

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the Quarterly Period Ended September 30, 1996.

Transition Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the Transition Period From _____ to _____

Commission file number 1-2691.

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

Delaware
(State or other jurisdiction of incorporation or organization)
13-1502798
(I.R.S. Employer Identification No.)

4333 Amon Carter Blvd.
Fort Worth, Texas
(Address of principal executive offices)
76155
(Zip Code)

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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 periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, \$1 par value - 1,000 shares as of November 14, 1996

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

INDEX

AMERICAN AIRLINES, INC.

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Statement of Operations -- Three months ended September 30, 1996 and 1995; Nine months ended September 30, 1996 and 1995

Condensed Consolidated Balance Sheet -- September 30, 1996 and December 31, 1995

Condensed Consolidated Statement of Cash Flows -- Nine months ended September 30, 1996 and 1995

Notes to Condensed Consolidated Financial Statements -- September 30, 1996

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

Item 6. Exhibits and Reports on Form 8-K

SIGNATURE

PART 1: FINANCIAL INFORMATION

Item 1. Financial Statements

AMERICAN AIRLINES, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited) (In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
Revenues				
Passenger	\$3,533	\$3,465	\$10,330	\$ 9,902
Cargo	163	165	494	497
Other	204	184	600	514
Total operating revenues	3,900	3,814	11,424	10,913
Expenses				
Wages, salaries and benefits	1,207	1,221	3,683	3,623
Aircraft fuel	476	401	1,354	1,151
Commissions to agents	306	325	905	939
Depreciation and amortization	236	244	691	734
Other rentals and landing fees	200	200	574	569
Food service	176	178	502	503
Aircraft rentals	133	150	429	454
Maintenance materials and repairs	142	130	412	367
Other operating expenses	580	585	1,743	1,698
Total operating expenses	3,456	3,434	10,293	10,038
Operating Income	444	380	1,131	875
Other Income (Expense)				
Interest income	5	6	17	17
Interest expense	(81)	(133)	(298)	(425)
Miscellaneous - net	(21)	(4)	(21)	(16)
	(97)	(131)	(302)	(424)
Income From Continuing Operations Before Income Taxes				
	347	249	829	451
Income tax provision	139	100	333	188
Income From Continuing Operations				
	208	149	496	263
Income From Discontinued Operations (less applicable income taxes)				
	-	63	136	197
Net Earnings	\$ 208	\$ 212	\$ 632	\$ 460

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

4
 AMERICAN AIRLINES, INC.
 CONDENSED CONSOLIDATED BALANCE SHEET
 (In millions)

	September 30 1996 (Unaudited)	December 31 1995 (Note 1)
Assets		
Current Assets		
Cash	\$ 17	\$ 70
Short-term investments	1,086	816
Receivables, net	1,122	1,013
Inventories, net	551	516
Other current assets	469	438
Total current assets	3,245	2,853
Equipment and Property		
Flight equipment, net	8,632	9,096
Other equipment and property, net	1,289	1,820
	9,921	10,916
Equipment and Property Under Capital Leases		
Flight equipment, net	1,758	1,274
Other equipment and property, net	92	160
	1,850	1,434
Route acquisition costs, net	981	1,003
Other assets, net	1,362	1,423
	\$ 17,359	\$ 17,629
Liabilities and Stockholder's Equity		
Current Liabilities		
Accounts payable	\$ 799	\$ 742
Payables to affiliates	1,257	907
Accrued liabilities	1,563	1,789
Air traffic liability	1,919	1,467
Current maturities of long-term debt	21	49
Current maturities of long-term debt due to Parent	-	193
Current obligations under capital leases	109	101
Total current liabilities	5,668	5,248
Long-term debt, less current maturities	990	1,318
Long-term debt due to Parent	508	1,676
Obligations under capital leases, less current maturities	1,544	1,777
Deferred income taxes	595	480
Other liabilities, deferred gains, deferred credits and postretirement benefits	3,614	3,484
Stockholder's Equity		
Common stock	-	-
Additional paid-in capital	1,717	1,699
Retained earnings	2,723	1,947
	4,440	3,646
	\$ 17,359	\$ 17,629

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

5
 AMERICAN AIRLINES, INC.
 CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
 (Unaudited) (In millions)

	Nine Months Ended September 30,	
	1996	1995
Net Cash Provided by Operating Activities	\$1,595	\$1,736
Cash Flow from Investing Activities:		
Capital expenditures	(333)	(744)
Net increase in short-term investments	(270)	(328)
Proceeds from sale of equipment and property	232	62
Net cash used for investing activities	(371)	(1,010)
Cash Flow from Financing Activities:		
Payments on long-term debt and capital lease obligations	(1,116)	(268)
Funds transferred to affiliates, net	(161)	(377)
Net cash used for financing activities	(1,277)	(645)
Net increase (decrease) in cash	(53)	81
Cash at beginning of period	70	13
Cash at end of period	\$ 17	\$ 94
Cash Payments For:		
Interest	\$ 298	\$ 411
Income taxes	282	51

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

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

1. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, these financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position, results of operations and cash flows for the periods indicated. The balance sheet at December 31, 1995 has been derived from the audited financial statements at that date. Certain amounts from 1995 have been reclassified to conform with the 1996 presentation. For further information, refer to the consolidated financial statements and footnotes thereto included in the American Airlines, Inc. (American or the Company) Annual Report on Form 10-K for the year ended December 31, 1995.
2. Accumulated depreciation of owned equipment and property at September 30, 1996 and December 31, 1995, was \$5.3 billion and \$5.4 billion, respectively. Accumulated amortization of equipment and property under capital leases at September 30, 1996 and December 31, 1995, was \$790 million and \$778 million, respectively.
3. As discussed in the notes to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 1995, the Miami International Airport Authority is currently remediating various environmental conditions at Miami International Airport (Airport) and funding the remediation costs through landing fee revenues. Some of the costs of the remediation effort may be borne by carriers currently operating at the Airport, including American, through increased landing fees. The ultimate resolution of this matter is not expected to have a significant impact on the financial position or liquidity of American.
4. On June 11, 1996, AMR announced its plans to create a worldwide alliance between American and British Airways Plc. Subject to regulatory approval, the two carriers will coordinate their passenger and cargo activities between the U.S. and Europe, introduce extensive code-sharing across each other's networks and establish full reciprocity between their frequent flyer programs.
5. On July 2, 1996, AMR completed the reorganization of its information technology businesses known as The SABRE Group into a separate, wholly-owned subsidiary of AMR known as The SABRE Group Holdings, Inc. and its direct and indirect subsidiaries (the "Reorganization").

Prior to the Reorganization, most of The SABRE Group's business units were divisions of American. As part of the Reorganization, all of the businesses of The SABRE Group, including American's SABRE Travel Information Network, SABRE Computer Services, SABRE Development Services, and SABRE Interactive divisions (collectively, the Information Services Group), and certain buildings, equipment, and American's leasehold interest in certain other buildings used by The SABRE Group were combined in subsidiaries of American, which were then dividdened to AMR. Also as part of the Reorganization, \$850 million of American's long-term debt owed to AMR was repaid through the transfer by American to AMR of an \$850 million debenture issued by The SABRE Group Holdings, Inc. to American. The Reorganization resulted in an increase to American's retained earnings of approximately \$150 million, representing the amount of the debenture transferred to AMR in excess of the carrying value of the assets and liabilities of the Information Services Group as of July 2, 1996.

The results of operations of the Information Services Group have been reflected in the consolidated statement of operations as income from discontinued operations. The amounts shown are net of income taxes of \$38 million for the three months ended September 30, 1995, and \$82 million and \$118 million for the nine months ended September 30, 1996 and 1995, respectively. Revenues from the operations of the Information Services Group were \$357 million for the three months ended September 30, 1995, and \$700 million and \$1.1 billion for the nine months ended September 30, 1996 and 1995,

respectively.

6. During the quarter ended June 30, 1996, American and The SABRE Group completed the negotiations of certain agreements, and the parties have agreed to apply the financial terms of such agreements as of January 1, 1996.

Pursuant to a new technology services agreement dated July 1, 1996, The SABRE Group will perform data processing and solutions services for American. The agreement reflects the recent downward trend in market prices for data processing services, and has a base term that expires on June 30, 2006. With limited exceptions and for the term of the agreement, American is required to continue purchasing from The SABRE Group those information technology services which The SABRE Group provided American immediately prior to the execution of the agreement. New services, however, including most new applications development work, can be competitively bid by American. The agreement also provides for periodic price adjustments which, among other things, take into account the market for similar services provided by other companies.

Pursuant to a marketing cooperation agreement dated July 1, 1996, American will provide marketing support for The SABRE Group's products targeted to travel agencies until June 30, 2006. For such support, The SABRE Group will pay American a fee of between \$20 million and \$30 million in 1996 and between \$10 million and \$30 million in subsequent years based upon the success of SABRE as measured by increased bookings. Additionally, American will support The SABRE Group's promotion of certain other products until 2001, for which The SABRE Group will pay American a marketing fee based upon booking volume. The agreement also cancels formerly agreed upon payments made by American to The SABRE Group for market support of passenger sales on American. In 1995, such payments by American to The SABRE Group were approximately \$21 million. With limited exceptions, the marketing cooperation agreement does not restrict American from distributing its airline products and services directly to corporate or individual consumers.

Additionally, American and The SABRE Group are parties to travel agreements dated July 1, 1996, pursuant to which The SABRE Group is entitled to purchase personal travel for its employees and retirees at reduced fares, and business travel at a discount for certain flights on American. The Travel Privileges Agreement and the Corporate Travel Agreement expire on June 30, 2008 and June 30, 1998, respectively.

7. Under a credit agreement between American and The SABRE Group dated July 1, 1996, The SABRE Group is required to borrow from American, and American is required to lend to The SABRE Group, amounts required by The SABRE Group to fund its daily cash requirements. In addition, American may, but is not required to, borrow from The SABRE Group to fund its daily cash requirements and The SABRE Group is required to lend to American if The SABRE Group has excess cash available. The maximum available borrowing under the agreement at any time is \$100 million for American and \$300 million for The SABRE Group, with rates generally based on the lender's cost of funds plus an additional spread based upon the borrower's credit risk. No amounts were outstanding under the agreement as of September 30, 1996.

8. During June and July 1996, American prepaid cancelable leases it had on 12 of its Boeing 767-300 aircraft totaling \$565 million.

9. On September 2, 1996, American and the Allied Pilots Association (APA) reached a tentative agreement on a new labor contract. The agreement must be ratified by the APA Board of Directors and, if approved, must be submitted to the APA membership for final ratification. The Company anticipates a final decision on ratification by December 31, 1996.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Nine Months Ended September 30, 1996 and 1995

As discussed in Note 5, as of July 2, 1996, AMR completed the reorganization of The SABRE Group (the "Reorganization"). Thus, the results of operations of American's Information Services Group has been reflected in the consolidated statement of operations as income from discontinued operations. Following the Reorganization, American operates in only one business segment, and, as such, the discussion below relates only to the operations of what was formerly American's Airline Group.

American recorded income from continuing operations for the first nine months of 1996 of \$496 million. This compares to income from continuing operations of \$263 million for the same period last year. American's operating income was \$1.1 billion for the first nine months of 1996 compared to \$875 million for the first nine months of 1995.

American's passenger revenues increased by 4.3 percent, \$428 million, during the first nine months of 1996 versus the same period last year. American's yield (the average amount one passenger pays to fly one mile) of 13.06 cents increased by 2.4 percent compared to the same period in 1995. Domestic yields increased 2.9 percent from the first nine months of 1995. International yields increased 1.4 percent over the first nine months of 1995, due primarily to a 4.1 percent increase in Europe.

American's traffic or revenue passenger miles (RPMs) increased 1.9 percent to 79.1 billion miles for the nine months ended September 30, 1996. American's capacity or available seat miles (ASMs) decreased 1.2 percent to 115.1 billion miles in the first nine months of 1996, primarily as a result of approximately 12 fewer operating aircraft, partially offset by increases in jet stage length and aircraft productivity. Jet stage length increased 5.0 percent and aircraft productivity, as measured by miles flown per aircraft per day, increased 2.3 percent compared with the first nine months of 1995. American's domestic traffic increased 2.4 percent on capacity decreases of 1.5 percent and international traffic grew 0.7 percent on capacity decreases of 0.4 percent. The increase in international traffic was driven by a 5.0 percent increase in traffic to Latin America on capacity growth of 4.9 percent, partially offset by a 3.5 percent decrease in traffic to Europe on a capacity decrease of 5.8 percent.

Although not quantifiable, some portion of the passenger revenue increase is attributable to the January 1, 1996 expiration of the ten percent federal excise tax on airline travel. The excise tax was reinstated on August 27, 1996 and is set to expire again on December 31, 1996.

Other revenues increased 16.7 percent, \$86 million, primarily due to increases in aircraft maintenance work and airport ground services performed by American for other airlines and increased employee travel service charges.

American's operating expenses increased 2.5 percent, \$255 million. Jet Airline cost per ASM increased by 3.4 percent to 8.84 cents. Aircraft fuel expense increased 17.6 percent, \$203 million, due to an 18.1 percent increase in American's average price per gallon. American expects that the average price per gallon for jet fuel will continue to increase in the fourth quarter of 1996. Maintenance materials and repairs expense increased 12.3 percent, \$45 million, due primarily to the timing of scheduled maintenance occurring in 1996 compared to the same period in 1995, and maintenance work performed in 1996 on certain Boeing 727 aircraft purchased off lease in late 1995, and the maturing of the Boeing 757 and 767 fleets.

Other Income (Expense) decreased 28.8 percent or \$122 million. Interest expense decreased \$127 million due to repayments of intercompany debt, the retirement of debt prior to scheduled maturity, and scheduled debt repayments. Other expense in the third quarter of 1996 includes a \$21 million provision for a cash payment representing American's share of a multi-carrier travel agency class action litigation settlement.

OTHER

AMR signed a 20-year services agreement with Canadian Airlines International Ltd. (Canadian) in 1994 (the "Services Agreement"), under which American provides a variety of management, technical and administrative services to Canadian. To provide certain of these services, American entered into subcontracting arrangements with The SABRE Group (the "Canadian Subcontract"). American and The SABRE Group currently have approximately \$8 million and \$41 million of deferred costs, respectively, associated with the installation and implementation of certain systems for Canadian under the terms of the Services Agreement and Canadian Subcontract. These costs were to be recovered over the first ten years of the contract. Under certain circumstances, American has agreed to reimburse The SABRE Group for any unrecovered deferred costs and has guaranteed payment to The SABRE Group of the fees it will be entitled to receive pursuant to the terms of the Canadian Subcontract for all such services actually performed by The SABRE Group.

On November 1, 1996, Canadian announced that it was taking certain actions to improve its cash flow. Among other things, Canadian has asked its vendors -- including AMR -- to reduce the pricing of the services they provide. As a result, the revenues American receives in connection with the Services Agreement may be reduced in the future and American may incur additional expenses resulting from the guarantee to The SABRE Group of its fees under the Canadian Subcontract. Revenues from the Services Agreement for the nine months ended September 30, 1996 for American and The SABRE Group were approximately \$14 million and \$39 million, respectively. As American is currently considering Canadian's request, any decrease in revenues and/or increase in expenses is not readily determinable at this time.

In addition, AMR is currently assessing the recoverability of the costs deferred by American and The SABRE Group in connection with the Services Agreement. If these costs are determined to be unrecoverable, American will be required to take a charge to 1996 earnings to reflect the write down of its deferred costs, as well as those costs deferred by The SABRE Group pursuant to the reimbursement provision of the Canadian Subcontract discussed above.

PART II: OTHER INFORMATION

Item 1. 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 plaintiffs allege that the 10 percent federal excise transportation tax should be excluded from the "fare" upon which the 25 percent penalty is assessed. The case has not been certified as a class action. Summary judgment was granted in favor of American but subsequently reversed and vacated by the Illinois Appellate court. American believes the matter is without merit and is vigorously defending the lawsuit.

American has been sued in two class action cases that have been consolidated in the Circuit Court of Cook County, Illinois, in connection with certain changes made to American's AAdvantage frequent flyer program in May, 1988. (Wolens, et al v. American Airlines, Inc., No. 88 CH 7554, and Tucker v. American Airlines, Inc., No. 89 CH 199.) In both cases, the plaintiffs seek to represent all persons who joined the AAdvantage program before May 1988. Currently, the plaintiffs allege that, on that date, American implemented changes that limited the number of seats available to participants traveling on certain awards and established blackout dates during which no AAdvantage seats would be available for certain awards and that these changes breached American's contracts with AAdvantage members. Plaintiffs seek money damages for such alleged breach and attorneys' fees. Previously the plaintiffs also alleged violation of the Illinois Consumer Fraud and Deceptive Business Practice Act (Consumer Fraud Act) and sought punitive damages, attorneys' fees and injunctive relief preventing American from making changes to the AAdvantage program. American originally moved to dismiss all of the claims, asserting that they were preempted by the Federal Aviation Act and barred by the Commerce Clause of the U.S. Constitution.

Initially, the trial court denied American's preemption motions, but certified its decision for interlocutory appeal. In December 1990, the Illinois Appellate Court held that plaintiffs' claims for an injunction are preempted by the Federal Aviation Act, but that plaintiffs' claims for money damages could proceed. On March 12, 1992, the Illinois Supreme Court affirmed the decision of the Appellate Court. American sought a writ of certiorari from the U.S. Supreme Court; and on October 5, 1992, the Court vacated the decision of the Illinois Supreme Court and remanded the cases for reconsideration in light of the U.S. Supreme Court's decision in *Morales v. TWA, et al*, which interpreted the preemption provisions of the Federal Aviation Act very broadly. On December 16, 1993, the Illinois Supreme Court rendered its decision on remand, holding that plaintiffs' claims seeking an injunction are preempted, but that identical claims for compensatory and punitive damages are not preempted. On February 8, 1994, American filed a petition for a writ of certiorari in the U.S. Supreme Court. The Illinois Supreme Court granted American's motion to stay the state court proceeding pending disposition of American's petition in the U.S. Supreme Court. The matter was argued before the U.S. Supreme Court on November 1, 1994, and on January 18, 1995, the U.S. Supreme Court issued its opinion ending a portion of the suit against American. The U.S. Supreme Court held that a) plaintiffs' claim for violation of the Illinois Consumer Fraud Act is preempted by federal law -- entirely ending that part of the case and eliminating plaintiffs' claim for punitive damages; and b) certain breach of contract claims are not preempted by federal law.

The U.S. Supreme Court did not determine, however, whether the contract claims asserted by the plaintiffs are preempted, and therefore, remanded the case to the state court for further proceedings. Subsequently, plaintiffs filed an amended complaint seeking damages solely for a breach of contract claim. In the event that the plaintiffs' breach of contract claim is eventually permitted to proceed in the state court, American intends to vigorously defend the case.

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. On February 1, 1995 a class action lawsuit entitled Gutterman vs. American Airlines, Inc. was filed in the Circuit Court of Cook County, Illinois. The Gutterman plaintiffs claim that this increase in mileage level violated the terms and conditions of the agreement between American and AAdvantage members. On February 9, 1995, a virtually identical class action lawsuit entitled Benway vs. American Airlines, Inc. was filed in District Court, Dallas County, Texas. After limited discovery and prior to class certification, a summary judgment dismissing the Benway case was entered by the Dallas County Court in July 1995. On March 11, 1996, American's motion to dismiss the Gutterman lawsuit was denied. American filed a motion for reconsideration which was also denied on July 11, 1996. American's motion for summary judgment is still pending. No class has been certified in the Gutterman lawsuit and to date no discovery has been undertaken. American believes the Gutterman complaint is without merit and is vigorously defending the lawsuit.

On February 10, 1995, American capped travel agency commissions for one-way and round trip domestic tickets at \$25 and \$50, respectively. Immediately thereafter, numerous travel agencies, and two travel agency trade association groups, filed class action lawsuits against American and other major air carriers (Continental, Delta, Northwest, United, USAir and TWA) that had independently imposed similar limits on travel agency commissions. The suits were transferred to the United States District Court for the District of Minnesota, and consolidated as a multi-district litigation captioned In Re: Airline Travel Agency Commission Antitrust Litigation. On September 3, 1996, American reached a tentative settlement with plaintiffs whereby American agreed, inter alia, to pay \$21.3 million in exchange for a release from all claims. A hearing has been scheduled for November 15, 1996, at which time the court will consider approval of the settlement.

PART II

Item 6. Exhibits and Reports on Form 8-K

10.2 Information Technology Services Agreement, dated July 1, 1996, between American and The SABRE Group, Inc. (Incorporated by reference to Exhibit 10.6 of The SABRE Group Holdings, Inc.'s Registration Statement on Form S-1 (No. 333-09747), as amended.) (Confidential treatment has been granted for portions of this agreement and the omitted information has been filed separately pursuant to applicable regulations of the Securities and Exchange Commission.)

27 Financial Data Schedule.

American filed a report on Form 8-K dated July 17, 1996 relative to the completion of the reorganization of The SABRE Group.

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERICAN AIRLINES, INC.

Date: November 14, 1996

BY: /s/ Gerard J. Arpey
Gerard J. Arpey
Senior Vice President - Finance and
Planning and Chief Financial Officer

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9-MOS

DEC-31-1996

SEP-30-1996

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