have not already become exercisable) shall become exercisable as of the date on which the Change in Control occurs, unless otherwise specifically provided at the time such options are granted.

(ii) The Company's right to rescind any award of stock to the Executive under the Company's 1988 Long Term Incentive Plan or the Company's 1998 Long Term Incentive Plan (or any successor plan) shall terminate upon a Change in Control, and all restrictions on the sale, pledge, hypothecation or other disposition of shares of stock awarded pursuant to such plan shall be removed at the Termination Date, unless otherwise specifically provided at the time such award(s) are made.

(iii) The Executive's rights under any other stock based compensation plan shall vest (to the extent they have not already vested) and any performance criteria shall be deemed met at target as of the date on which a Change in Control occurs, unless otherwise specifically provided at the time such right(s) are granted.

(g) Split Dollar Life Insurance

The Company shall pay to the Executive a lump sum equal to the cost on the Termination Date of purchasing, at standard independent insurance premium rates, an individual

paid up insurance policy providing benefits equal to the benefits provided by the Company's Split Dollar Life Insurance coverage immediately prior to the date of the Change in Control.

(h) Other Benefits

(i) The Executive shall have all flight privileges provided by the Company to Directors as of the date of Change in Control until the Executive reaches age 55, at which time he shall have all flight privileges provided by the Company to its retirees who held the same or similar position as the Executive immediately prior to the Change in Control.

(ii) The Executive, at the Executive's option, shall be entitled to continue the use of the Executive's Company-provided automobile during the Continuation Period under the same terms that applied to the automobile immediately prior to the Change in Control, or to purchase the automobile at its book value as of the Termination Date.

(iii) The Company shall pay to the Executive an amount equal to the cost to the Company of providing any other perquisites and benefits of the Company in effect immediately prior to the Change in Control, calculated as if such benefits were continued during the Continuation Period.

(i) Accrued Amounts

The Company shall pay to the Executive all other amounts accrued or earned by the Executive through the Termination Date and amounts otherwise owing under the then existing plans and policies of the Company, including but not limited to all amounts of compensation previously deferred by the Executive (together with any accrued interest thereon) and not yet paid by the Company, and any accrued vacation pay not yet paid by the Company.

(j) The Company shall pay to the Executive the amounts due pursuant to Sections 4(a), 4(g) and 4(h)(iii) in a lump sum on the first business day of the month following the Termination Date. The Company shall pay to the Executive the amounts due pursuant to Section 4(i) in accordance with the terms and conditions of the existing plans and policies of the Company.

5. Certain Additional Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding, but subject to Section 5(h), in the event that this Agreement shall become operative and it shall be determined (as hereafter provided) that any payment (other than the Gross-Up payments provided for in this Section 5) or distribution by the Company or any of its subsidiaries to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise pursuant to or by reason of any other agreement, policy, plan, program or arrangement, including without limitation any stock option, stock appreciation right or similar right, restricted stock, deferred stock or the lapse or termination of any restriction on, deferral period or the vesting or exercisability of any of the foregoing (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Code (or any successor provision thereto) by reason of being considered "contingent on a change in ownership or control" of the Company, within the meaning of Section 280G of the Code (or any successor provision thereto) or to any similar tax imposed by state or local law, or any interest or penalties with respect to such tax (such tax or taxes, together with any such interest and penalties, being hereafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment or payments (collectively, a "Gross-Up Payment"). The Gross-Up Payment shall be in an amount such that, after payment by the Executive of all taxes (including any interest or



penalties imposed with respect to such taxes), including any Excise Tax and any income tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payment.

(b) Subject to the provisions of Section 5(f), all determinations required to be made under this Section 5, including whether an Excise Tax is payable by the Executive and the amount of such Excise Tax and whether a Gross-Up Payment is required to be paid by the Company to the Executive and the amount of such Gross-Up Payment, if any, shall be made by a nationally recognized accounting firm (the "Accounting Firm") selected by the Executive in his sole discretion. The Executive shall direct the Accounting Firm to submit its determination and detailed supporting calculations to both the Company and the Executive within 30 calendar days after the Change in Control Date, the Termination Date, if applicable, and any such other time or times as may be requested by the Company or the Executive. If the Accounting Firm determines that any Excise Tax is payable by the Executive, the Company shall pay the required Gross-Up Payment to the Executive within five business days after receipt of such determination and calculations with respect to any Payment to the Executive. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall, at the same time as it makes such determination, furnish the Company and the Executive an opinion that the Executive has substantial authority not to report any Excise Tax on his federal, state or local income or other tax return. As a result of the uncertainty in the application of Section 4999 of the Code (or any successor provision thereto) and the possibility of similar uncertainty regarding applicable state or local tax law at the time of any determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made (an "Underpayment"), consistent with the calculations required to be made hereunder. In the

event that the Company exhausts or fails to pursue its remedies pursuant to Section 5(f) and the Executive thereafter is required to make a payment of any Excise Tax, the Executive shall direct the Accounting Firm to determine the amount of the Underpayment that has occurred and to submit its determination and detailed supporting calculations to both the Company and the Executive as promptly as possible. Any such Underpayment shall be promptly paid by the Company to, or for the benefit of, the Executive within five business days after receipt of such determination and calculations.

(c) The Company and the Executive shall each provide the Accounting Firm access to and copies of any books, records and documents in the possession of the Company or the Executive, as the case may be, reasonably requested by the Accounting Firm, and otherwise cooperate with the Accounting Firm in connection with the preparation and issuance of the determinations and calculations contemplated by Section 5(b). Any determination by the Accounting Firm as to the amount of the Gross-Up Payment shall be binding upon the Company and the Executive.

(d) The federal, state and local income or other tax returns filed by the Executive shall be prepared and filed on a consistent basis with the determination of the Accounting Firm with respect to the Excise Tax payable by the Executive. The Executive shall make proper payment of the amount of any Excise Payment, and at the request of the Company, provide to the Company true and correct copies (with any amendments) of his federal income tax return as filed with the Internal Revenue Service and corresponding state and local tax returns, if relevant, as filed with the applicable taxing authority, and such other documents reasonably requested by the Company, evidencing such payment. If prior to the filing of the Executive's federal income tax return, or corresponding state or local tax return, if relevant, the Accounting

Firm determines that the amount of the Gross-Up Payment should be reduced, the Executive shall within five business days pay to the Company the amount of such reduction.

(e) The fees and expenses of the Accounting Firm for its services in connection with the determinations and calculations contemplated by Section 5(b) shall be borne by the Company. If such fees and expenses are initially paid by the Executive, the Company shall reimburse the Executive the full amount of such fees and expenses within five business days after receipt from the Executive of a statement therefor and reasonable evidence of his payment thereof.

(f) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service or any other taxing authority that, if successful, would require the payment by the Company of a Gross-Up Payment or any additional Gross-Up Payment. Such notification shall be given as promptly as practicable but no later than 10 business days after the Executive actually receives notice of such claim and the Executive shall further apprise the Company of the nature of such claim and the date on which such claim is requested to be paid (in each case, to the extent known by the Executive). The Executive shall not pay such claim prior to the earlier of (x) the expiration of the 30-calendar-day period following the date on which he gives such notice to the Company and (y) the date that any payment of amount with respect to such claim is due. If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) provide the Company with any written records or documents in his possession relating to such claim reasonably requested by the Company;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including without

limitation accepting legal representation with respect to such claim by an attorney competent in respect of the subject matter and reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order effectively to contest such claim; and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including interest and penalties) incurred in connection with such contest and shall indemnify and hold harmless the Executive, on an after-tax basis, for and against any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such contest and payment of costs and expenses. Without limiting the foregoing provisions of this Section 5(f), the Company shall control all proceedings taken in connection with the contest of any claim contemplated by this Section 5(f) and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim (provided, however, that the Executive may participate therein at his own cost and expense) and may, at its option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay the tax claimed and sue for a refund, the Company shall advance the amount of such payment to the Executive on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any

Excise Tax or income or other tax, including interest or penalties with respect thereto, imposed with respect to such advance; and provided further, however, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which the contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of any such contested claim shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(g) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 5(f), the Executive receives any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 5(f)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after any taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 5(f), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial or refund prior to the expiration of 30 calendar days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of any such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid by the Company to the Executive pursuant to this Section 5.

(h) Notwithstanding any provision of this Agreement to the contrary, if (i) but for this sentence, the Company would be obligated to make a Gross-Up Payment to the Executive, (ii) the aggregate "present value" of the "parachute payments" to be paid or provided

to the Executive under this Agreement or otherwise does not exceed 1.15 multiplied by three times the Executive's "base amount," and (iii) but for this sentence, the net after-tax benefit to the Executive of the Gross-Up Payment would not exceed \$50,000 (taking into account both income taxes and any Excise Tax), then the payments and benefits to be paid or provided under this Agreement (including any stock based compensation pursuant to Section 4(f)) will be reduced to the minimum extent necessary (but in no event to less than zero) so that no portion of any payment or benefit to the Executive, as so reduced, constitutes an "excess parachute payment." For purposes of this Section 5(h), the terms "excess parachute payment," "present value," "parachute payment," and "base amount" will have the meanings assigned to them by Section 280G of the Code. The determination of whether any reduction in such payments or benefits to be provided under this Agreement is required pursuant to the preceding sentence will be made at the expense of the Company, if requested by the Executive or the Company, by the Accounting Firm. The fact that the Executive's right to payments or benefits may be reduced by reason of the limitations contained in this Section 5(h) will not of itself limit or otherwise affect any other rights of the Executive other than pursuant to this Agreement. In the event that any payment or benefit intended to be provided under this Agreement or otherwise is required to be reduced pursuant to this Section 5(h), the Executive will be entitled to designate the payments and/or benefits to be so reduced in order to give effect to this Section 5(h). The Company will provide the Executive with all information reasonably requested by the Executive to permit the Executive to make such designation. In the event that the Executive fails to make such designation within 10 business days of the Termination Date, the Company may effect such reduction in any manner it deems appropriate.

6. No Mitigation Obligation. The Company hereby acknowledges that it will be difficult and may be impossible for the Executive to find reasonably comparable employment following the Termination Date. Accordingly, the payment of the severance compensation by the Company to the Executive in accordance with the terms of this Agreement is hereby acknowledged by the Company to be reasonable, and the Executive will not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, nor will any profits, income, earnings or other benefits from any source whatsoever create any mitigation, offset, reduction or any other obligation on the part of the Executive hereunder or otherwise, except as expressly provided in the last sentence of Section 4(b).

7. Legal Fees and Expenses.

(a) It is the intent of the Company that the Executive not be required to incur legal fees and the related expenses associated with the interpretation, enforcement or defense of Executive's rights under this Agreement by litigation or otherwise because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Executive hereunder. Accordingly, if it should appear to the Executive that the Company has failed to comply with any of its obligations under this Agreement or in the event that the Company or any other person takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any litigation or other action or proceeding designed to deny, or to recover from, the Executive any or all of the benefits provided or intended to be provided to the Executive hereunder, the Company irrevocably authorizes the Executive from time to time to retain counsel of Executive's choice, at the expense of the Company as hereafter provided, to advise and represent the Executive in connection with any such interpretation, enforcement or

defense, including without limitation the initiation or defense of any litigation or other legal action, whether by or against the Company or any director, officer, stockholder or other person affiliated with the Company, in any jurisdiction. Notwithstanding any existing or prior attorney-client relationship between the Company and such counsel, the Company irrevocably consents to the Executive's entering into an attorney-client relationship with such counsel, and in that connection the Company and the Executive agree that a confidential relationship shall exist between the Executive and such counsel. Without respect to whether the Executive prevails, in whole or in part, in connection with any of the foregoing, the Company will pay and be solely financially responsible for any and all attorneys' and related fees and expenses incurred by the Executive in connection with any of the foregoing.

(b) Without limiting the obligations of the Company pursuant to Section 7(a) hereof, in the event a Change in Control occurs, the performance of the Company's obligations under this Section 7 shall be secured by amounts deposited or to be deposited in trust pursuant to certain trust agreements to which the Company shall be a party, which amounts deposited shall in the aggregate be not less than \$2,000,000, providing that the fees and expenses of counsel selected from time to time by the Executive pursuant to Section 7(a) shall be paid, or reimbursed to the Executive if paid by the Executive, either in accordance with the terms of such trust agreements, or, if not so provided, on a regular, periodic basis upon presentation by the Executive to the trustee of a statement or statements prepared by such counsel in accordance with its customary practices. Any failure by the Company to satisfy any of its obligations under this Section 7(b) shall not limit the rights of the Executive hereunder. Subject to the foregoing, the Executive shall have the status of a general unsecured creditor of the Company and shall have no right to, or security interest in, any assets of the Company or any subsidiary.



## 8. Continuing Obligations

(a) The Executive hereby agrees that all documents, records, techniques, business secrets and other information which have come into his possession from time to time during his employment with the Company shall be deemed to be confidential and proprietary to the Company and, except for personal documents and records of the Executive, shall be returned to the Company. The Executive further agrees to retain in confidence any confidential information known to him concerning the Company and its subsidiaries and their respective businesses so long as such information is not publicly disclosed, except that Executive may disclose any such information required to be disclosed in the normal course of his employment with the Company or pursuant to any court order or other legal process.

(b) The Executive hereby agrees that during the Continuation Period, he will not directly or indirectly solicit any employee of the Company or any of its subsidiaries or affiliated companies to join the employ of any entity that competes with the Company or any of its subsidiaries or affiliated companies.

## 9. Successors

(a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to the Executive to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of such successor entity to enter into such agreement prior to the effective date of any such succession (or, if later, within three business days after first receiving a written request for such agreement) shall constitute a breach of this Agreement and shall entitle the Executive to

terminate his employment pursuant to Section 2(a)(ii) and to receive the payments and benefits provided under Section 4. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which executes and delivers the Agreement provided for in this Section 9 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(b) This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive dies while any amounts are payable to him hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to his devisee, legatee or other designee or, if there is no such designee, to his estate.

#### 10. Notices

For all purposes of this Agreement, all communications, including without limitation notices, consents, requests or approvals, required or permitted to be given hereunder will be in writing and will be deemed to have been duly given when hand delivered or dispatched by electronic facsimile transmission (with receipt thereof orally confirmed), or five business days after having been mailed by United States registered or certified mail, return receipt requested, postage prepaid, or three business days after having been sent by a nationally recognized overnight courier service such as FedEx, UPS, or Purolator, addressed to the Company (to the attention of the Secretary of the Company, with a copy to the General Counsel of the Company) at its principal executive office and to the Executive at his principal residence, or to such other address as any party may have furnished to the other in writing and in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

## 11. Governing Law

THE VALIDITY, INTERPRETATION, CONSTRUCTION AND PERFORMANCE OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF DELAWARE.

## 12. Miscellaneous

No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by the Executive and the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement (or in any employment or other written agreement relating to the Executive). Notwithstanding any provision of this Agreement to the contrary, the parties' respective rights and obligations under Sections 4, 5 and 7 will survive any termination or expiration of this Agreement or the termination of the Executive's employment following a Change in Control for any reason whatsoever. Nothing expressed or implied in this Agreement will create any right or duty on the part of the Company or the Executive to have the Executive remain in the employment of the Company or any subsidiary prior to or following any Change in Control. The Company may withhold from any amounts payable under this Agreement all federal, state, city or other taxes as the Company is required to withhold pursuant to any law or government regulation or ruling. In the event that the Company refuses or otherwise fails to make a payment when due and it is ultimately decided that the Executive is entitled to such

payment, such payment shall be increased to reflect an interest factor, compounded annually, equal to the prime rate in effect as of the date the payment was first due plus two points. For this purpose, the prime rate shall be based on the rate identified by Chase Manhattan Bank as its prime rate.

### 13. Separability

The invalidity or unenforceability of any provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

### 14. Non-assignability

This Agreement is personal in nature and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder, except as provided in Section 9. Without limiting the foregoing, the Executive's right to receive payments hereunder shall not be assignable or transferable, whether by pledge, creation of a security interest or otherwise, other than a transfer by his will or by the laws of descent or distribution, and in the event of any attempted assignment or transfer by Executive contrary to this Section 14 the Company shall have no liability to pay any amount so attempted to be assigned or transferred to any person other than the Executive or, in the event of his death, his designated beneficiary or, in the absence of an effective beneficiary designation, the Executive's estate.

### 15. Effectiveness; Term

This Agreement will be effective and binding as of the date first above written immediately upon its execution, but, anything in this Agreement to the contrary notwithstanding, this Agreement will not be operative unless and until a Change in Control occurs. Upon the

occurrence of a Change in Control at any time during the Term (as defined below), without further action, this Agreement shall become immediately operative. For purposes of this Agreement, "Term" means the period commencing as of the date first above written and expiring as of the later of (i) the fifth anniversary of the date first above written or (ii) the second anniversary of the first occurrence of a Change in Control; provided, however, that (A) commencing on the fifth anniversary of the date first above written and each fifth anniversary date thereafter, the Term of this Agreement will automatically be extended for an additional five years unless, not later than 180 days preceding each such fifth anniversary date, the Company or the Executive shall have given notice that it or the Executive, as the case may be, does not wish to have the Term extended and (B) subject to Section 2(e), if, prior to a Change in Control, the Executive ceases for any reason to be an employee of the Company and any subsidiary, thereupon without further action the Term shall be deemed to have expired and this Agreement will immediately terminate and be of no further effect. For purposes of this Section 15, the Executive shall not be deemed to have ceased to be an employee of the Company and any subsidiary by reason of the transfer of Executive's employment between the Company and any subsidiary, or among any subsidiaries.

16 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same agreement.

17 Prior Agreement. This Agreement supersedes and terminates any and all prior Executive Termination Benefits Agreements by and among Company and the Executive.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered as of the day and year first above set forth, thereby mutually and voluntarily agreeing that this Agreement supersedes and replaces any prior similar agreements for such termination benefits.

AMR CORPORATION

By: /s/ Donald J. Carty

AMERICAN AIRLINES, INC.

By: /s/ Thomas J. Kiernan

CHARLES D. MARLETT

/s/ Charles D. MarLett

AMENDED AND RESTATED  
EXECUTIVE TERMINATION BENEFITS AGREEMENT

THIS AMENDED AND RESTATED EXECUTIVE TERMINATION BENEFITS AGREEMENT (this "Agreement"), dated as of the 21st day of May, 1998 is among AMR CORPORATION, a Delaware corporation, AMERICAN AIRLINES, INC., a Delaware corporation (collectively the "Company"), and ANNE H. MCNAMARA (the "Executive").

W I T N E S S E T H:

WHEREAS, the Company considers it essential to the best interests of the Company and its stockholders that its management be encouraged to remain with the Company and to continue to devote full attention to the Company's business in the event an effort is made to obtain control of the Company through a tender offer or otherwise;

WHEREAS, the Company recognizes that the possibility of a change in control and the uncertainty and questions which it may raise among management may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders;

WHEREAS, the Company's Board of Directors (the "Board") has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management to their assigned duties without distraction in the face of the potentially disturbing circumstances arising from the possibility of a change in control of the Company;

WHEREAS, the Executive is a key Executive of the Company;

WHEREAS, the Company believes the Executive has made valuable contributions to the productivity and profitability of the Company;

WHEREAS, should the Company receive any proposal from a third person concerning a possible business combination with or acquisition of equity securities of the Company, the Board believes it imperative that the Company and the Board be able to rely upon the Executive to continue in his position, and that the Company be able to receive and rely upon his advice as to the best interests of the Company and its stockholders without concern that he might be distracted by the personal uncertainties and risks created by such a proposal; and

WHEREAS, should the Company receive any such proposals, in addition to the Executive's regular duties, he may be called upon to assist in the assessment of such proposals, advise management and the Board as to whether such proposals would be in the best interests of the Company and its stockholders, and to take such other actions as the Board might determine to be appropriate.

NOW, THEREFORE, to assure the Company that it will have the continued undivided attention and services of the Executive and the availability of his advice and counsel notwithstanding the possibility, threat or occurrence of a bid to take over control of the Company, and to induce the Executive to remain in the employ of the Company, and for other good and valuable consideration, the Company and the Executive agree as follows:

1. Change in Control

For purposes of this Agreement, a Change in Control of the Company shall be deemed to have taken place if:

(a) any person as defined in Section 3(a)(9) of the Securities Exchange Act of 1934, as amended from time to time (the "Exchange Act"), and as used in Sections 13(d) and



14(d) thereof, including a "group" as defined in Section 13(d) of the Exchange Act (a "Person"), but excluding the Company, any subsidiary of the Company and any employee benefit plan sponsored or maintained by the Company or any subsidiary of the Company (including any trustee of such plan acting as trustee), directly or indirectly, becomes the "beneficial owner" (as defined in Rule 13(d)-3 under the Exchange Act, as amended from time to time) of securities of the Company representing 15% or more of the combined voting power of the Company's then outstanding securities; or

(b) individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of the assets of another corporation (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the then outstanding shares of common stock of the Company and the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors immediately prior to such Business Combination

beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries), (ii) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 15% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination, and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Incumbent Board, providing for such Business Combination; or

(d) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

## 2. Circumstances Triggering Receipt of Severance Benefits

(a) Subject to Section 2(c), the Company will provide the Executive with the benefits set forth in Section 4 upon any termination of the Executive's employment:

(i) by the Company at any time within the first 24 months after a Change in Control;

(ii) by the Executive for "Good Reason" (as defined in Section 2(b) below) at any time within the first 24 months after a Change in Control;

(iii) by the Executive pursuant to Section 2(d); or

(iv) by the Company or the Executive pursuant to Section 2(e).

(b) In the event of the occurrence of a Change in Control, the Executive may terminate employment with the Company and/or any subsidiary for "Good Reason" with the right to benefits set forth in Section 4 upon the occurrence of one or more of the following events (regardless of whether any other reason, other than Cause as provided below, for such termination exists or has occurred, including without limitation other employment):

(i) Failure to elect or reelect or otherwise to maintain the Executive in the office or the position, or a substantially equivalent office or position, of or with the Company and/or a subsidiary, as the case may be, which the Executive held immediately prior to a Change in Control, or the removal of the Executive as a director of the Company and/or a subsidiary (or any successor thereto) if the Executive shall have been a director of the Company and/or a subsidiary immediately prior to the Change in Control;

(ii) (A) A significant adverse change in the nature or scope of the authorities, powers, functions, responsibilities or duties attached to the position with the Company and/or any subsidiary which the Executive held immediately prior to the Change in Control, (B) a reduction in the aggregate of the Executive's annual base salary rate and annual incentive compensation target to be received from the Company and/or any subsidiary, or (C) the termination or denial of the Executive's rights to Employee Benefits (as defined below) or a reduction in the

scope or value thereof, any of which is not remedied by the Company within 10 calendar days after receipt by the Company of written notice from the Executive of such change, reduction or termination, as the case may be;

(iii) A determination by the Executive (which determination will be conclusive and binding upon the parties hereto provided it has been made in good faith and in all events will be presumed to have been made in good faith unless otherwise shown by the Company by clear and convincing evidence) that a change in circumstances has occurred following a Change in Control, including, without limitation, a change in the scope of the business or other activities for which the Executive was responsible immediately prior to the Change in Control, which has rendered the Executive substantially unable to carry out, has substantially hindered Executive's performance of, or has caused the Executive to suffer a substantial reduction in, any of the authorities, powers, functions, responsibilities or duties attached to the position held by the Executive immediately prior to the Change in Control, which situation is not remedied within 10 calendar days after written notice to the Company from the Executive of such determination;

(iv) The liquidation, dissolution, merger, consolidation or reorganization of the Company or transfer of all or substantially all of its business and/or assets, unless the successor or successors (by liquidation, merger, consolidation, reorganization, transfer or otherwise) to which all or substantially all of its business and/or assets have been transferred (directly or by operation of

law) assumed all duties and obligations of the Company under this Agreement pursuant to Section 9(a);

(v) The Company relocates its principal executive offices, or requires the Executive to have his principal location of work changed, to any location that is in excess of 50 miles from the location thereof immediately prior to the Change in Control, or requires the Executive to travel away from his office in the course of discharging his responsibilities or duties hereunder at least 20% more (in terms of aggregate days in any calendar year or in any calendar quarter when annualized for purposes of comparison to any prior year) than was required of Executive in any of the three full years immediately prior to the Change in Control without, in either case, his prior written consent; or

(vi) Without limiting the generality or effect of the foregoing, any material breach of this Agreement by the Company or any successor thereto, which breach is not remedied within 10 calendar days after written notice to the Company from the Executive describing the nature of such breach.

(c) Notwithstanding Sections 2(a) and (b) above, no benefits shall be payable by reason of this Agreement in the event of:

(i) Termination of the Executive's employment with the Company and its subsidiaries by reason of the Executive's death or Disability, provided that the Executive has not previously given a valid "Notice of Termination" pursuant to Section 3. For purposes hereof, "Disability" shall be defined as the inability of Executive due to illness, accident or other physical or mental disability to perform his duties for any period of six consecutive months or for any period of eight

months out of any 12-month period, as determined by an independent physician selected by the Company and reasonably acceptable to the Executive (or his legal representative), provided that the Executive does not return to work on substantially a full-time basis within 30 days after written notice from the Company, pursuant to Section 3, of an intent to terminate the Executive's employment due to Disability;

(ii) Termination of the Executive's employment with the Company and its subsidiaries on account of the Executive's retirement at or after age 65, pursuant to the Company's Retirement Benefit Plan; or

(iii) Termination of the Executive's employment with the Company and its subsidiaries for Cause. For the purposes hereof, "Cause" shall be defined as a felony conviction of the Executive or the failure of the Executive to contest prosecution for a felony, or the Executive's wilful misconduct or dishonesty, any of which is directly and materially harmful to the business or reputation of the Company or any subsidiary or affiliate. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for "Cause" hereunder unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three quarters of the Board then in office at a meeting of the Board called and held for such purpose, after reasonable notice to the Executive and an opportunity for the Executive, together with his counsel (if the Executive chooses to have counsel present at such meeting), to be heard before the Board, finding that, in the good faith opinion of the Board, the Executive had committed an act constituting

"Cause" as herein defined and specifying the particulars thereof in detail. Nothing herein will limit the right of the Executive or his beneficiaries to contest the validity or propriety of any such determination.

This Section 2(c) shall not preclude the payment of any amounts otherwise payable to the Executive under any of the Company's employee benefit plans, stock plans, programs and arrangements and/or under any Employment Agreement.

(d) Notwithstanding anything contained in this Agreement to the contrary, in the event of a Change in Control, the Executive may terminate employment with the Company and any subsidiary for any reason, or without reason, by providing Notice of Termination pursuant to Section 3 during the 30-day period immediately following the first anniversary of the first occurrence of a Change in Control with the right to the benefits set forth in Section 4.

(e) Any termination of employment of the Executive, including a termination for "Good Reason," but excluding a termination for "Cause," or the removal of the Executive from the office or position in the Company or any subsidiary that occurs (i) not more than 180 days prior to the date on which a Change in Control occurs and (ii) following the commencement of any discussion with a third person that ultimately results in a Change in Control shall be deemed to be a termination or removal of the Executive after a Change in Control for purposes of this Agreement.

### 3. Notice of Termination

Any termination of the Executive's employment with the Company and its subsidiaries as contemplated by Section 2 shall be communicated by written "Notice of Termination" to the other party hereto. Any "Notice of Termination" shall indicate the effective date of termination which shall not be less than 30 days or more than 60 days after the date the Notice of

Termination is delivered (the "Termination Date"), the specific provision in this Agreement relied upon, and, except for a termination pursuant to Section 2(d), will set forth in reasonable detail the facts and circumstances claimed to provide a basis for such termination including, if applicable, the failure after provision of written notice by the Executive to effect a remedy pursuant to the final clause of Section 2(b)(ii), 2(b)(iii) or 2(b)(vi).

4. Termination Benefits

Subject to the conditions set forth in Section 2, the following benefits shall be paid or provided to the Executive:

(a) Compensation

The Company shall pay to the Executive three times the sum of (i) "Base Pay", which shall be an amount equal to the greater of (A) the Executive's effective annual base salary at the Termination Date or (B) the Executive's effective annual base salary immediately prior to the Change in Control, plus (ii) "Incentive Pay" equal to the greater of (x) the target annual bonus payable to the Executive under the Company's Incentive Compensation Plan or any other annual bonus plan for the fiscal year of the Company in which the Change in Control occurred or (y) the highest annual bonus earned by the Executive under the Company's Incentive Compensation Plan or any other annual bonus plan (whether paid currently or on a deferred basis) with respect to any 12 consecutive month period during the three fiscal years of the Company immediately preceding the fiscal year of the Company in which the Change in Control occurred, plus (iii) "Performance Returns" equal to the highest annual payment of performance returns paid to the Executive with respect to any 12 consecutive month period during the three fiscal years of the Company immediately preceding the fiscal year of the Company in which the Change in Control occurred.



## (b) Welfare Benefits

For a period of 36 months following the Termination Date (the "Continuation Period"), the Company shall arrange to provide the Executive with benefits, including travel accident, major medical, dental, vision care and other welfare benefit programs in effect immediately prior to the Change in Control ("Employee Benefits") substantially similar to those that the Executive was receiving or entitled to receive immediately prior to the Termination Date (or, if greater, immediately prior to the reduction, termination, or denial described in Section 2(b)(ii)(C)). If and to the extent that any benefit described in this Section 4(b) is not or cannot be paid or provided under any policy, plan, program or arrangement of the Company or any subsidiary, as the case may be, then the Company will itself pay or provide for the payment to the Executive, his dependents and beneficiaries, of such Employee Benefits along with, in the case of any benefit which is subject to tax because it is not or cannot be paid or provided under any such policy, plan, program or arrangement of the Company or any subsidiary, an additional amount such that after payment by the Executive, or his dependents or beneficiaries, as the case may be, of all taxes so imposed, the recipient retains an amount equal to such taxes. Employee Benefits otherwise receivable by the Executive pursuant to this Section 4(b) will be reduced to the extent comparable welfare benefits are actually received by the Executive from another employer during the Continuation Period, and any such benefits actually received by the Executive shall be reported by the Executive to the Company.

## (c) Retirement Benefits

The Executive shall be deemed to be completely vested in Executive's currently accrued benefits under the Company's Retirement Benefit Plan and Supplemental Executive Retirement Plan ("SERP") in effect as of the date of Change in Control (collectively, the

"Plans"), regardless of his actual vesting service credit thereunder. In addition, the Executive shall be deemed to earn service credit for benefit calculation purposes thereunder for the Continuation Period. Benefits under the Plans will become payable at any time designated by the Executive following termination of the Executive's employment with the Company and its subsidiaries after the Executive reaches age 55, subject to the terms of the Plans regarding the actuarial adjustment of benefit payments commencing prior to normal retirement age. The benefits to be paid pursuant to the Plans shall be calculated as though the Executive's compensation rate for each of the five years immediately preceding his retirement equaled the sum of Base Pay plus Incentive Pay plus Performance Returns. Any benefits payable pursuant to this Section 4(c) that are not payable out of the Plans for any reason (including but not limited to any applicable benefit limitations under the Employee Retirement Income Security Act of 1974, as amended, or any restrictions relating to the qualification of the Company's Retirement Benefit Plan under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code")) shall be paid directly by the Company out of its general assets.

(d) Relocation Benefits

If the Executive moves his residence in order to pursue other business or employment opportunities during the Continuation Period and requests in writing that the Company provide relocation services, he will be reimbursed for any expenses incurred in that initial relocation (including taxes payable on the reimbursement) which are not reimbursed by another employer. Benefits under this provision will include assistance in selling the Executive's home and all other assistance and benefits which were customarily provided by the Company to transferred executives prior to the Change in Control.

(e) Executive Outplacement Counseling

At the request of the Executive made in writing during the Continuation Period, the Company shall engage an outplacement counseling service of national reputation to assist the Executive in obtaining employment.

(f) Stock Based Compensation Plans

(i) Any issued and outstanding Stock Options (to the extent they have not already become exercisable) shall become exercisable as of the date on which the Change in Control occurs, unless otherwise specifically provided at the time such options are granted.

(ii) The Company's right to rescind any award of stock to the Executive under the Company's 1988 Long Term Incentive Plan or the Company's 1998 Long Term Incentive Plan (or any successor plan) shall terminate upon a Change in Control, and all restrictions on the sale, pledge, hypothecation or other disposition of shares of stock awarded pursuant to such plan shall be removed at the Termination Date, unless otherwise specifically provided at the time such award(s) are made.

(iii) The Executive's rights under any other stock based compensation plan shall vest (to the extent they have not already vested) and any performance criteria shall be deemed met at target as of the date on which a Change in Control occurs, unless otherwise specifically provided at the time such right(s) are granted.

(g) Split Dollar Life Insurance

The Company shall pay to the Executive a lump sum equal to the cost on the Termination Date of purchasing, at standard independent insurance premium rates, an individual

paid up insurance policy providing benefits equal to the benefits provided by the Company's Split Dollar Life Insurance coverage immediately prior to the date of the Change in Control.

(h) Other Benefits

(i) The Executive shall have all flight privileges provided by the Company to Directors as of the date of Change in Control until the Executive reaches age 55, at which time he shall have all flight privileges provided by the Company to its retirees who held the same or similar position as the Executive immediately prior to the Change in Control.

(ii) The Executive, at the Executive's option, shall be entitled to continue the use of the Executive's Company-provided automobile during the Continuation Period under the same terms that applied to the automobile immediately prior to the Change in Control, or to purchase the automobile at its book value as of the Termination Date.

(iii) The Company shall pay to the Executive an amount equal to the cost to the Company of providing any other perquisites and benefits of the Company in effect immediately prior to the Change in Control, calculated as if such benefits were continued during the Continuation Period.

(i) Accrued Amounts

The Company shall pay to the Executive all other amounts accrued or earned by the Executive through the Termination Date and amounts otherwise owing under the then existing plans and policies of the Company, including but not limited to all amounts of compensation previously deferred by the Executive (together with any accrued interest thereon) and not yet paid by the Company, and any accrued vacation pay not yet paid by the Company.

(j) The Company shall pay to the Executive the amounts due pursuant to Sections 4(a), 4(g) and 4(h)(iii) in a lump sum on the first business day of the month following the Termination Date. The Company shall pay to the Executive the amounts due pursuant to Section 4(i) in accordance with the terms and conditions of the existing plans and policies of the Company.

5. Certain Additional Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding, but subject to Section 5(h), in the event that this Agreement shall become operative and it shall be determined (as hereafter provided) that any payment (other than the Gross-Up payments provided for in this Section 5) or distribution by the Company or any of its subsidiaries to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise pursuant to or by reason of any other agreement, policy, plan, program or arrangement, including without limitation any stock option, stock appreciation right or similar right, restricted stock, deferred stock or the lapse or termination of any restriction on, deferral period or the vesting or exercisability of any of the foregoing (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Code (or any successor provision thereto) by reason of being considered "contingent on a change in ownership or control" of the Company, within the meaning of Section 280G of the Code (or any successor provision thereto) or to any similar tax imposed by state or local law, or any interest or penalties with respect to such tax (such tax or taxes, together with any such interest and penalties, being hereafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment or payments (collectively, a "Gross-Up Payment"). The Gross-Up Payment shall be in an amount such that, after payment by the Executive of all taxes (including any interest or

penalties imposed with respect to such taxes), including any Excise Tax and any income tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payment.

(b) Subject to the provisions of Section 5(f), all determinations required to be made under this Section 5, including whether an Excise Tax is payable by the Executive and the amount of such Excise Tax and whether a Gross-Up Payment is required to be paid by the Company to the Executive and the amount of such Gross-Up Payment, if any, shall be made by a nationally recognized accounting firm (the "Accounting Firm") selected by the Executive in his sole discretion. The Executive shall direct the Accounting Firm to submit its determination and detailed supporting calculations to both the Company and the Executive within 30 calendar days after the Change in Control Date, the Termination Date, if applicable, and any such other time or times as may be requested by the Company or the Executive. If the Accounting Firm determines that any Excise Tax is payable by the Executive, the Company shall pay the required Gross-Up Payment to the Executive within five business days after receipt of such determination and calculations with respect to any Payment to the Executive. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall, at the same time as it makes such determination, furnish the Company and the Executive an opinion that the Executive has substantial authority not to report any Excise Tax on his federal, state or local income or other tax return. As a result of the uncertainty in the application of Section 4999 of the Code (or any successor provision thereto) and the possibility of similar uncertainty regarding applicable state or local tax law at the time of any determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made (an "Underpayment"), consistent with the calculations required to be made hereunder. In the

event that the Company exhausts or fails to pursue its remedies pursuant to Section 5(f) and the Executive thereafter is required to make a payment of any Excise Tax, the Executive shall direct the Accounting Firm to determine the amount of the Underpayment that has occurred and to submit its determination and detailed supporting calculations to both the Company and the Executive as promptly as possible. Any such Underpayment shall be promptly paid by the Company to, or for the benefit of, the Executive within five business days after receipt of such determination and calculations.

(c) The Company and the Executive shall each provide the Accounting Firm access to and copies of any books, records and documents in the possession of the Company or the Executive, as the case may be, reasonably requested by the Accounting Firm, and otherwise cooperate with the Accounting Firm in connection with the preparation and issuance of the determinations and calculations contemplated by Section 5(b). Any determination by the Accounting Firm as to the amount of the Gross-Up Payment shall be binding upon the Company and the Executive.

(d) The federal, state and local income or other tax returns filed by the Executive shall be prepared and filed on a consistent basis with the determination of the Accounting Firm with respect to the Excise Tax payable by the Executive. The Executive shall make proper payment of the amount of any Excise Payment, and at the request of the Company, provide to the Company true and correct copies (with any amendments) of his federal income tax return as filed with the Internal Revenue Service and corresponding state and local tax returns, if relevant, as filed with the applicable taxing authority, and such other documents reasonably requested by the Company, evidencing such payment. If prior to the filing of the Executive's federal income tax return, or corresponding state or local tax return, if relevant, the Accounting

Firm determines that the amount of the Gross-Up Payment should be reduced, the Executive shall within five business days pay to the Company the amount of such reduction.

(e) The fees and expenses of the Accounting Firm for its services in connection with the determinations and calculations contemplated by Section 5(b) shall be borne by the Company. If such fees and expenses are initially paid by the Executive, the Company shall reimburse the Executive the full amount of such fees and expenses within five business days after receipt from the Executive of a statement therefor and reasonable evidence of his payment thereof.

(f) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service or any other taxing authority that, if successful, would require the payment by the Company of a Gross-Up Payment or any additional Gross-Up Payment. Such notification shall be given as promptly as practicable but no later than 10 business days after the Executive actually receives notice of such claim and the Executive shall further apprise the Company of the nature of such claim and the date on which such claim is requested to be paid (in each case, to the extent known by the Executive). The Executive shall not pay such claim prior to the earlier of (x) the expiration of the 30-calendar-day period following the date on which he gives such notice to the Company and (y) the date that any payment of amount with respect to such claim is due. If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) provide the Company with any written records or documents in his possession relating to such claim reasonably requested by the Company;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including without



limitation accepting legal representation with respect to such claim by an attorney competent in respect of the subject matter and reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order effectively to contest such claim; and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including interest and penalties) incurred in connection with such contest and shall indemnify and hold harmless the Executive, on an after-tax basis, for and against any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such contest and payment of costs and expenses. Without limiting the foregoing provisions of this Section 5(f), the Company shall control all proceedings taken in connection with the contest of any claim contemplated by this Section 5(f) and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim (provided, however, that the Executive may participate therein at his own cost and expense) and may, at its option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay the tax claimed and sue for a refund, the Company shall advance the amount of such payment to the Executive on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any

Excise Tax or income or other tax, including interest or penalties with respect thereto, imposed with respect to such advance; and provided further, however, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which the contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of any such contested claim shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(g) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 5(f), the Executive receives any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 5(f)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after any taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 5(f), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial or refund prior to the expiration of 30 calendar days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of any such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid by the Company to the Executive pursuant to this Section 5.

(h) Notwithstanding any provision of this Agreement to the contrary, if (i) but for this sentence, the Company would be obligated to make a Gross-Up Payment to the Executive, (ii) the aggregate "present value" of the "parachute payments" to be paid or provided

to the Executive under this Agreement or otherwise does not exceed 1.15 multiplied by three times the Executive's "base amount," and (iii) but for this sentence, the net after-tax benefit to the Executive of the Gross-Up Payment would not exceed \$50,000 (taking into account both income taxes and any Excise Tax), then the payments and benefits to be paid or provided under this Agreement (including any stock based compensation pursuant to Section 4(f)) will be reduced to the minimum extent necessary (but in no event to less than zero) so that no portion of any payment or benefit to the Executive, as so reduced, constitutes an "excess parachute payment." For purposes of this Section 5(h), the terms "excess parachute payment," "present value," "parachute payment," and "base amount" will have the meanings assigned to them by Section 280G of the Code. The determination of whether any reduction in such payments or benefits to be provided under this Agreement is required pursuant to the preceding sentence will be made at the expense of the Company, if requested by the Executive or the Company, by the Accounting Firm. The fact that the Executive's right to payments or benefits may be reduced by reason of the limitations contained in this Section 5(h) will not of itself limit or otherwise affect any other rights of the Executive other than pursuant to this Agreement. In the event that any payment or benefit intended to be provided under this Agreement or otherwise is required to be reduced pursuant to this Section 5(h), the Executive will be entitled to designate the payments and/or benefits to be so reduced in order to give effect to this Section 5(h). The Company will provide the Executive with all information reasonably requested by the Executive to permit the Executive to make such designation. In the event that the Executive fails to make such designation within 10 business days of the Termination Date, the Company may effect such reduction in any manner it deems appropriate.

6. No Mitigation Obligation. The Company hereby acknowledges that it will be difficult and may be impossible for the Executive to find reasonably comparable employment following the Termination Date. Accordingly, the payment of the severance compensation by the Company to the Executive in accordance with the terms of this Agreement is hereby acknowledged by the Company to be reasonable, and the Executive will not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, nor will any profits, income, earnings or other benefits from any source whatsoever create any mitigation, offset, reduction or any other obligation on the part of the Executive hereunder or otherwise, except as expressly provided in the last sentence of Section 4(b).

7. Legal Fees and Expenses.

(a) It is the intent of the Company that the Executive not be required to incur legal fees and the related expenses associated with the interpretation, enforcement or defense of Executive's rights under this Agreement by litigation or otherwise because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Executive hereunder. Accordingly, if it should appear to the Executive that the Company has failed to comply with any of its obligations under this Agreement or in the event that the Company or any other person takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any litigation or other action or proceeding designed to deny, or to recover from, the Executive any or all of the benefits provided or intended to be provided to the Executive hereunder, the Company irrevocably authorizes the Executive from time to time to retain counsel of Executive's choice, at the expense of the Company as hereafter provided, to advise and represent the Executive in connection with any such interpretation, enforcement or

defense, including without limitation the initiation or defense of any litigation or other legal action, whether by or against the Company or any director, officer, stockholder or other person affiliated with the Company, in any jurisdiction. Notwithstanding any existing or prior attorney-client relationship between the Company and such counsel, the Company irrevocably consents to the Executive's entering into an attorney-client relationship with such counsel, and in that connection the Company and the Executive agree that a confidential relationship shall exist between the Executive and such counsel. Without respect to whether the Executive prevails, in whole or in part, in connection with any of the foregoing, the Company will pay and be solely financially responsible for any and all attorneys' and related fees and expenses incurred by the Executive in connection with any of the foregoing.

(b) Without limiting the obligations of the Company pursuant to Section 7(a) hereof, in the event a Change in Control occurs, the performance of the Company's obligations under this Section 7 shall be secured by amounts deposited or to be deposited in trust pursuant to certain trust agreements to which the Company shall be a party, which amounts deposited shall in the aggregate be not less than \$2,000,000, providing that the fees and expenses of counsel selected from time to time by the Executive pursuant to Section 7(a) shall be paid, or reimbursed to the Executive if paid by the Executive, either in accordance with the terms of such trust agreements, or, if not so provided, on a regular, periodic basis upon presentation by the Executive to the trustee of a statement or statements prepared by such counsel in accordance with its customary practices. Any failure by the Company to satisfy any of its obligations under this Section 7(b) shall not limit the rights of the Executive hereunder. Subject to the foregoing, the Executive shall have the status of a general unsecured creditor of the Company and shall have no right to, or security interest in, any assets of the Company or any subsidiary.

## 8. Continuing Obligations

(a) The Executive hereby agrees that all documents, records, techniques, business secrets and other information which have come into his possession from time to time during his employment with the Company shall be deemed to be confidential and proprietary to the Company and, except for personal documents and records of the Executive, shall be returned to the Company. The Executive further agrees to retain in confidence any confidential information known to him concerning the Company and its subsidiaries and their respective businesses so long as such information is not publicly disclosed, except that Executive may disclose any such information required to be disclosed in the normal course of his employment with the Company or pursuant to any court order or other legal process.

(b) The Executive hereby agrees that during the Continuation Period, he will not directly or indirectly solicit any employee of the Company or any of its subsidiaries or affiliated companies to join the employ of any entity that competes with the Company or any of its subsidiaries or affiliated companies.

## 9. Successors

(a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to the Executive to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of such successor entity to enter into such agreement prior to the effective date of any such succession (or, if later, within three business days after first receiving a written request for such agreement) shall constitute a breach of this Agreement and shall entitle the Executive to

terminate his employment pursuant to Section 2(a)(ii) and to receive the payments and benefits provided under Section 4. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which executes and delivers the Agreement provided for in this Section 9 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(b) This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive dies while any amounts are payable to him hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to his devisee, legatee or other designee or, if there is no such designee, to his estate.

10. Notices

For all purposes of this Agreement, all communications, including without limitation notices, consents, requests or approvals, required or permitted to be given hereunder will be in writing and will be deemed to have been duly given when hand delivered or dispatched by electronic facsimile transmission (with receipt thereof orally confirmed), or five business days after having been mailed by United States registered or certified mail, return receipt requested, postage prepaid, or three business days after having been sent by a nationally recognized overnight courier service such as FedEx, UPS, or Purolator, addressed to the Company (to the attention of the Secretary of the Company, with a copy to the General Counsel of the Company) at its principal executive office and to the Executive at his principal residence, or to such other address as any party may have furnished to the other in writing and in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

## 11. Governing Law

THE VALIDITY, INTERPRETATION, CONSTRUCTION AND PERFORMANCE OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF DELAWARE.

## 12. Miscellaneous

No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by the Executive and the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement (or in any employment or other written agreement relating to the Executive). Notwithstanding any provision of this Agreement to the contrary, the parties' respective rights and obligations under Sections 4, 5 and 7 will survive any termination or expiration of this Agreement or the termination of the Executive's employment following a Change in Control for any reason whatsoever. Nothing expressed or implied in this Agreement will create any right or duty on the part of the Company or the Executive to have the Executive remain in the employment of the Company or any subsidiary prior to or following any Change in Control. The Company may withhold from any amounts payable under this Agreement all federal, state, city or other taxes as the Company is required to withhold pursuant to any law or government regulation or ruling. In the event that the Company refuses or otherwise fails to make a payment when due and it is ultimately decided that the Executive is entitled to such



payment, such payment shall be increased to reflect an interest factor, compounded annually, equal to the prime rate in effect as of the date the payment was first due plus two points. For this purpose, the prime rate shall be based on the rate identified by Chase Manhattan Bank as its prime rate.

13. Separability

The invalidity or unenforceability of any provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

14. Non-assignability

This Agreement is personal in nature and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder, except as provided in Section 9. Without limiting the foregoing, the Executive's right to receive payments hereunder shall not be assignable or transferable, whether by pledge, creation of a security interest or otherwise, other than a transfer by his will or by the laws of descent or distribution, and in the event of any attempted assignment or transfer by Executive contrary to this Section 14 the Company shall have no liability to pay any amount so attempted to be assigned or transferred to any person other than the Executive or, in the event of his death, his designated beneficiary or, in the absence of an effective beneficiary designation, the Executive's estate.

15. Effectiveness; Term

This Agreement will be effective and binding as of the date first above written immediately upon its execution, but, anything in this Agreement to the contrary notwithstanding, this Agreement will not be operative unless and until a Change in Control occurs. Upon the

occurrence of a Change in Control at any time during the Term (as defined below), without further action, this Agreement shall become immediately operative. For purposes of this Agreement, "Term" means the period commencing as of the date first above written and expiring as of the later of (i) the fifth anniversary of the date first above written or (ii) the second anniversary of the first occurrence of a Change in Control; provided, however, that (A) commencing on the fifth anniversary of the date first above written and each fifth anniversary date thereafter, the Term of this Agreement will automatically be extended for an additional five years unless, not later than 180 days preceding each such fifth anniversary date, the Company or the Executive shall have given notice that it or the Executive, as the case may be, does not wish to have the Term extended and (B) subject to Section 2(e), if, prior to a Change in Control, the Executive ceases for any reason to be an employee of the Company and any subsidiary, thereupon without further action the Term shall be deemed to have expired and this Agreement will immediately terminate and be of no further effect. For purposes of this Section 15, the Executive shall not be deemed to have ceased to be an employee of the Company and any subsidiary by reason of the transfer of Executive's employment between the Company and any subsidiary, or among any subsidiaries.

16 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same agreement.

17 Prior Agreement. This Agreement supersedes and terminates any and all prior Executive Termination Benefits Agreements by and among Company and the Executive.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered as of the day and year first above set forth, thereby mutually and voluntarily agreeing that this Agreement supersedes and replaces any prior similar agreements for such termination benefits.

AMR CORPORATION

By: /s/ Donald J. Carty  
-----  
AMERICAN AIRLINES, INC.

By: /s/ Thomas J. Kiernan  
-----  
ANNE H. MCNAMARA

/s/ Anne H. McNamara  
-----

EMB-135

PURCHASE AGREEMENT NUMBER DCT-039/98

EMBRAER - EMPRESA BRASILEIRA

DE AERONAUTICA S.A.

AND

AMR EAGLE HOLDING CORPORATION

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## ATTACHMENTS

- "A" - AIRCRAFT SPECIFIC CONFIGURATION, FINISHING AND REGISTRATION MARKS
- "B" - FERRY EQUIPMENT [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]
- "C" - AIRCRAFT WARRANTY
- "D" - EMB-135 ESCALATION FORMULA
- "E" - [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]
- "F" - [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]
- "G" - [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]
- "H" - EMB-135 AND EMB-145 SPARE PARTS POLICY & PRODUCT SUPPORT
- "I" - EMB-135 BUYER FURNISHED EQUIPMENT
- "J" - [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]
- "K" - [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]
- "L" - FORM OF [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] GUARANTEE

## PURCHASE AGREEMENT NO. DCT -039/98

THIS PURCHASE AGREEMENT NO. DCT-039/98 IS ENTERED INTO AS OF THE 30th DAY OF SEPTEMBER, 1998, BY AND BETWEEN EMBRAER - EMPRESA BRASILEIRA DE AERONAUTICA S.A., A BRAZILIAN CORPORATION WITH ITS HEADQUARTERS LOCATED IN SAO JOSE DOS CAMPOS, BRAZIL, AND AMR EAGLE HOLDING CORPORATION, A DELAWARE CORPORATION WITH ITS HEADQUARTERS LOCATED IN FORT WORTH, TEXAS, FOR THE PURCHASE AND SALE OF EMB-145, MODEL EMB-135LR VERSION AIRCRAFT, SERVICES AND RELATED SPARE PARTS.

THIS AGREEMENT SHALL NOT BE EFFECTIVE UNLESS AND UNTIL IT IS SIGNED BY AN AUTHORIZED OFFICER OF AMR EAGLE HOLDING CORPORATION AND EXECUTED BY TWO AUTHORIZED OFFICERS OF EMBRAER - EMPRESA BRASILEIRA DE AERONAUTICA S.A.

NOW, THEREFORE, in consideration of the mutual promises, covenants, terms and conditions set forth herein, and other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

## 1. DEFINITIONS

For the purpose of this Agreement, the following definitions are hereby adopted by the Parties:

- a. Actual Delivery Date - and Actual Delivery - shall have the definitions provided for in Article 7.c. hereof.
- b. Aircraft - shall mean the EMB-145, Model EMB-135LR version aircraft or, where there is more than one of such aircraft, each of such aircraft, manufactured by Embraer, for sale to Buyer pursuant to this Agreement, according to the aircraft specification 135-MS-300, Revision A dated July 27, 1998 (the "Specification"), and Attachment A and Attachment G hereto.
- c. Basic Price - shall mean the price per Aircraft as defined in Article 3.a.1.
- d. Buyer - shall mean AMR Eagle Holding Corporation, a Delaware corporation, and its successors and permitted assigns (as provided in this Agreement).
- e. CTA - shall mean the Aerospace Technical Center of the Brazilian Ministry of Aeronautics.



- f. Day or Days - shall mean calendar days, unless expressly referenced as a Business Day or Business Days, which shall mean any day other than a Saturday, Sunday, or other day on which banking institutions in Fort Worth, Texas, Sao Paulo, Brazil, Rio de Janeiro, Brazil or Sao Jose dos Campos, Brazil are required or permitted by applicable law, rule or regulation to be closed. As of December 15 of each year of Scheduled Delivery Months, Embraer shall send Buyer a projected holiday schedule of days on which the banking institutions in Sao Paulo, Rio de Janeiro and Sao Jose dos Campos, Brazil will be closed, and Embraer shall promptly advise Buyer of any changes to said schedule.
- g. Delivery Schedule - shall mean the Aircraft delivery schedule as provided in Article 5.c.
- h. Embraer - shall mean Embraer - EMPRESA BRASILEIRA DE AERONAUTICA S.A., a Brazilian corporation.
- i. Engine or Engines - shall mean the two (2) hot and high enhanced performance Allison AE3007A1/3 high bypass ratio turbofan engines delivered fixed to each airframe.
- j. FAA - shall mean the United States Federal Aviation Administration.
- k. Financing Agreements - shall mean those financing documents to be executed between Buyer and Agencia Especial de Financiamento Industrial ("FINAME") and Banco Nacional de Desenvolvimento Economico e Social ("BNDES") (FINAME and BNDES together, the " Lender"), and including but not limited to a funding agreement and all agreements related thereto (the "Funding Agreement") and any and all agreements entered into pursuant to the Funding Agreement.
- l. IP Spares - shall mean line replaceable units, spare parts and ground support equipment, except engines, to be selected and purchased by Buyer from Embraer in Brazil pursuant to a third-party financing arrangement as initial provisions, based on the initial provisioning list recommended by Embraer and mutually agreed to by Buyer ("IPL") and delivered in connection with a specific Aircraft.
- m. Party or Parties - shall mean Embraer and/or Buyer.
- n. Purchase Agreement, or this Agreement - shall mean this Purchase Agreement No. DCT-039/98 and all of its Attachments, and EMB-135 and EMB-145 Letter Agreement I DCT-040/98 executed by Buyer and Embraer as of the date hereof ("Letter Agreement I").

- o. Purchase Price - shall mean the total purchase price for each Aircraft, effective on the relevant Aircraft's Scheduled Delivery Date, resulting from the application of the escalation formula established in Attachment D (the "Escalation Formula") to the Basic Price as set forth in Article 3.a.1.
- p. Scheduled Delivery Date - shall mean the targeted closing date for each Actual Delivery of Aircraft per Article 5.
- q. Scheduled Delivery Month - shall mean the month in which each Aircraft is scheduled to be delivered per Article 5.
- r. Scheduled Inspection Date - shall mean the date on which Embraer shall make each Aircraft available to Buyer for inspection, which date shall be at least [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] prior to the Scheduled Delivery Date unless otherwise mutually agreed to in writing by the Parties.
- s. Services - shall mean all of the technical assistance services specified in Article 15.
- t. Spares - shall mean line replaceable units, spare parts and ground support equipment purchased through Embraer, except engines, to be selected from Embraer's illustrated parts catalog and purchased by Buyer, excluding IP Spares.
- u. U.S. or US - shall mean the United States of America.
- v. U.S. dollars, US\$, USD or dollars - shall mean United States dollars.

2. SUBJECT

- a. Embraer shall sell and Buyer shall purchase and take delivery of seventy-five (75) newly manufactured Aircraft ("Firm Aircraft") and, if Buyer elects to purchase any or all of the same, seventy-five (75) newly manufactured option Aircraft ("Option Aircraft") upon the terms and conditions contained in this Agreement.
- b. To the extent requested by Buyer, Embraer shall sell and Buyer shall acquire IP Spares and Spares for each of the Aircraft referred to in paragraph a. above.
- c. Embraer shall sell and Buyer shall acquire the Services as specified in Article 15.

## 3. PRICE

- a. Buyer agrees to pay Embraer, in United States dollars [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] the following prices:
1. For each Firm Aircraft delivered to Buyer pursuant to this Agreement, [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]. The Basic Price shall be escalated according to the Escalation Formula. The escalated Basic Price (the "Purchase Price") shall be provided to Buyer one (1) month prior to each Aircraft's Scheduled Delivery Date. Except as set forth in this Article the Basic Price constitutes the entire price Buyer shall pay for each individual Aircraft and Services.
  2. For IP Spares ordered pursuant to this Agreement, the aggregate price of all IP Spares with respect to each Aircraft shall not exceed [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] per Aircraft.
- b. The Services shall be provided at no additional cost to Buyer. All other services requested by Buyer to Embraer in writing shall be billed to Buyer in accordance with Embraer's prevailing rates therefor.
- c. [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

## 4. PAYMENT

To secure the Aircraft delivery positions set forth in Article 5.c. and to ensure delivery of the Aircraft in accordance with the Delivery Schedule, Buyer shall pay Embraer for each Aircraft and IP Spares as follows:

- a. Relative to each Firm Aircraft:
1. Embraer acknowledges receipt of deposits of [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] per Firm Aircraft from Buyer. Such deposits shall be non-refundable (subject to the provisions of Articles 32.b. and Section 10 of Letter Agreement I) and shall be considered part of the payment towards the Basic Price of the relevant Aircraft. The Parties acknowledge that each of the Firm Aircraft and the corresponding

delivery positions have been reserved for purchase by Buyer and such Firm Aircraft have been removed from the market.

2. A non-refundable (subject to the provisions of Article 32.b. and Section 10 of Letter Agreement I) progress payment (which shall be considered part of the payment toward the Basic Price of the relevant Aircraft) equal to [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] excluding any increase due to the Escalation Formula, is due and payable upon the later of (i) the date which is eighteen (18) months prior to the first (1st) day of the Scheduled Delivery Month of the relevant Firm Aircraft and (ii) the date of execution of this Agreement.
3. A non-refundable (subject to the provisions of Article 32.b. and Section 10 of Letter Agreement I) progress payment (which shall be considered part of the payment toward the Basic Price of the relevant Aircraft) [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] excluding any increase due to the Escalation Formula, is due and payable upon the later of (i) the date which is twelve (12) months prior to the first (1st) day of the Scheduled Delivery Month of the relevant Firm Aircraft and (ii) the date of execution of this Agreement.
4. A non-refundable (subject to the provisions of Article 32.b. and Section 10 of Letter Agreement I) progress payment (which shall be considered part of the payment toward the Basic Price of the relevant Aircraft) equal to [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] excluding any increase due to the Escalation Formula, is due and payable on the date which is six (6) months prior to the first (1st) day of the Scheduled Delivery Month of the relevant Firm Aircraft.
5. The balance of each Firm Aircraft's Purchase Price shall become due and payable as provided herein on each Firm Aircraft's Actual Delivery Date.
6. [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

b. Relative to Option Aircraft:

In the event the Buyer exercises the option to acquire Option Aircraft as provided for in Article 19, payment for each individual Option Aircraft's Basic Price shall be made as follows:

1. A non-refundable (subject to the provisions of Article 32.b. and Section 10 of Letter Agreement I) deposit of [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] per Option Aircraft is due and payable on the date of exercise of the respective Option. This deposit shall be considered part of the payment towards the Basic Price of the relevant Option Aircraft.
2. A non-refundable (subject to the provisions of Article 32.b. and Section 10 of Letter Agreement I) progress payment (which shall be considered part of the payment toward the Basic Price of the relevant Option Aircraft) equal to [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] excluding any increase due to the Escalation Formula, shall be due and payable on the date which is eighteen (18) months prior to the first (1st) day of the Scheduled Delivery Month of the relevant Option Aircraft.
3. A non-refundable (subject to the provisions of Article 32.b. and Section 10 of Letter Agreement I) progress payment (which shall be considered part of the payment toward the Basic Price of the relevant Option Aircraft) equal to [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] excluding any increase due to the Escalation Formula, shall be due and payable on the date which is twelve (12) months prior to the first (1st) day of the Scheduled Delivery Month of the relevant Option Aircraft.
4. A non-refundable (subject to the provisions of Article 32.b. and Section 10 of Letter Agreement I) progress payment (which shall be considered part of the payment toward the Basic Price of the relevant Option Aircraft) equal to [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] excluding any increase due to the Escalation Formula, shall be due and payable on the date which is six (6) months prior to the first (1st) day of the Scheduled Delivery Month of the relevant Option Aircraft.
5. The balance of each Option Aircraft's Purchase Price shall become due and payable as provided herein upon Actual Delivery of the relevant Option Aircraft from Embraer to Buyer.
6. [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

c. Relative to IP Spares:

- 1. [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] of the price of the IP Spares for each Aircraft (as set forth in Article 3.a.2 above) shall become due and payable on the date which is three (3) months prior to the first (1st) day of the Scheduled Delivery Month of such Aircraft as specified in Article 5.c.
- 2. [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] of such price of the IP Spares for each Aircraft shall become due and payable on the date which is the date of delivery of the IP Spares for such Aircraft as set forth in Article 5.e.
- 3. All payments made pursuant to paragraphs c.1. and c.2. above shall collectively be referred to as the "IP Spares Price."
- d. Interest shall accrue at the rate of [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] per month or any part thereof (prorated on the basis of a thirty (30) day month for any partial months) on any amount which is due and owing and which is not paid to Embraer as set forth in Articles 4.a. and 4.b. from the third Business Day after the date on which such payments should have been made as therein set forth, until the actual receipt by Embraer of such amounts. Such interest shall be payable on demand by Embraer.

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

5. DELIVERY

a. Scheduled Delivery Date: The Aircraft shall be delivered per the Aircraft Delivery Schedule set forth in paragraph c. of this Article.

- 1. INTENTIONALLY LEFT BLANK

2. [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

b. Location: Each Aircraft shall be delivered to Buyer free and clear of all liens, claims, charges, and encumbrances of any nature whatsoever. Delivery of each Aircraft shall take place in Sao Jose dos Campos, Brazil. At delivery, each Aircraft shall fully conform to the delivery specifications set forth herein, and shall otherwise conform to the terms of this Agreement.

c. Aircraft Delivery Schedule: Subject to payment in accordance with Article 4 and each Party's compliance with the terms and conditions of this Agreement, the Aircraft shall be made available for delivery by Embraer to Buyer, in the condition provided by this Agreement, at Sao Jose dos Campos, State of Sao Paulo, Brazil, according to the following schedule:

FIRM AIRCRAFT

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

OPTION AIRCRAFT

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

- d. Limit on Delivery: Notwithstanding anything set forth in this Agreement, in no event shall Buyer be obligated to take delivery of any more than [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] Aircraft in any month.
- e. IP Spares: Subject to receipt by Embraer of the list of IP Spares selected by Buyer from the IPL by the times contemplated by Article 2 of Attachment H and Embraer's acceptance of such list (which acceptance shall not be unreasonably withheld or delayed), such IP Spares shall be delivered by Embraer to Buyer, in F.C.A. (Free Carrier - Incoterms 1990) condition, at Sao Jose dos Campos, State of Sao Paulo, Brazil, or at any other port of clearance that is mutually agreed to by Buyer and Embraer. [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] Should Buyer not inform Embraer of IP Spares items selected by Buyer within times contemplated by Article 2 of Attachment H, the IP Spares shall be provided to Buyer in F.C.A. condition, at the same places above mentioned, one hundred eighty (180) days after receipt by Embraer of the list of spares selected by Buyer from the IPL, provided, however, that Buyer provides such information to Embraer no later than the relevant Aircraft's Actual Delivery Date. Spares shall be delivered in accordance with Section M of Attachment H.

6. DOCUMENTS

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]  
 At the time of Actual Delivery of each Aircraft, Embraer will possess a valid type certificate issued by the FAA and applicable to the Aircraft. [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]  
 Embraer shall assist Buyer in obtaining such certificate. Subject to the above, it shall be Buyer's responsibility to obtain such FAR Part 25 Individual Certificate of Airworthiness for the Aircraft, at Buyer's sole expense, [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

7. ACCEPTANCE AND TRANSFER OF OWNERSHIP

- a. The Aircraft shall be delivered in accordance with the Delivery Schedule. Prior to the Scheduled Inspection Date, Embraer shall perform and complete the ground and flight test.



- b. Embraer shall make each Aircraft available to Buyer for inspection on the Scheduled Inspection Date. The date on which Embraer actually makes the Aircraft available to Buyer for inspection shall be referred to as the "Readiness Date". On or after the Readiness Date, Buyer shall inspect and conduct an acceptance flight of the Aircraft at Embraer's facilities in Sao Jose dos Campos, Brazil, which shall be conducted jointly by Buyer and Embraer designated personnel. The inspection and acceptance flight shall be completed at least three (3) Business Days prior to the relevant Aircraft's Scheduled Delivery Date or as Embraer and Buyer shall agree in writing. The fuel for the Aircraft's acceptance flight test shall be provided by Embraer. [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] Upon ground check(s) and acceptance test flight(s) acceptable to Buyer, Buyer shall provide Embraer with a Certificate of Technical Acceptance.
- c. If Buyer finds an Aircraft acceptable, then on the relevant Scheduled Delivery Date, it shall acquire the Aircraft and make the payments due according to Article 4 and accept delivery of such Aircraft, whereupon the following shall occur: (i) Embraer shall provide Buyer a Warranty Bill of Sale [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] an FAA Form Bill of Sale and an invoice marked "paid in full"; (ii) Buyer shall provide Embraer with a Certificate of Technical Acceptance and Certificate of Acceptance and Delivery [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] indicating that the relevant Aircraft has met or exceeded all of the criteria set forth in the Aircraft Acceptance Guide and satisfies the terms and conditions of this Agreement; and (iii) Embraer shall provide to Buyer a CTA Certificate of Export. Upon delivery of the above-referenced bills of sale and certificates, title and risk of loss with respect to the relevant Aircraft shall pass from Embraer to Buyer and actual delivery ("Actual Delivery") of the relevant Aircraft shall be deemed to have taken place on such date (the "Actual Delivery Date").
- d. If Buyer declines to accept an Aircraft because it reasonably believes that the Aircraft does not meet the conditions specified in this Agreement, Buyer shall promptly give Embraer written notice of all specific reasons for such refusal and Embraer shall have five (5) days, commencing on the first (1st) day after receipt of such notice, to take all necessary actions in order to resubmit the Aircraft to Buyer for re-inspection. Buyer shall reinspect the Aircraft within five (5) days after receipt of notice from Embraer that all necessary actions were taken.

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

f. Embraer shall ensure that the IP Spares for each Aircraft are available for inspection by Buyer on or before the date of delivery in accordance with Article 5.e. and shall notify Buyer of such availability. Buyer shall be allowed to inspect the IP Spares to be delivered in connection with each Aircraft.

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

g. Should Buyer or Embraer fail to comply with the procedures specified in any of the preceding items of this Article 7, the other Party shall not be held liable for any delay in delivery to the extent such delay was caused by such failure to comply.

8. DETAILED SPECIFICATIONS

Each Aircraft shall be manufactured in accordance with and at Actual Delivery shall meet or exceed the specifications and requirements contained in (i) this Agreement and (ii) the Specification.

9. ENGINES

Each of the Engines shall be manufactured in accordance with, and, on the Actual Delivery Date shall meet or exceed, the specifications and requirements of Allison Specification C1051, dated September 1, 1998.  
[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

10. STORAGE CHARGE

a. A per day storage charge equal to [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] per applicable Aircraft shall be charged by Embraer to Buyer commencing on:

- 1. The Scheduled Inspection Date if Buyer fails to perform inspection or re-inspection of an Aircraft, within the times specified in this Agreement, until such inspection or re-inspection is performed and if this Agreement is not terminated earlier.
- 2. The Aircraft's Actual Delivery Date if Buyer fails when otherwise required by this Agreement to remove an Aircraft from Embraer's facilities within three (3) Business Days of the Actual Delivery Date of such Aircraft until such Aircraft is removed, and if this Agreement is not terminated earlier.

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

- c. Buyer shall pay the storage charge as set forth in this Article 10, as applicable, in US dollars five [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] after the presentation of an invoice by Embraer for such storage charges.

11. DELAYS IN DELIVERY

a. TIMELINESS REQUIRED

Except as provided in paragraph b. of this Article, Embraer warrants that there shall be no delays in Actual Delivery of the Aircraft and:

- (i) Agrees that in the event Embraer notifies Buyer of such a delay (which notification occurs [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] or more prior to the Scheduled Delivery Date) then, after [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] Days unexcused delay, Embraer shall pay Buyer as liquidated damages the amounts listed in the following schedule:

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

- (ii) Agrees that in the event Embraer notifies Buyer of a delay (which notification occurs less than [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] prior to the Scheduled Delivery Date) then, [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] unexcused delay, it shall pay Buyer, as liquidated damages, the amounts listed in the following schedule:

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

In the event that Embraer fails to deliver an Aircraft which fully conforms to the delivery specifications set forth herein, Buyer shall not be required to accept such Aircraft until it complies with such delivery specifications and (provided that Buyer has performed, after Embraer having timely afforded Buyer an opportunity to do so, a general inspection at least five (5) Business Days prior to the Scheduled Delivery Date and performed an acceptance test flight at least three (3) Business Days prior to the Scheduled Delivery Date in accordance with Article 7 of this Agreement), Embraer shall, after the five (5)

Business Days period described above, be liable for damages as provided in this Article.

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

b. EXCUSED DELAY

Neither Party shall be responsible for delays in delivery of Aircraft to the extent caused by (each referred to as an "Excused Delay") (i) acts of God, riots, wars, natural disasters, fires, floods, explosions, third-party criminal acts, earthquakes, serious accidents, epidemics, quarantine restrictions, acts of government (except as otherwise provided for in Article 13.f. and Section 10 of Letter Agreement I hereof), or [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] or provide any information as provided by this Agreement.

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

c. LOSS OF AIRCRAFT PRIOR TO DELIVERY

In the event that, prior to the Actual Delivery Date, any Aircraft is lost, destroyed, or damaged beyond economic repair, and consequently cannot be delivered as provided in this Agreement, Buyer shall have the right to either:

- 1. [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]
- 2. Terminate this Agreement with respect to the lost, destroyed, or damaged Aircraft and receive a complete refund (irrespective of any other provisions of this Agreement regarding non-refundability of such items) of all deposits and progress payments associated with such Aircraft (with interest at the rate of [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] per annum from the time of payment of such deposits and payments through the date of termination) associated with such Aircraft.

12. INSPECTION AND QUALITY CONTROL

- a. Buyer is hereby allowed to have, at any and all times during normal business hours, one or more authorized representatives at Embraer's facilities in order to assure that the Aircraft, IP Spares and Services are manufactured or performed in accordance with the procedures specified in this Agreement and according to all applicable quality control standards. Upon a request by

Buyer, Embraer shall use reasonable commercial efforts to arrange for such representative to visit the facilities of Embraer's suppliers. Buyer shall communicate to Embraer the names of such authorized representatives, by means of notice, at least thirty (30) days prior to each Aircraft's Scheduled Delivery Date.

- b. Buyer shall communicate the names of its authorized representatives to sign the acceptance and transfer of title and risk documents and accept delivery of the Aircraft and IP Spares pursuant to Article 7, at least [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] prior to each Scheduled Delivery Date.
- c. For the purposes hereof, Embraer shall provide at no cost to Buyer, reasonable office space and communication facilities (telephone and facsimile) for Buyer's authorized representatives, as well as the necessary tools, measuring devices, test equipment and technical and other assistance as may be necessary to perform acceptance tests.
- d. Buyer's authorized representatives shall be provided with all appropriate Embraer rules and regulations upon arrival and shall observe Embraer's administrative rules and instructions while at Embraer's facilities.
- e. Buyer's authorized representatives shall be allowed exclusively in those areas related to the subject matter hereof and Buyer agrees to hold harmless Embraer from and against all and any kind of liabilities in respect of and to the extent caused by such representatives, for whom Buyer is solely and fully responsible under all circumstances and in any instance except as provided in Article 33.

13. CHANGES

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

14. WARRANTY/GUARANTEES

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

15. TECHNICAL ASSISTANCE SERVICES

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

16. SPARE PARTS SUPPLY

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

17. PUBLICATIONS

a. Aircraft Publications - Embraer shall supply, at no cost to Buyer, copies of the operational and maintenance publications applicable to the Aircraft, in the English language, that are listed in, and in the quantities as specified in this Article. Such publications are issued under the applicable specification and are available in hard copies (and to the extent available shall be offered in digital or microfilm format and software at a price to Buyer equal to Embraer's cost) and, as provided below, in CD ROM. The revision service for these publications shall be provided by Embraer, free of charge, excluding mailing services [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] Such publications shall be delivered as reasonably agreed to by the Parties, to the maximum allowed for under this Article.

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

b. Vendor Item Publications - With respect to vendor items installed in the Aircraft which have their own publications, Buyer shall receive such publications in the quantity specified in Article 17.c., in their original content and printed form, directly from the suppliers, which are also responsible to keep them continuously updated through a direct communication system with Buyer.

c. List of Publications - The technical publications covering operation and maintenance shall be delivered to Buyer in accordance with the following list:

OPERATIONAL

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

In the event Buyer elects not to take all or any one of the publications above mentioned, or revisions thereof, no refund or other financial adjustment of the Basic Price will be made.

18. [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

19. AIRCRAFT PURCHASE OPTIONS

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

24. ASSIGNMENT

Except as set forth in Article 14, neither Party may assign, convey, subcontract, transfer or delegate this Agreement or any part hereof or any of such Party's rights, duties or obligations hereunder, without the prior written consent of the other Party; provided, however, that any such consent to such assignment, conveyance, subcontracting, transfer or delegation shall not relieve the assigning Party of any of its obligations under this Agreement. Any attempted assignment, subcontracting or delegation which does not comply with this Article shall be null and void. Notwithstanding the foregoing provisions of this Article 24, Buyer may assign this Agreement or any or all of its rights hereunder to purchase any one or more of the Firm Aircraft or Option Aircraft to (a) American Eagle Airlines, Inc. and (b) any one or more other majority owned subsidiaries of Buyer or of AMR Corporation that is incorporated under the laws of the United States or any state thereof or any territory or possession of the United States; and provided that [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] guarantees the obligations of such assignee in the form attached as Attachment L hereto. [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

25. RESTRICTIONS AND PATENT INDEMNITY

- a. The sale and purchase contemplated hereby does not include the transfer of designs, copyrights, patents, and other similar intellectual property rights to Buyer. Embraer shall indemnify, defend, and hold Buyer harmless from and against any and all Claims (as defined in Article 33 hereof) made against any Buyer Indemnitees that the Aircraft, or any part thereof, infringes any design, copyright, patent or similar right of others.
- b. If any Claim is made or brought against any Buyer Indemnitees for infringement or if Buyer receives a written claim alleging infringement, Buyer shall promptly give notice thereof to Embraer.

26. MARKETING / PROMOTIONAL RIGHTS [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

27. TAXES

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

28. INTENTIONALLY LEFT BLANK

29. APPLICABLE LAW

This Agreement, and the rights and obligations of the Parties hereunder, shall in all respects be governed by, and construed and interpreted in accordance with, the laws [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION], and including all matters of construction, validity and performance. Buyer and Embraer agree that all disputes arising under this Agreement shall be resolved in accordance with the procedures set forth in Article 30. [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

31. COMPLIANCE WITH LAWS

Each Party shall comply with all applicable laws, rules, and regulations promulgated by Competent Authorities, with respect to that Party's obligations under this Agreement, and with respect to all of the transactions contemplated hereby. [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

32. TERMINATION

a. Except as otherwise provided in this Agreement, should either Party fail to comply partially or completely with its obligations hereunder, the other Party shall be entitled to give notice of such failure and to require that such failure be remedied within the period specified in that notice, which period shall not be less than five (5) days from the date that the failing party receives such notice. Should such failure be material and not be remedied within the period so specified, then the Party who gave notice of such failure shall be entitled to terminate this Agreement with respect to all remaining Aircraft for which Actual Delivery has not yet occurred, and shall be entitled to such other remedies as may be provided in this Agreement and as may be available by law or in equity (subject to the limits provided in this Agreement) along with reimbursement of costs incurred in enforcing its rights and remedies, including reasonable attorney's fees.



[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

33. INDEMNITY

- a. Embraer shall indemnify, defend, and hold harmless Buyer and Buyer's officers, directors, agents, employees, subsidiaries, affiliates, and permitted assignees, and each of them (collectively, and including without limitation Buyer, the "Buyer Indemnitees") from any and all claims, suits, actions, judgments, fines, penalties, damages, losses, and liabilities, including, but not limited to, third party claims and reasonable attorneys' fees, costs of litigation, and other expenses relating thereto, including the cost of establishing the right to indemnification under this Article (collectively, the "Claims") which may be made, asserted, assessed, or accrued against any Buyer Indemnitee by reason of: [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]
- b. Buyer shall indemnify, defend, and hold harmless Embraer and Embraer's officers, directors, agents, employees, subsidiaries, affiliates and permitted assignees, and each of them (collectively, and including without limitation Embraer, the "Embraer Indemnitees") from and against all Claims which may be made, asserted, assessed, or accrued against any Embraer Indemnitee by reason of: [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]
- c. In the event that any Claim is made or commenced against the Party seeking indemnification hereunder or any Buyer Indemnitees or Embraer Indemnitees, as applicable, the Party seeking indemnification hereunder shall give prompt written notice thereof to the indemnifying Party [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]
- e. The rights and obligations under this Article 33 will survive the termination or expiration of this Agreement for any reason.

34. NOTICES

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

If to Buyer:        AMR Eagle Holding Corporation.  
                          4333 Amon Carter Boulevard  
                          MD 5494  
                          Fort Worth, Texas 76155  
                          USA  
                          Attn: Senior Vice President of Planning  
                          Phone: [CONFIDENTIAL PORTION OMITTED  
                          Fax:    AND FILED SEPARATELY WITH THE  
                          COMMISSION]

With a copy to: American Airlines, Inc.  
4333 Amon Carter Boulevard  
MD 5675  
Fort Worth, Texas 76155  
USA  
Attn: Corporate Secretary  
Phone: [CONFIDENTIAL PORTION OMITTED]  
Fax: AND FILED SEPARATELY WITH THE  
COMMISSION]

If to Embraer: Empresa Brasileira de Aeronautica, S.A.  
Av. Brig. Faria Lima 2170  
Sao Jose dos Campos, S.P. 12225  
Brazil  
Attn: Senior Manager-Contracts  
Phone: [CONFIDENTIAL PORTION OMITTED]  
Fax: AND FILED SEPARATELY WITH THE  
COMMISSION]

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

35. CONFIDENTIALITY

Buyer and Embraer understand that certain commercial, operational and financial information contained in, or obtained pursuant to this Agreement is considered by the Parties as privileged and confidential. Buyer and Embraer each agrees that it shall treat this Agreement, all provisions hereof, and such information as privileged and confidential and shall not, without the prior written consent of the other Party, disclose such Agreement or information to any other person except to its auditors and legal counsel and except as may be required (i) by applicable law or governmental regulations, or (ii) for financing the Aircraft. In connection with any disclosure of this Agreement, any provisions hereof, or such information in accordance with the terms of this Article, Buyer or Embraer, as applicable, shall use reasonable efforts to minimize the extent of disclosure and shall request and use its reasonable efforts to obtain confidential treatment of this Agreement, the provisions hereof, and such information. The Parties agree to cooperate with each other in making and supporting any such request for confidential information.

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

36. INTEGRATED AGREEMENT

All Attachments referred to in this Agreement and attached hereto are, by such reference and attachment, incorporated in this Agreement.

37. EFFECT OF TERMINATION

In the event this Agreement is terminated, whether in whole or in part, the Parties' obligations (including without limitation the Warranty, the Service Life Policy and all the other customer and product support obligations under this Agreement) with regard to Aircraft that have been previously delivered will continue in full force and effect in accordance with the terms of this Agreement.

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

38. COUNTERPARTS

This Agreement may be signed by the Parties in any number of separate counterparts with the same effect as if the signatures thereto and hereto were upon the same instrument and all of which when taken together shall constitute one and the same instrument.

39. ENTIRE AGREEMENT

This Agreement and all related written agreements constitute the entire agreement of the Parties with respect to the subject matter hereof and supersede all previous negotiations, representations and agreements between the Parties, [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]. This Agreement may not be altered, amended or supplemented except by a written instrument executed by the Parties.

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

41. TERMS

Technical and trade terms not otherwise defined herein shall have the meanings assigned to them as generally accepted in the international aircraft manufacturing industry.

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

43. REMEDIES

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

For the avoidance of doubt, the specific remedy provided in each such Article or Attachment or Letter Agreement I shall be exclusive only with respect to the specific breach or default referenced in such section; with respect to any other breaches or defaults not specified within the Articles and Attachments referred to above, all remedies at law or in equity shall be available.

44. INTENTIONALLY LEFT BLANK

45. INDEPENDENT CONTRACTOR

Each of the Parties is an independent contractor. Nothing in this Agreement is intended or shall be construed to create or establish any agency, partnership, joint venture, or fiduciary relationship between the Parties. Neither Party nor any of its affiliates has any authority to act for or to incur any obligations on behalf of or in the name of the other Party or any of its affiliates.

46. CAPTIONS, HEREOF, INCLUDING

The captions and headings appearing in this Agreement have been inserted as a matter of convenience and in no way define, limit or enlarge the scope of this Agreement or any of the provisions hereof. "Including" or "include" shall be deemed to mean "including without limitation" or "include without limitation," respectively, unless otherwise specified in this Agreement. All references in this Agreement to "herein," "hereof," "hereto," "hereby," or "hereunder" shall be deemed references to this Agreement as a whole and not to any particular section, subsection, article, subarticle, paragraph, subparagraph, sentence or clause of this Agreement.

47. INTENTIONALLY LEFT BLANK

48. REPRESENTATIONS AND WARRANTIES

a. Effective as of the date of this Agreement and as of the Actual Delivery of each Aircraft, Embraer represents and warrants that:

1. Embraer is a corporation duly organized, validly existing and in good standing under the laws of Brazil and has all necessary corporate power and authority to conduct the business in which it is currently engaged and to enter into and perform its obligations under this Agreement.
2. Embraer has taken, or caused to be taken, all necessary corporate action to authorize the execution and delivery of this Agreement and the performance of its obligations hereunder.

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

5. This Agreement has been duly authorized, executed and delivered by Embraer and, assuming the due authorization, execution and delivery hereof by the other Party constitutes the legal, valid and binding obligation of Embraer enforceable against Embraer in accordance with the terms hereof, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, receivership, moratorium and other similar laws affecting the rights of creditors generally and general principles of equity, whether considered in a proceeding at law or in equity.

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

- b. Effective as of the date of this Agreement and as of the Actual Delivery of each Aircraft, Buyer represents and warrants that:

1. Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all necessary corporate power and authority to conduct the business in which it is currently engaged and to enter into and perform its obligations under this Agreement.
2. Buyer has taken, or caused to be taken, all necessary corporate action to authorize the execution and delivery of this Agreement and the performance of its obligations hereunder.

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

5. This Agreement has been duly authorized, executed and delivered by Buyer and, assuming the due authorization, execution and delivery hereof by the other Party constitutes the legal, valid and binding obligation of Buyer enforceable against Buyer in accordance with the

terms hereof, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, receivership, moratorium and other similar laws affecting the rights of creditors generally and general principles of equity, whether considered in a proceeding at law or in equity.

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

49. TIME

Time is of the essence with respect to the performance of the provisions hereof.

50. FURTHER ASSISTANCE

Each Party shall do and perform, at such Party's expense, such further acts and execute and deliver such further instruments and documents as may be required by applicable law, rule or regulation or as may be reasonably requested by the other Party to effectuate the purposes of this Agreement.

51. SEVERABILITY

Except as otherwise set forth in this Agreement, if either Party receives in writing any indication from a competent governmental, judicial or administrative authority to the effect that any part of this Agreement contravenes any applicable law, rule or regulation, and cannot qualify for any clearance or exemption, or if any part of this Agreement is, or shall become, or shall be declared illegal, invalid or unenforceable in any jurisdiction for any reason (including both by reason of the provisions of any legislation and also by reason of any decision of any competent governmental, judicial or administrative authority, either having jurisdiction over this Agreement or having jurisdiction over any Party), such part shall be severed from this Agreement in the jurisdiction in question and such contravention, illegality, invalidity or unenforceability shall not in any way prejudice or affect the remaining parts of this Agreement which shall continue in full force and effect. [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

52. NO WAIVER

No waiver of any breach or obligation under this Agreement by either Party shall constitute a waiver of any subsequent similar breach or obligation or of any other provision hereof. No waiver shall be effective unless made in writing and signed by a duly authorized representative of the waiving Party.

53. COSTS

Each Party shall bear its own costs of attorneys, accountants and financial advisors in connection with the preparation, negotiation and execution of this Agreement.

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers and to be effective as of the day and year first above written.

EMBRAER - EMPRESA BRASILEIRA DE AERONAUTICA S.A.

AMR EAGLE HOLDING CORPORATION

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Witness: \_\_\_\_\_  
Name: \_\_\_\_\_

Witness: \_\_\_\_\_  
Name: \_\_\_\_\_



## ATTACHMENT A

EMB-135  
AIRCRAFT SPECIFIC CONFIGURATION,  
FINISHING AND REGISTRATION MARKS

## 1. BUYER'S SPECIFIC CONFIGURATION

1.1. [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

1.4. INTENTIONALLY LEFT BLANK

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

1.8. INTENTIONALLY LEFT BLANK

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

## 3. FINISHING

a. EXTERIOR FINISHING:

The Aircraft shall be painted according to Buyer's color and paint scheme [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

b. INTERIOR FINISHING:

Buyer has informed Embraer of its choice of materials and colors [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] interior finishing [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

## 4. REGISTRATION MARKS

The Aircraft shall be delivered to Buyer with the registration marks painted on them. Buyer shall supply Embraer with the applicable registration marks for the applicable Aircraft no later than [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] before each relevant

Scheduled Delivery Date; [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION].

IF THERE IS ANY CONFLICT BETWEEN THE TERMS OF THIS ATTACHMENT A AND THE TERMS OF THE TECHNICAL DOCUMENTS, THE TERMS OF THIS ATTACHMENT A SHALL PREVAIL.

## ATTACHMENT B

EMB-135  
FERRY EQUIPMENT [CONFIDENTIAL PORTION OMITTED AND FILED  
SEPARATELY WITH THE COMMISSION]

## 1. FERRY EQUIPMENT

If it is necessary for any ferry equipment to be installed by Embraer for the ferry flight of any Aircraft between Brazil and United States, Embraer shall provide such necessary equipment to Buyer [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]. Buyer shall immediately upon its arrival remove such ferry equipment from the Aircraft and return it to Embraer in Brazil at Buyer's own expense.

The ferry equipment shall be returned complete and in the condition it was in at the time placed on the Aircraft for the ferry flight. Buyer shall fully indemnify Embraer for the value of such equipment [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION].

ATTACHMENT C

EMB-135  
AIRCRAFT WARRANTY

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

ATTACHMENT D

EMB-135  
ESCALATION FORMULA

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

ATTACHMENT E

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

ATTACHMENT F

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

ATTACHMENT G

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]



TABLE 1 TO  
ATTACHMENT G

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

ATTACHMENT H

EMB-135 AND EMB-145  
SPARE PARTS POLICY & PRODUCT SUPPORT

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

2. PRODUCT SUPPORT

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

ATTACHMENT I

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

ATTACHMENT J

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

ATTACHMENT L

FORM OF [CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] GUARANTY

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

Dated: \_\_\_\_\_, \_\_\_\_\_

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

By: \_\_\_\_\_

Name:

Title:

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION] LETTER AGREEMENT I DCT-040/98

[CONFIDENTIAL PORTION OMITTED AND FILED SEPARATELY WITH THE COMMISSION]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers and to be effective as of the day and year first above written.

AMR EAGLE HOLDING CORPORATION

EMBRAER - EMPRESA BRASILEIRA DE AERONAUTICA S.A.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Witness: \_\_\_\_\_  
Name: \_\_\_\_\_

Witness: \_\_\_\_\_  
Name: \_\_\_\_\_

AMR CORPORATION  
 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	\$ 360	\$ 326	\$1,596	\$1,624	\$2,164
Add: Total fixed charges (per below)	1,469	1,522	1,313	1,189	1,141
Less: Interest capitalized	22	14	10	20	104
Total earnings	\$1,807	\$1,834	\$2,899	\$2,793	\$3,201
	=====	=====	=====	=====	=====
Fixed charges:					
Interest	\$ 633	\$ 682	\$ 513	\$ 419	\$ 369
Portion on rental expense representative of the interest factor	828	831	796	767	767
Amortization of debt expense	8	9	4	3	5
Total fixed charges	\$1,469	\$1,522	\$1,313	1,189	1,141
	=====	=====	=====	=====	=====
Ratio of earnings to fixed charges	1.23	1.20	2.21	2.35	2.81
	=====	=====	=====	=====	=====



## AMR CORPORATION

SUBSIDIARIES OF THE REGISTRANT  
AS OF DECEMBER 31, 1998

Subsidiary companies of the Registrant are listed below. With respect to the companies named, all voting securities are owned directly or indirectly by the Registrant, except where otherwise indicated.

NAME OF SUBSIDIARY - - - - -	STATE OR SOVEREIGN POWER OF INCORPORATION -----
Subsidiaries included in the Registrant's consolidated financial statements	
Airline Management Services Holding, Inc.	Nevada
Airline Management Services, Inc.	Delaware
Aurora Airline Investments, Inc.	Delaware
American Airlines, Inc.	Delaware
Admirals Club, Inc. (Massachusetts only)	Massachusetts
AEROSAN (50%)	Chile
American Airlines Australian Tours, Inc.	Delaware
American Airlines de Mexico, S.A.	Mexico
American Airlines de Venezuela, S.A.	Venezuela
American Airlines Deutschland Holding GmbH	Germany
American Airlines Fuel Corporation	Delaware
American Airlines Holding Company, Inc.	Delaware
American Holidays Limited (50/50 AA/AMR)	United Kingdom
American Airlines Overseas Finance, N.V.	Neth. Antilles
AMR Aircraft Sales & Leasing Company	Delaware
AMR Ventures III, Inc.	Delaware
Bonanza Acquisitions, Inc.	Nevada
Texas Aero Engine Services, L.L.C, dba TAESL (50/50 AA/Rolls-Royce)	Delaware
Americas Ground Services, Inc.	Delaware
Aerospachos Colombia, S.A.	Colombia
Caribbean Dispatch Services, Ltd.	St. Lucia
Dispatch Services 93, S.A.	Venezuela
DSA	Dominican Republic
International Ground Services, S.A. de C.V.	Mexico
Panama Dispatch	Panama
Peru Dispatch Company	Peru
AMR/American Airlines Foundation	Texas

NAME OF SUBSIDIARY -----	STATE OR SOVEREIGN POWER OF INCORPORATION -----
AMR Eagle Holding Corporation	Delaware
AMR Commuter Finance, Inc.	Delaware
AMR Eagle, Inc.	Delaware
American Eagle Airlines, Inc.	Delaware
AMR Eagle Maintenance Services Group, Inc.	Delaware
AMR Eagle Regional Aircraft Maintenance Center, Inc.	Delaware
AMR Leasing Corporation.	Delaware
Aero Perlas (20%)	Panama
Eagle Aviation Leasing, Inc.	Delaware
Eagle Aviation Services, Inc.	Delaware
Executive Airlines, Inc.	Delaware
Wings West Aviation Services, Inc.	Delaware
AMR Financial Services, Inc.	Delaware
AMR Foreign Sales Corporation, Ltd.	Bermuda
AMR Holding Company, Inc.	Delaware
AMR Investment Services, Inc.	Delaware
AMR Services Holding Corporation	Delaware
AMR Services Corporation	Delaware
AMR Airline Services Fueling (Hong Kong) Limited (99%)	Hong Kong
AMR Combs, Inc.	Delaware
Aircraft Deicing Services, Inc.	Delaware
Aircraft Deicing Services Funding, Inc.	Delaware
AMR Combs-Birmingham, Inc.	Alabama
Aviation Training Institute LLC (50%)	Delaware
AMR Polskie Usługi Lotniskowe	Poland
AMR Services & Logistics of Mexico, S.A. de C.V. (99%)	Mexico
AMR Services UK Ltd.	United Kingdom
AMR Services (Deutschland) GmbH	Germany
AMR Services Security Service Corporation	Delaware
AMRS Finance Company	Delaware
AMRS France Holding, S.A.	France
Societe de Fret et de Services	France
SHS Sociedad de Handling Servicios, S.A.	Spain
Miami International Airport Cargo Facilities & Services, Inc.	Florida
AMR Global Services Corporation	Delaware
AMR Training Group, Inc.	Delaware
TeleService Resources, Inc.	Delaware
TSR Government Services, Inc.	Delaware
Avion Assurance Ltd.	Bermuda
Cargo Services, Inc.	Delaware
SC Investment, Inc.	Delaware
The C.R. Smith Aviation Museum Foundation	Delaware

NAME OF SUBSIDIARY -----	STATE OR SOVEREIGN POWER OF INCORPORATION -----
The Sabre Group Holdings, Inc. (82.4% economic interest)	Delaware
The Sabre Group, Inc.	Delaware
Acess International Network, Inc. (25%)	Japan
ENCOMPASS Holding, Inc.	Delaware
Prize Ltd. (50%)	Latvia
Sabre Decision Technologies International, Inc.	Delaware
Sabre Decision Technologies (Australia) Pty Ltd.	Australia
Sabre Group International Limited, formerly INHOCO 858 Limited	United Kingdom
Sabre Decision Technologies Licensing, Inc.	Delaware
Sabre Enterprises, Inc.	Delaware
Sabre International, Inc.	Delaware
Sabre CIS Holdings, Inc.	Delaware
Sabre Belgium (99%)	Belgium
Sabre Computer-Reservierungssystem GmbH	Austria
Sabre Danmark ApS	Denmark
Sabre Deutschland Marketing GmbH	Germany
Sabre Deutschland Services GmbH	Germany
Sabre Espana Marketing, S.A. (99%)	Spain
Sabre Europe Management Services Ltd. (99%)	United Kingdom
Sabre France Sarl	France
Sabre Hellas SA	Greece
Sabre Ireland Limited	Ireland
Sabre Italia S.r.l. (99%)	Italy
Sabre Marketing Nederland BV	The Netherlands
Sabre Norge AS	Norway
Sabre Portugal Servicos LDA (99%)	Portugal
Sabre Servicios Colombia LTDA (99%)	Colombia
Sabre Suomi Oy	Finland
Sabre Sverige AB	Sweden
Sabre UK Marketing Ltd. (99%)	United Kingdom
STIN Luxembourg S.A. (99%)	Luxembourg
Sabre International Holdings, Inc.	Delaware
Sabre Limited	New Zealand
Sabre Soluciones de Viaje S. de R.L. de C.V. (99%)	Mexico
Sabre Information S.A. de C.V. (99%)	Mexico
Sabre Technology Enterprises, Ltd.	Cayman Islands
Sabre Technology Enterprises II, Ltd.	Cayman Islands
The Sabre Group International (Bahrain) W.L.L.	Bahrain
Sabre Technology Holland, B.V.	The Netherlands
SST Finance, Inc.	Delaware
SST Holding, Inc.	Delaware
Sabre Sociedad Tecnologica S.A. de C.V. (51%)	Mexico
Sabre Services Administration	Mexico
The Sabre Group Sales (Barbados) Ltd.	Barbados
Ticketnet Corporation	Canada
148548 Canada, Inc.	Canada
TSGL, Inc.	Delaware
TSGL Holding, Inc.	Delaware

## CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in Registration Statements (Form S-8 No. 2-68366, Form S-8 No. 33-60725, Form S-8 No. 33-60727, Form S-8 No. 333-13751, Form S-8 No. 333-19325, Form S-8 No. 333-70239, Form S-3 No. 33-42027, Form S-3 No. 33-46325, and Form S-3 No. 33-52121, Form S-3 No. 333-68211) of AMR Corporation, and in the related Prospectuses, of our reports dated January 18, 1999, except for the last paragraph of Note 2 and the last paragraph of Note 3, for which the date is February 22, 1999, with respect to the consolidated financial statements and schedule of AMR Corporation included in this Annual Report (Form 10-K) for the year ended December 31, 1998.

ERNST & YOUNG LLP

Dallas, Texas  
March 17, 1999

YEAR	DEC-31-1998	JAN-01-1998	DEC-31-1998
			95
	1,978		
	1,574		
	31		
	596		
	4,875		
		22,981	
	8,595		
	22,303		
5,639			
		4,200	
0			
		0	
		1,969	
		4,729	
22,303			
			0
	19,205		
			0
	16,867		
	0		
	0		
	372		
	2,164		
		858	
1,306			
	8		
	0		
			0
	1,314		
	7.78		
	7.52		

1,000,000

YEAR

DEC-31-1997		
JAN-01-1997		
DEC-31-1997		62
	2,370	
	1,319	
	18	
	626	
	4,986	
		20,975
	7,816	
	20,859	
5,572		
		3,877
0		
		0
		2,801
		3,415
20,859		
		0
	18,184	
		0
	16,277	
	0	
	0	
	420	
	1,624	
		651
973		
	12	
	985	
		0
	985	
	5.52	
	5.39	

1,000,000

YEAR

DEC-31-1996		
JAN-01-1996		
DEC-31-1996		61
	1,743	
	1,310	
	11	
	622	
	4,366	20,146
	6,945	
	20,451	
5,532		4,527
0		0
		3,257
		2,411
20,451		0
	17,364	0
	15,557	
	0	
	0	
	514	
	1,596	
	513	
1,083		
	22	
	(89)	
		0
	1,016	
	5.90	
	5.59	