

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 Period Ended March 31, 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

Applicable Only to Corporate Issuers

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

Common Stock, \$1 par value - 1,000 as of April 30, 1996

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## AMERICAN AIRLINES, INC.

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## SIGNATURE

## PART 1. FINANCIAL INFORMATION

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

	Three Months Ended	
	March 31,	
	1996	1995
Revenues		
Airline Group:		
Passenger	\$3,287	\$3,090
Cargo	160	156
Other	182	158
	3,629	3,404
Information Services Group	408	364
Less: Intergroup revenues	(139)	(142)
Total operating revenues	3,898	3,626
Expenses		
Wages, salaries and benefits	1,332	1,263
Aircraft fuel	424	365
Commissions to agents	296	307
Depreciation and amortization	271	287
Other rentals and landing fees	197	195
Food service	154	158
Aircraft rentals	148	153
Maintenance materials and repairs	134	118
Other operating expenses	584	529
Total operating expenses	3,540	3,375
Operating Income	358	251
Other Income (Expense)		
Interest income	5	5
Interest expense	(111)	(145)
Miscellaneous - net	(1)	(11)
	(107)	(151)
Earnings Before Income Taxes	251	100
Income tax provision	101	44
Net Earnings	\$ 150	\$ 56

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

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

	March 31, 1996	December 31, 1995
Assets	(Unaudited)	(Note 1)
Current Assets		
Cash	\$ 31	\$ 70
Short-term investments	791	816
Receivables, net	1,222	1,013
Inventories, net	532	516
Other current assets	469	438
Total current assets	3,045	2,853
Equipment and Property		
Flight equipment, net	8,902	9,096
Other equipment and property, net	1,811	1,820
	10,713	10,916
Equipment and Property Under Capital Leases		
Flight equipment, net	1,251	1,274
Other equipment and property, net	160	160
	1,411	1,434
Route acquisition costs, net	996	1,003
Other assets, net	1,402	1,423
	\$ 17,567	\$ 17,629
Liabilities and Stockholder's Equity		
Current Liabilities		
Accounts payable	\$ 803	\$ 742
Payables to affiliates	968	907
Accrued liabilities	1,558	1,789
Air traffic liability	1,707	1,467
Current maturities of long-term debt	33	49
Current maturities of long-term debt due to Parent	-	193
Current obligations under capital leases	125	101
Total current liabilities	5,194	5,248
Long-term debt, less current maturities	1,170	1,318
Long-term debt due to Parent	1,676	1,676
Obligations under capital leases, less current obligations	1,702	1,777
Deferred income taxes	479	480
Other liabilities, deferred gains, deferred credits and postretirement benefits	3,552	3,484
Stockholder's Equity		
Common stock	-	-
Additional paid-in capital	1,699	1,699
Retained earnings	2,095	1,947
	3,794	3,646
	\$ 17,567	\$ 17,629

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

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

	Three Months Ended March 31,	
	1996	1995
Net Cash Provided by Operating Activities	\$ 296	\$ 228
Cash Flow from Investing Activities:		
Capital expenditures	(94)	(440)
Net decrease in short-term investments	25	270
Proceeds from sale of equipment and property	73	57
Net cash provided by (used for) investing activities	4	(113)
Cash Flow from Financing Activities:		
Payments on long-term debt and capital lease obligations	(207)	(52)
Funds transferred to affiliates, net	(132)	(21)
Net cash used for financing activities	(339)	(73)
Net increase (decrease) in cash	(39)	42
Cash at beginning of period	70	13
Cash at end of period	\$ 31	\$ 55
Cash Payments For:		
Interest	\$ 114	\$ 135
Income taxes	133	17

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. 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. Certain amounts from 1995 have been reclassified to conform with the 1996 presentation.
3. Accumulated depreciation of owned equipment and property at March 31, 1996 and December 31, 1995, was \$5.6 billion and \$5.4 billion, respectively. Accumulated amortization of equipment and property under capital leases at March 31, 1996 and December 31, 1995, was \$788 million and \$778 million, respectively.
4. 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.
5. On April 17, 1996, the Company announced that the Board of Directors of AMR Corporation (AMR) and American had approved a reorganization of The SABRE Group as a separate, wholly-owned subsidiary of AMR subject to the receipt of a favorable tax ruling and certain other conditions. This reorganization will involve the dividend of American's SABRE Travel Information Network, SABRE Computer Services, SABRE Development Services and SABRE Interactive divisions (collectively, the Information Services Group) to AMR. Subject to meeting the conditions noted above, the reorganization should be completed sometime during the third quarter.

Operating income for the Information Services Group was \$133 million and \$115 million for the three months ended March 31, 1996 and 1995, respectively. Selected financial data for the Information Services Group for the years ended December 31, 1995, 1994 and 1993 is included in Note 12 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 1995. It is anticipated that upon completion of the reorganization approximately \$850 million of American's debt owed to AMR will be replaced by an equivalent amount of debt owed to AMR by The SABRE Group, thereby reducing American's annual interest costs -- and increasing The SABRE Group's annual interest costs -- by approximately \$50-60 million. In addition, the reorganization will include a new marketing and services agreement between American and The SABRE Group. Although the terms of the new agreement have not been finalized, it is expected to increase American's revenues from services provided to The SABRE Group (such as air travel) and decrease American's costs for technology services provided by The SABRE Group.

AMR also continues to study, as it has in the past, other transactions which may involve The SABRE Group, such as strategic partnerships or an initial public offering of a portion of The SABRE Group's stock. No decisions, however, have been made at this time as to what, if any, transactions involving The SABRE Group may occur after the reorganization is complete.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

Results of Operations

American recorded net earnings for the three months ended March 31, 1996, of \$150 million. This compares to net earnings of \$56 million for first quarter 1995. American's operating income was \$358 million for first quarter 1996 compared with \$251 million for first quarter 1995.

American's passenger revenues increased by 6.4 percent, or \$197 million. American's yield (the average amount one passenger pays to fly one mile) of 13.34 cents increased by 2.9 percent compared to the same period in 1995. Domestic yields increased 4.0 percent from first quarter 1995, while international yields were up 0.6 percent.

American's traffic or revenue passenger miles (RPMs) increased 3.3 percent to 24.6 billion miles for the quarter ended March 31, 1996. American's capacity or available seat miles (ASMs) increased 0.4 percent to 37.6 billion miles in the first quarter of 1996, primarily as a result of increases in jet stage length and aircraft productivity. Jet stage length increased 8.7 percent and aircraft productivity, as measured by miles flown per aircraft per day, increased 2.1 percent compared with first quarter 1995. American's domestic traffic increased 0.9 percent on capacity decreases of 1.9 percent and international traffic grew 9.4 percent on capacity increases of 6.3 percent. The increase in international traffic was led by a 13.4 percent increase in traffic to Europe on capacity growth of 5.1 percent, and a 5.6 percent increase in traffic to Latin America on capacity growth of 7.2 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.

Airline Group other revenues increased 15.2 percent, \$24 million, primarily due to contract maintenance work performed by American for other airlines.

Information Services Group revenues increased 12.1 percent, \$44 million, primarily due to higher booking fee prices and increased volumes.

American's operating expenses increased 4.9 percent, or \$165 million. Jet Airline cost per ASM increased by 3.7 percent to 8.99 cents. Wages, salaries and benefits rose 5.5 percent, \$69 million, due primarily to contractual wage rate and seniority increases that are built into the Company's labor contracts and an increase in the provision for profit sharing, partially offset by a decrease due to the outsourcing of certain services. Aircraft fuel expense increased 16.2 percent, \$59 million, due to a 9.1 cent increase in American's average price per gallon, which includes the impact of the October 1995 expiration of the fuel tax exemption for the airline industry. Maintenance materials and repairs expense increased 13.6 percent, \$16 million, due to the maturing of the Boeing 757 and 767 fleets, the timing of scheduled maintenance occurring in first quarter 1996 compared to first quarter 1995, and maintenance work performed in first quarter 1996 on certain Boeing 727 aircraft purchased off lease in late 1995. Other operating expenses increased 10.4 percent, \$55 million, primarily due to an increase in outsourced services, costs associated with increased contract maintenance work performed for other airlines, and adverse winter weather.

Other Income (Expense) decreased 29.1 percent or \$44 million. Interest expense decreased \$34 million primarily due to scheduled debt repayments and the retirement of debt prior to scheduled maturity.

## PART II

## 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 has filed a motion for reconsideration which is still pending. Further, American's motion for summary judgment is still pending and will be pursued if the motion for reconsideration is not granted. 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. The plaintiffs assert that the airline defendants conspired to reduce travel agency commissions and to monopolize air travel in violation of sections 1 and 2 of the Sherman Act. The case has been certified as a class action on behalf of approximately 40,000 domestic travel agencies and two travel agency trade associations. In June 1995 after extensive, expedited discovery, the travel agents moved for a preliminary injunction to enjoin the commission caps, and the defendants simultaneously moved for summary judgment. On August 31, 1995, the District Court denied both motions. Pre-trial activities against the defendants, including American, are continuing. American is vigorously defending the lawsuit.

## PART II

## Item 6. Exhibits and Reports on Form 8-K

The following exhibits are included herein:

None

On April 17, 1996, American filed a report on Form 8-K relative to the planned reorganization of The SABRE Group.

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## 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: April 30, 1996

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

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MAR-31-1996

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