

NCI BUILDING SYSTEMS INC  
Form 10-Q  
June 11, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended May 3, 2009

or

**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: 1-14315

**NCI BUILDING SYSTEMS, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**76-0127701**  
(I.R.S. Employer  
Identification No.)

**10943 N. Sam Houston Parkway W.**

**Houston, TX**  
(Address of principal executive offices)

**77064**  
(Zip Code)

**(281) 897-7788**

(Registrant's telephone number, including area code)

(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 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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY**

**PROCEEDINGS DURING THE PRECEDING FIVE YEARS:**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.  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 practicable date.

Common Stock, \$.01 Par Value 19,987,368 shares as of June 6, 2009



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**Table of Contents****PART I - FINANCIAL INFORMATION****Item 1. Financial Statements.****NCI BUILDING SYSTEMS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except share data)

	May 3, 2009 (Unaudited)	November 2, 2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 91,721	\$ 68,201
Accounts receivable, net	72,347	163,005
Inventories, net	96,595	192,011
Deferred income taxes	23,922	24,259
Income tax receivable	26,625	
Investments in debt and equity securities, at market	4,883	2,639
Prepaid expenses and other	20,763	15,735
Total current assets	336,856	465,850
Property, plant and equipment, net	244,816	251,163
Goodwill	5,200	616,626
Intangible assets, net	29,545	41,678
Other assets	4,760	5,384
Total assets	\$ 621,177	\$ 1,380,701
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
Current portion of long-term debt	\$ 473,940	\$ 920
Note payable	1,964	
Accounts payable	58,961	104,348
Accrued compensation and benefits	37,327	67,429
Accrued interest	2,307	2,422
Other accrued expenses	46,340	60,013
Total current liabilities	620,839	235,132
Long-term debt		473,480
Deferred income taxes	20,284	44,332
Other long-term liabilities	3,996	3,928
Total long-term liabilities	24,280	521,740
Stockholders' equity (deficit):		
Preferred stock, \$1 par value, 1,000,000 shares authorized; none issued and outstanding		

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Common stock, \$.01 par value, 100,000,000 shares authorized; 22,683,707 and 22,403,711 issued; and 19,984,277 and 19,734,025 shares outstanding	227	224
Additional paid-in capital	202,184	200,680
Retained earnings (deficit)	(107,853)	540,964
Accumulated other comprehensive loss	(1,455)	(1,440)
Treasury stock, at cost	(117,045)	(116,599)
Total stockholders' equity (deficit)	(23,942)	623,829
Total liabilities and stockholders' equity (deficit)	\$ 621,177	\$ 1,380,701

*See accompanying notes to condensed consolidated financial statements.*

**Table of Contents****NCI BUILDING SYSTEMS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)**

(In thousands, except per share data)

(Unaudited)

	<b>Fiscal Three Months Ended</b>	
	<b>May 3, 2009</b>	<b>April 27, 2008</b>
Sales	\$ 224,719	\$ 416,143
Cost of sales	177,604	312,223
Lower of cost or market adjustment	10,608	
Asset impairment	5,295	
<b>Gross profit</b>	<b>31,212</b>	<b>103,920</b>
Selling, general and administrative expenses	54,654	73,768
Goodwill and other intangible asset impairments	104,936	
Restructuring charge	3,796	640
<b>Income (loss) from operations</b>	<b>(132,174)</b>	<b>29,512</b>
Interest income	84	102
Interest expense	(4,052)	(5,591)
Other income, net	404	252
<b>Income (loss) before income taxes</b>	<b>(135,738)</b>	<b>24,275</b>
Provision (benefit) for income taxes	(15,531)	9,409
<b>Net income (loss)</b>	<b>\$ (120,207)</b>	<b>\$ 14,866</b>
<b>Earnings (loss) per share:</b>		
Basic	\$ (6.17)	\$ 0.77
Diluted	\$ (6.17)	\$ 0.76
<b>Weighted average shares outstanding:</b>		
Basic	19,470	19,312
Diluted	19,470	19,440

*See accompanying notes to condensed consolidated financial statements.*

**Table of Contents****NCI BUILDING SYSTEMS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)**

(In thousands, except per share data)

(Unaudited)

	<b>Fiscal Six Months Ended</b>	
	<b>May 3, 2009</b>	<b>April 27, 2008</b>
Sales	\$ 485,083	\$ 777,632
Cost of sales	391,440	591,067
Lower of cost or market adjustment	39,986	
Asset impairment	5,918	
<b>Gross profit</b>	<b>47,739</b>	<b>186,565</b>
Selling, general and administrative expenses	108,961	137,691
Goodwill and other intangible asset impairments	622,564	
Restructuring charge	6,275	866
<b>Income (loss) from operations</b>	<b>(690,061)</b>	<b>48,008</b>
Interest income	279	760
Interest expense	(8,660)	(12,495)
Other income (expense), net	87	214
<b>Income (loss) before income taxes</b>	<b>(698,355)</b>	<b>36,487</b>
Provision (benefit) for income taxes	(49,538)	14,111
<b>Net income (loss)</b>	<b>\$ (648,817)</b>	<b>\$ 22,376</b>
<b>Earnings (loss) per share:</b>		
Basic	\$ (33.35)	\$ 1.16
Diluted	\$ (33.35)	\$ 1.15
<b>Weighted average shares outstanding:</b>		
Basic	19,454	19,281
Diluted	19,454	19,420

*See accompanying notes to condensed consolidated financial statements.*



**Table of Contents****NCI BUILDING SYSTEMS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

	<b>Fiscal Six Months Ended</b>	
	<b>May 3, 2009</b>	<b>April 27, 2008</b>
<b>Cash flows from operating activities:</b>		
Net cash provided by (used in) operating activities	\$ 40,038	\$ (4,206)
<b>Cash flows from investing activities:</b>		
Capital expenditures	(14,219)	(13,285)
Proceeds from the sale of property, plant and equipment	473	3,325
Other, net	164	(530)
<b>Net cash used in investing activities</b>	<b>(13,582)</b>	<b>(10,490)</b>
<b>Cash flows from financing activities:</b>		
Payments on long-term debt	(460)	(22,177)
Payment of financing costs	(1,796)	
Payment on note payable	(245)	(649)
Proceeds from stock options exercised	12	447
Excess tax benefits from share-based compensation arrangements		154
Purchase of treasury stock	(446)	(2,216)
<b>Net cash used in financing activities</b>	<b>(2,935)</b>	<b>(24,441)</b>
Effect of exchange rate changes on cash and cash equivalents	(1)	(170)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>23,520</b>	<b>(39,307)</b>
Cash and cash equivalents at beginning of period	68,201	75,054
<b>Cash and cash equivalents at end of period</b>	<b>\$ 91,721</b>	<b>\$ 35,747</b>

*See accompanying notes to condensed consolidated financial statements.*

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**NCI BUILDING SYSTEMS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**MAY 3, 2009**

(Unaudited)

**NOTE 1 BASIS OF PRESENTATION**

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, all adjustments, which consist of normal recurring entries except as otherwise disclosed, considered necessary for a fair presentation have been made. Operating results for the fiscal three and fiscal six month periods ended May 3, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending November 1, 2009. Our sales and earnings are subject to both seasonal and cyclical trends and are influenced by general economic conditions, interest rates, the price of steel relative to other building materials, the level of nonresidential construction activity, roof repair and retrofit demand and the availability and cost of financing for construction projects.

As widely reported, worldwide financial markets have been experiencing extreme disruption in recent months, including, among other things, extreme volatility in security prices, severely diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations of others. In addition, during the same period, the U.S. economy has been characterized by contraction, as evidenced by reduced demand for a range of goods and services. These economic developments affect our business in a number of ways. The overall decline in economic conditions has reduced demand for our products. In addition, the current tightening of credit in financial markets adversely affects the ability of our customers to obtain financing for construction projects. These factors have resulted in a decrease in or cancellation of orders for our products as have also affected the ability of the our customers to make payments. Similar factors could cause our suppliers to experience financial distress or bankruptcy, resulting in temporary raw material shortages.

These conditions have also contributed to significant volatility in the price of steel, the primary raw material in our production process. In the first six months of 2009, steel prices decreased at a precipitous rate after climbing aggressively in the latter half of 2008. This unusual level of volatility has negatively impacted our business. First, we have written down inventory to net realizable value given these declines because our sales volume was significantly lower than previously anticipated while raw material prices have declined more rapidly than anticipated. Second, some customers have delayed projects, waiting to see where steel prices will bottom out.

The uncertainty surrounding future economic activity levels and the tightening of credit availability along with steel price volatility have resulted in significantly decreased activity levels for our business. During the first six months of fiscal 2009, our sales volumes were significantly below expectations, primarily in the engineered buildings and components segments. When we began fiscal 2009, McGraw-Hill was predicting a 12% decline in nonresidential construction in 2009. Subsequently, McGraw-Hill revised its forecast further downward and, as of April 2009, was predicting a 24% decline in nonresidential construction activity in 2009. McGraw-Hill has reported a 50% decline in the period from January 2009 through April 2009 of nonresidential square footage compared to the same prior year period and approximately 60% decline in the second quarter of fiscal 2009 of nonresidential construction square footage in our commercial and industrial sectors compared to the same prior year period. McGraw-Hill has also reported a 39.3% reduction in low-rise nonresidential (less than 5 stories) square-footage starts during the first six months of fiscal 2009 compared with the same period in fiscal 2008.

These revised industry outlook measures coupled with our own internal experiences have resulted in us revising our 2009 cash flow projections both in the first quarter of 2009 and the second quarter of 2009 to amounts significantly lower than those previously projected at the end of 2008. Anticipating the effect of a slowing economy on nonresidential construction activity, we have been aggressively cutting costs throughout our Company and have reduced our workforce by approximately 40%.

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As a result of this reduced activity, as of May 3, 2009, we were not in compliance with the required leverage and senior leverage ratios in our senior secured credit agreement, although we were in compliance with the remaining covenants. We have obtained a waiver from our senior credit facility lenders, including waivers of our financial maintenance covenants and of restrictions on our ability to enter into an agreement for a substantial equity investment in the Company. The waivers are intended to provide us with sufficient time to address our comprehensive capital structure plans. As we have previously reported, we are currently in the late stages of negotiation with a leading private equity firm with regard to a substantial equity investment in the Company. Any such transaction will be subject to the refinancing of our existing senior secured credit facilities and a recapitalization or redemption of our 2.125% convertible senior subordinated notes due 2024 ( Convertible Notes ). The waivers will remain in effect through July 15, 2009 and automatically extend to September 15, 2009, upon the signing of a definitive agreement for an equity investment. However, if we are not able to enter into a definitive agreement for an equity investment or otherwise refinance our outstanding debt by July 15, 2009, our non-compliance with our leverage ratios as of May 3, 2009 will be an event of default that we will not have the ability to cure. Further, if we enter into but do not close a transaction for an equity investment or otherwise refinance our outstanding debt, we expect that we will fail to be in compliance with such financial covenants as of September 15, 2009. If we are unable to extend the waiver, such violations would constitute an event of default, and the lenders under our senior secured credit facility could elect to declare all \$293 million of outstanding borrowings under such facility immediately due and payable. If we did not repay such debt upon acceleration, the lenders under such facility could exercise their remedies as secured creditors with respect to the collateral securing such facility. A failure to pay or refinance the term loan would also result in a default under the indenture governing our Convertible Notes, which could also then be declared immediately due and payable. If all debt outstanding were to become due, which could occur as early as July 15, 2009, absent the execution of our refinancing strategy this would result in a material adverse effect on the Company's financial condition, operations and debt service capabilities.

Further, if we are not able to refinance our debt, we will be unable to pay our Convertible Notes if the holders thereof exercise their right, as anticipated, to require us to repurchase them in November of 2009. Our failure to pay the Convertible Notes in November 2009 if the note holders exercise their put right would cause us to be in default under both the indenture governing the Convertible Notes and our senior secured credit facility, and could result in all debt outstanding under both agreements to be declared immediately due and payable. See Liquidity and Capital Resources for more information.

We use a four-four-five week calendar each quarter with year end on the Sunday closest to October 31. The year end for fiscal 2009 is November 1, 2009.

Certain reclassifications have been made to prior period amounts in our condensed consolidated balance sheets and condensed consolidated statements of income to conform to the current presentation.

For further information, refer to the consolidated

179

Net increase (decrease) in cash  
18

Cash at beginning of period  
588

Cash at end of period  
\$  
606

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

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AMR CORPORATION, ET AL.  
DEBTORS AND DEBTORS IN POSSESSION  
Notes to Condensed Consolidated Financial Statements  
(Unaudited)

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## 1. Summary of Accounting Policies

### Basis of Presentation

On November 29, 2011 (the "Petition Date"), AMR Corporation ("AMR" or the "Company"), its principal subsidiary, American Airlines, Inc. ("American") and certain of the Company's other direct and indirect domestic subsidiaries (collectively, the "Debtors") filed voluntary petitions for relief (the "Chapter 11 Cases") under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code"), in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). The Chapter 11 Cases are being jointly administered under the caption "In re AMR Corporation, et al., Case No. 11-15463-SHL."

The Company and the other Debtors are operating as "debtors in possession" under the jurisdiction of the Bankruptcy Court and the applicable provisions of the Bankruptcy Code. In general, as debtors in possession under the Bankruptcy Code, we are authorized to continue to operate as an ongoing business but may not engage in transactions outside the ordinary course of business without the prior approval of the Bankruptcy Court. The Bankruptcy Code enables the Company to continue to operate its business without interruption, and the Bankruptcy Court has granted additional relief covering, among other things, obligations to (i) employees, (ii) taxing authorities, (iii) insurance providers, (iv) independent contractors for improvement projects, (v) foreign vendors, (vi) other airlines pursuant to certain interline agreements, and (vii) certain vendors deemed critical to the Debtors' operations.

While operating as debtors in possession under Chapter 11 of the Bankruptcy Code, the Debtors may sell or otherwise dispose of or liquidate assets or settle liabilities, subject to the approval of the Bankruptcy Court or otherwise as permitted in the ordinary course of business. On April 15, 2013, the Company and other Debtors filed with the Bankruptcy Court a proposed Plan of Reorganization (the "Plan") and related Disclosure Statement. The Debtors have an exclusive period to solicit and obtain acceptances of the Plan through and including July 29, 2013. It is possible that the Plan as filed may be challenged and undergo revision, perhaps substantially, prior to the time that it is submitted to the Debtors' stakeholders for a vote. The ultimate plan of reorganization, which would be subject to acceptance by the requisite majorities of empowered stakeholders under the Bankruptcy Code and approval by the Bankruptcy Court, could materially change the amounts and classifications in the Condensed Consolidated Financial Statements. See Note 2 to the Condensed Consolidated Financial Statements for further information on the plan of reorganization.

This Monthly Operating Report ("MOR") was prepared on a consolidated basis for the Company and its direct and indirect subsidiaries, including the subsidiary Debtors and other subsidiaries that did not file voluntary petitions for relief under Chapter 11. This MOR is unaudited, is limited in scope, covers a limited time period, and has been prepared solely for the purpose of complying with the monthly reporting requirements for Chapter 11 debtors as required by the Office of the United States Trustee for the Southern District of New York (the "U.S. Trustee") and the Bankruptcy Court. This MOR does not include all the information and footnotes required by generally accepted accounting principles ("GAAP") for complete financial statements. Therefore, there can be no assurance that the consolidated financial information presented herein is complete and readers are strongly cautioned not to place undue reliance on this MOR. This MOR should be read in conjunction with the Debtors' previously filed MORs and the financial statements and accompanying notes in the Company's annual and quarterly reports that are filed with the

United States Securities and Exchange Commission (the “SEC”).

In accordance with GAAP, the Debtors have applied ASC 852 “Reorganizations” (“ASC 852”) in preparing the Condensed Consolidated Financial Statements. ASC 852 requires that the financial statements, for periods subsequent to the Chapter 11 Cases, distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, certain revenues, expenses (including professional fees), realized gains and losses and provisions for losses that are realized or incurred in the Chapter 11 Cases are recorded in reorganization items, net on the accompanying Consolidated Statement of Operations. In addition, prepetition obligations that may be impacted by the Chapter 11 reorganization process have been classified on the Condensed Consolidated Balance Sheet in liabilities subject to compromise. These liabilities are reported at the amounts expected to be allowed by the Bankruptcy Court, even if they may be settled for lesser amounts (see Note 2).

These Condensed Consolidated Financial Statements have also been prepared on a going concern basis, which contemplates continuity of operations, realization of assets and satisfaction of liabilities in the ordinary course of

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business. Accordingly, the Condensed Consolidated Financial Statements do not include any adjustments relating to the recoverability of assets and classification of liabilities that might be necessary should the Debtors be unable to continue as a going concern.

The accompanying Condensed Consolidated Financial Statements do not purport to reflect or provide for the consequences of the Chapter 11 Cases, other than as set forth under “liabilities subject to compromise” on the accompanying Condensed Consolidated Balance Sheet and “income (loss) before reorganization items” and “reorganization items, net” on the accompanying Consolidated Statement of Operations (see Note 2). In particular, the financial statements do not purport to show (1) as to assets, their realizable value on a liquidation basis or their availability to satisfy liabilities; (2) as to prepetition liabilities, the amounts that may be allowed for claims or contingencies, or the status and priority thereof; (3) as to shareowners' equity accounts, the effect of any changes that may be made to the Debtors' capitalization; or (4) as to operations, the effect of any changes that may be made to the Debtors' business.

Results of operations for the periods presented herein are not necessarily indicative of results of operations for the entire year. The Condensed Consolidated Financial Statements include the accounts of the Company and its direct and indirect wholly owned subsidiaries (both Debtor and non-Debtor), including (i) its principal subsidiary American Airlines, Inc. (“American”) and (ii) its regional airline subsidiary, AMR Eagle Holding Corporation and its primary subsidiaries, American Eagle Airlines, Inc. and Executive Airlines, Inc. (collectively, “AMR Eagle”). The Condensed Consolidated Financial Statements also include the accounts of variable interest entities for which the Company is the primary beneficiary. For further information, refer to the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K filed with the SEC on February 20, 2013, as amended by the Form 10-K/A filed on April 16, 2013 (“2012 Form 10-K”), including the Summary of Significant Accounting Policies which appears as Note 2 in the 2012 Form 10-K.

Notwithstanding any indications of value that may be contained in the Plan, no assurance can be given as to the ultimate value, if any, that may be ascribed to the Debtors' various prepetition liabilities and other securities. The Company cannot predict what the ultimate value of any of its or the other Debtors' securities may be. Trading in the Company's common stock and certain debt securities on the New York Stock Exchange (NYSE) was suspended on January 5, 2012, and the Company's common stock and such debt securities were delisted by the SEC from the NYSE on January 30, 2012. On January 5, 2012, the Company's common stock began trading under the symbol “AAMRQ” on the OTCQB marketplace, operated by OTC Markets Group ([www.otcm Markets.com](http://www.otcm Markets.com)).

Additional information about the Chapter 11 Cases is available on the Internet at [aa.com/restructuring](http://aa.com/restructuring). Court filings and claims information are available at [amrcaseinfo.com](http://amrcaseinfo.com).

## 2. Chapter 11 Proceedings and Reorganization Update for the Reporting Period

### General Information

Notices to Creditors; Effect of Automatic Stay. The Debtors have notified all known current or potential creditors that the Chapter 11 Cases were filed. Subject to certain exceptions under the Bankruptcy Code, the filing of the Debtors' Chapter 11 Cases automatically enjoined, or stayed, the continuation of most judicial or administrative proceedings or

filing of other actions against the Debtors or their property to recover on, collect or secure a claim arising prior to the Petition Date. Thus, for example, most creditor actions to obtain possession of property from the Debtors, or to create, perfect or enforce any lien against the property of the Debtors, or to collect on monies owed or otherwise exercise rights or remedies with respect to a prepetition claim, are enjoined unless and until the Bankruptcy Court lifts the automatic stay as to any such claim. Vendors are being paid for goods furnished and services provided after the Petition Date in the ordinary course of business.

Appointment of Creditors' Committee. On December 5, 2011, the U.S. Trustee appointed the Creditors' Committee ("Creditors' Committee") for the Chapter 11 Cases.

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(Unaudited)

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**Rejection of Executory Contracts.** Under section 365 and other relevant sections of the Bankruptcy Code, the Debtors may assume, assume and assign, or reject certain executory contracts and unexpired leases, including, without limitation, agreements relating to aircraft and aircraft engines (collectively, "Aircraft Property") and leases of real property, subject to the approval of the Bankruptcy Court and certain other conditions. As of March 31, 2013, the Bankruptcy Court had entered orders granting the Debtors' motions to assume 537 and reject 12 unexpired leases of non-residential real property and had entered various orders extending, by the Debtors' agreement with certain landlords, the date by which the Debtors must assume or reject an additional 24 unexpired leases of non-residential real property.

In general, rejection of an executory contract or unexpired lease is treated as a prepetition breach of the executory contract or unexpired lease in question and, subject to certain exceptions, relieves the Debtors from performing their future obligations under such executory contract or unexpired lease but entitles the contract counterparty or lessor to a prepetition general unsecured claim for damages caused by such deemed breach. Counterparties to such rejected contracts or leases have the right to file claims against the Debtors' estate for such damages. Generally, the assumption of an executory contract or unexpired lease requires the Debtors to cure existing defaults under such executory contract or unexpired lease.

Any description of an executory contract or unexpired lease elsewhere in these Notes or in the report to which these Notes are attached, including where applicable the Debtors' express termination rights or a quantification of their obligations, must be read in conjunction with, and is qualified by, any rights the Debtors or counterparties have under section 365 of the Bankruptcy Code.

The Debtors expect that liabilities subject to compromise and resolution in the Chapter 11 Cases will arise in the future as a result of damage claims created by the Debtors' rejection of various executory contracts and unexpired leases. Due to the uncertain nature of many of the potential rejection claims, the magnitude of such claims is not reasonably estimable at this time. Such claims may be material (see "Liabilities Subject to Compromise" in Note 2 to the Condensed Consolidated Financial Statements).

**Special Protection Applicable to Leases and Secured Financing of Aircraft and Aircraft Equipment.** Notwithstanding the general discussion above of the impact of the automatic stay, under section 1110 of the Bankruptcy Code, beginning 60 days after filing a petition under Chapter 11, certain secured parties, lessors and conditional sales vendors may have a right to take possession of certain qualifying Aircraft Property that is leased or subject to a security interest or conditional sale contract, unless the Debtors, subject to approval by the Bankruptcy Court, agree to perform under the applicable agreement, and cure any defaults as provided in section 1110 (other than defaults of a kind specified in section 365(b)(2) of the Bankruptcy Code). Taking such action does not preclude the Debtors from later rejecting the applicable lease or abandoning the Aircraft Property subject to the related security agreement, or from later seeking to renegotiate the terms of the related financing.

The Debtors may extend the 60-day period by agreement of the relevant financing party, with Bankruptcy Court approval. In the absence of an agreement or cure as described above or such an extension, the financing party may take possession of the Aircraft Property and enforce its contractual rights or remedies to sell, lease or otherwise retain or dispose of such equipment.

The 60-day period under section 1110 in the Chapter 11 Cases expired on January 27, 2012. In accordance with the Bankruptcy Court's Order Authorizing the Debtors to (i) Enter into Agreements Under Section 1110(a) of the Bankruptcy Code, (ii) Enter into Stipulations to Extend the Time to Comply with Section 1110 of the Bankruptcy Code and (iii) File Redacted Section 1110(b) Stipulations, dated December 23, 2011, the Debtors have entered into agreements to extend the automatic stay or agreed to perform and cure defaults under financing agreements with



respect to certain aircraft in their fleet and other Aircraft Property. The Debtors have reached agreement on revised terms with respect to substantially all of the aircraft for which the Debtors expect to negotiate revised terms, subject in a number of instances to certain conditions, including reaching agreement on definitive documentation. The ultimate outcome of these negotiations cannot be predicted with certainty. To the extent the Debtors are unable to reach definitive agreements with Aircraft Property financing parties, those parties may seek to repossess the subject Aircraft Property. The loss of a significant number of aircraft could result in a material adverse effect on the Debtors' financial and operating performance.

AMR CORPORATION, ET AL.  
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(Unaudited)

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**Magnitude of Potential Claims.** On February 27, 2012, the Debtors filed with the Bankruptcy Court schedules and statements of financial affairs setting forth, among other things, the assets and liabilities of the Debtors, subject to the assumptions filed in connection therewith. All of the schedules are subject to further amendment or modification. Bankruptcy Rule 3003(c)(3) requires the Bankruptcy Court to fix the time within which proofs of claim must be filed in a Chapter 11 case pursuant to section 501 of the Bankruptcy Code. This Bankruptcy Rule also provides that any creditor who asserts a claim against the Debtors that arose prior to the Petition Date and whose claim (i) is not listed on the Debtors' schedules or (ii) is listed on the schedules as disputed, contingent, or unliquidated, must file a proof of claim. On May 4, 2012, the Bankruptcy Court entered an order that established July 16, 2012 at 5:00 p.m. (Eastern Time) as the deadline to file proofs of claim against any Debtor. More information regarding the filing of proofs of claim can be obtained at [www.amrcaseinfo.com](http://www.amrcaseinfo.com). Information on this website is not incorporated into or otherwise made a part of this report.

Differences between amounts scheduled by the Debtors and claims by creditors will be investigated and resolved in connection with the claims resolution process. In light of the expected number of creditors, the claims resolution process may take considerable time to complete. Accordingly, the ultimate number and amount of allowed claims is not presently known, nor can the ultimate recovery with respect to allowed claims be presently ascertained.

**Collective Bargaining Agreements.** Section 1113(c) of the Bankruptcy Code provides a process for the modification and/or rejection of collective bargaining agreements ("CBAs"). Through this process, American was able to achieve new CBAs with each of its unions (TWU, APFA and APA), covering nine unionized work groups.

In September 2012, the Bankruptcy Court authorized American to reject its pilot CBA, and thereafter American began implementing certain terms and conditions of employment for pilots. American and the APA continued to negotiate in good faith toward a new pilot agreement, and those negotiations resulted in a new pilot CBA that was approved by the Bankruptcy Court on December 19, 2012. A small group of American pilots is appealing the Bankruptcy Court's decisions granting American's request to reject the pilot CBA and approving the new pilot CBA, and those appeals are pending in the U.S. District Court for the Southern District of New York.

AMR Eagle also engaged in the Section 1113(c) process with its unions, and ultimately achieved new CBAs with AFA, ALPA and all four TWU-represented work groups.

In addition, American's pilots, flight attendants, and ground employee unions and the US Airways, Inc. pilots union have agreed to new terms for CBAs, effective upon the closing of the Company's proposed merger with US Airways Group, Inc. ("US Airways Group") (see below for further information regarding the merger). The US Airways, Inc. flight attendants union has also reached a tentative agreement with US Airways, Inc., which includes support for the merger. American's unions representing pilots and flight attendants are working with their counterparts at US Airways, Inc. to determine representation and single agreement protocols to be used to integrate workforce after the merger.

**Availability and Utilization of Net Operating Losses.** The availability and utilization of net operating losses (and utilization of alternative minimum tax credits) after the Debtors' emergence from Chapter 11 is uncertain at this time and will be highly influenced by the composition of the plan of reorganization that is ultimately pursued. On January 27, 2012, the Bankruptcy Court issued a Final Order Establishing Notification Procedures for Substantial Claimholders and Equityholders and Approving Restrictions on Certain Transfers of Interests in the Debtors' Estates, which restricted trading in the Company's common stock and established certain procedures and potential restrictions with respect to the transfer of claims. The order was intended to prevent, or otherwise institute procedures and notification requirements with respect to, certain transfers of AMR Common Stock and unsecured claims against the Debtors that could impair the ability of the Debtors to use their net operating loss carryovers and certain other tax

attributes on a reorganized basis. However, the Original Procedures did not envision the proposed merger between AMR and US Airways Group and, if implemented to take into account the proposed merger or an equivalent transaction, might have unduly restricted the amount of claims that may be accumulated and retained by certain holders. Accordingly, on February 22, 2013, the Debtors filed a motion with the Bankruptcy Court to revise the Original Procedures (as so revised, the "Revised Procedures"). On April 11, 2013, the Bankruptcy Court entered an order (the "Revised Order") approving the Revised Procedures.

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With respect to holders of unsecured claims against the Debtors, the Revised Procedures establish a process in which holders of unsecured claims in excess of a threshold amount may be required to file one or more Notices of Substantial Claim Ownership, and, under certain circumstances, may be required to sell all or a portion of any unsecured claims acquired during the Chapter 11 Cases. The Revised Procedures potentially apply to any person that beneficially owns either (1) more than \$190 million of claims against the Debtors or (2) a lower amount of claims which, when added to certain specified interests, including stock, in AMR or US Airways Group, would result in such holder holding the “Applicable Percentage,” generally 4.5 percent, of the reorganized Debtors. In connection with the filing of a Notice of Substantial Claim Ownership, a holder must indicate if it will agree to refrain from acquiring additional AMR and US Airways Group common stock and such other specified interests until after the effective date of the Debtors' Chapter 11 plan of reorganization, and to dispose of any such interests acquired since February 22, 2013. This can affect the manner in which the Revised Procedures apply to certain holders.

The Revised Procedures did not alter the procedures applicable with respect to “Substantial Equityholders,” namely persons who are, or as a result of a transaction would become, the beneficial owner of approximately 4.5 percent of the outstanding shares of AMR Common Stock.

Any acquisition, disposition, or other transfer of equity or claims in violation of the restrictions set forth in the Revised Order will be null and void ab initio and/or subject to sanctions as an act in violation of the automatic stay under sections 105(a) and 362 of the United States Bankruptcy Code.

#### Liabilities Subject to Compromise

The following table summarizes the components of liabilities subject to compromise included on the Consolidated Balance Sheet as of March 31, 2013:

(in millions)

Long-term debt	\$1,198	
Estimated allowed claims on aircraft lease and debt obligations and facility lease and bond obligations	3,971	
Pension and postretirement benefits	1,237	
Accounts payable and other accrued liabilities	385	
Other	(12	)
Total liabilities subject to compromise	\$6,779	

Liabilities subject to compromise refers to prepetition obligations which may be impacted by the Chapter 11 reorganization process. These amounts represent the Debtors' current estimate of known or potential prepetition obligations to be resolved in connection with the Chapter 11 Cases.

In accordance with ASC 852, substantially all of the Company's unsecured debt has been classified as liabilities subject to compromise. Additionally, certain of the Company's undersecured debt instruments have also been classified as liabilities subject to compromise.

Pursuant to the Support Agreement, as defined and further described below, the Debtors agreed to allow certain post-petition unsecured claims on obligations. As a result, the Company recorded interest charges of \$116 million to liabilities subject to compromise to recognize post-petition interest expense on unsecured obligations.

As a result of the modifications to the retirement benefits as discussed below, a portion of the pension and postretirement benefits liability, primarily relating to retiree medical and other benefits, was classified as liabilities subject to compromise.

Differences between liabilities the Debtors have estimated and the claims filed, or to be filed, will be investigated and resolved in connection with the claims resolution process. The Company will continue to evaluate these liabilities throughout the Chapter 11 Cases and adjust amounts as necessary. Such adjustments may be material. In light of the expected number of creditors, the claims resolution process may take considerable time to complete. Accordingly, the ultimate number and amount of allowed claims is not presently known.

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#### Reorganization Items, net

Reorganization items refer to revenues, expenses (including professional fees), realized gains and losses and provisions for losses that are realized or incurred in the Chapter 11 Cases. The following table summarizes the components included in reorganization items, net on the Consolidated Statement of Operations for the month ended March 31, 2013:

(in millions)

Aircraft and facility financing renegotiations and rejections <sup>(1)</sup> <sup>(2)</sup> <sup>(3)</sup>	129
Professional fees	13
Other	3
Total reorganization items, net	\$ 145

Amounts include allowed claims (claims approved by the Bankruptcy Court) and estimated allowed claims relating to the rejection or modification of financings related to aircraft. The Debtors record an estimated claim associated with the rejection or modification of a financing when the applicable motion is filed with the Bankruptcy Court to (1) reject or modify such financing and the Debtors believe that it is probable the motion will be approved, and there is sufficient information to estimate the claim. Modifications of the financings related to certain aircraft remain subject to conditions, including reaching agreement on definitive documentation. See above, "Special Protection Applicable to Leases and Secured Financing of Aircraft and Aircraft Equipment," for further information.

Amounts include allowed claims (claims approved by the Bankruptcy Court) and estimated allowed claims relating to entry of orders treating as unsecured claims with respect to facility agreements supporting certain issuances of (2) special facility revenue bonds. The Debtors record an estimated claim associated with the treatment of claims with respect to facility agreements when the applicable motion is filed with the Bankruptcy Court and the Debtors believe that it is probable that the motion will be approved, and there is sufficient information to estimate the claim. See above, "Rejection of Executory Contracts," for further information.

Pursuant to the Support Agreement, as defined and further described below, the Debtors agreed to allow certain (3) post-petition unsecured claims on obligations. As a result, the Company recorded reorganization charges to adjust estimated allowed claim amounts previously recorded on rejected special facility revenue bonds of \$127 million, which is included in the table above.

Claims related to reorganization items are reflected in liabilities subject to compromise on the Condensed Consolidated Balance Sheet as of March 31, 2013.

#### Interest Expense

In accordance with ASC 852, the Debtors record interest expense only to the extent (1) interest will be paid during the Chapter 11 Cases or (2) it is probable that the Bankruptcy Court will allow a claim in respect of such interest. Interest expense recorded on the Consolidated Statements of Operations totaled \$164 million for the month ended March 31, 2013. Contractual interest expense (including interest expense that is associated with obligations in liabilities subject to compromise) during this period totaled \$166 million.

Insurance

Premiums to date for all insurance policies, including workers' compensation and disability insurance, have been paid in accordance with each respective policy's payment terms. No payments are past due.

Restricted Cash and Short-term Investments

The Company has restricted cash and short-term investments related primarily to collateral held to support projected workers' compensation obligations and funds held for certain tax obligations.

Recent Modifications to Pension and Other Post-Employment Benefits

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The Company's defined benefit pension plans were frozen effective November 1, 2012. Eligible employees began to receive a replacement benefit under the Super Saver 401(k) Plan on November 1, 2012.

In December 2012, the Pilot A Plan, a defined benefit plan, was amended to remove the lump-sum option and the installment option forms of benefit effective December 31, 2012. A small group of American pilots is appealing the Bankruptcy Court's decision authorizing American to eliminate the lump sum option and installment option forms of benefit. This is the same group of pilots that is appealing the Bankruptcy Court's decisions authorizing American to reject the pilot CBA and approving the new pilot CBA. All of these appeals have been consolidated, and are pending in the U.S. District Court for the Southern District of New York.

The Pilot B Plan, a defined contribution plan, was terminated on November 30, 2012. Plan B assets will be distributed to pilots in mid-2013.

On July 6, 2012, the Company commenced an adversary proceeding against the Section 1114 Committee of Retired Employees (the "Retiree Committee") in the Bankruptcy Court seeking a determination on the issue of vesting for former employees who retired and initiated retiree medical coverage before November 1, 2012. The Court held a hearing on January 23, 2013 and has not ruled on this matter as of the date of this report. The Company has been negotiating with the Retiree Committee since July 2012, seeking a consensual agreement to terminate subsidized retiree medical coverage and life insurance coverage. Those negotiations are continuing.

#### Merger Agreement

##### Description of Agreement and Plan of Merger

On February 13, 2013, AMR, US Airways Group, and AMR Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of AMR ("Merger Sub"), entered into an Agreement and Plan of Merger (the "Merger Agreement"), providing for a business combination of AMR and US Airways Group. The Merger Agreement provides that, upon the terms and subject to the conditions set forth in the Merger Agreement, Merger Sub will merge with and into US Airways Group (the "Merger"), with US Airways Group surviving as a wholly owned subsidiary of AMR. AMR and US Airways Group anticipate that immediately following the merger closing, AMR will change its name to American Airlines Group Inc. ("AAG"). Following the Merger, AAG will own, directly or indirectly, all of the equity interests of American, US Airways Group and their direct and indirect subsidiaries. The Merger Agreement and the transactions contemplated thereby, including the Merger, are subject to the approval of the Bankruptcy Court, and are to be effected pursuant to the Plan of the Debtors in connection with the Chapter 11 Cases. The Plan was filed on April 15, 2013, and is subject to confirmation and consummation in accordance with the requirements of the Bankruptcy Code.

Subject to the terms and conditions of the Merger Agreement, which has been approved by the boards of directors of the respective parties, upon completion of the Merger, US Airways Group stockholders will receive one share of common stock of AAG ("AAG Common Stock") for each share of US Airways Group common stock. The aggregate number of shares of AAG Common Stock issuable to holders of US Airways Group equity instruments (including stockholders and holders of convertible notes, options, stock appreciation rights and restricted stock units) will represent 28% of the diluted capitalization of AAG after giving effect to the Plan. The remaining 72% diluted equity ownership of AAG will be distributable, pursuant to the Plan, to the Debtors' stakeholders, labor unions and certain employees.

All of the equity interests in AAG will be issued solely pursuant to the Merger Agreement or the Plan. Pursuant to the proposed Plan filed with the Bankruptcy Court on April 15, 2013, holders of AMR equity interests are expected to receive a recovery on such interests in the form of a distribution of AAG common stock. Implementation of the Plan and the making of any distributions thereunder are subject to confirmation thereof in accordance with the provisions



of the Bankruptcy Code, the occurrence of the effective date under the Plan and the consummation of the Merger. The Merger is intended to qualify, for federal income tax purposes, as a reorganization under the provisions of Section 368(a) of the Internal Revenue Code of 1986, as amended.

The Merger Agreement provides that, upon consummation of the Merger, the board of directors of the combined company will initially consist of 12 members, composed of (i) Thomas W. Horton, AMR's current chairman, chief executive officer and president, who will serve as chairman of AAG until the earlier of (A) one year after the closing of the Merger and (B) the day immediately prior to the first annual meeting of stockholders of the combined company

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(provided that such meeting will not occur prior to May 1, 2014), (ii) W. Douglas Parker, US Airways Group current chief executive officer, who will serve as chief executive officer of AAG and will serve as chairman of AAG following the end of Mr. Horton's term, (iii) two independent directors designated by AMR, (iv) three independent directors designated by US Airways Group, and (v) five independent directors designated by a search committee consisting of representatives of the Creditors' Committee and certain representatives of creditors signatory to the support agreement with AMR referred to below. One of such independent directors will serve as lead independent director. Subject to applicable law, prior to the Merger, senior executives from each of AMR and US Airways Group will engage in a planning process for integration purposes.

AMR and US Airways Group have each made customary representations, warranties and covenants in the Merger Agreement, including, among others, covenants to conduct their businesses in the ordinary and usual course between the execution of the Merger Agreement and the consummation of the Merger, subject to certain restrictions as set forth in the Merger Agreement. In addition, the Merger Agreement contains "no shop" provisions that restrict each party's ability to initiate, solicit or knowingly encourage or facilitate competing third-party proposals for any transaction involving a merger of such party or the acquisition of a significant portion of its stock or assets, although each party may consider competing, unsolicited proposals and enter into discussions or negotiations regarding such proposals, if its board of directors determines that any such acquisition proposal constitutes, or is reasonably likely to lead to, a superior proposal and that the failure to take such action is reasonably likely to be inconsistent with its fiduciary duties under applicable law.

US Airways Group has agreed to certain additional customary covenants in the Merger Agreement, including, among others, subject to certain exceptions, (i) to cause a stockholder meeting to be held to consider adoption of the Merger Agreement and (ii) for its board of directors to recommend adoption of the Merger Agreement by US Airways Group stockholders. AMR has also agreed to certain additional customary covenants in the Merger Agreement, including, among others, subject to certain exceptions, (i) to pursue confirmation of the Plan and (ii) for its board of directors to recommend adoption of the Merger Agreement by the Debtors' stakeholders.

Consummation of the Merger is subject to customary conditions, including, among others: (i) approval by the stockholders of US Airways Group; (ii) expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the receipt of certain other regulatory approvals; (iii) absence of any order or injunction prohibiting the consummation of the Merger; (iv) Bankruptcy Court confirmation of the Plan, which must contain certain specified provisions defined in the Merger Agreement; (v) subject to certain exceptions, the accuracy of representations and warranties with respect to the business of AMR or US Airways Group, as applicable; (vi) each of AMR and US Airways Group having performed their respective obligations pursuant to the Merger Agreement; and (vii) receipt by each of the Company and US Airways Group of a customary tax opinion. The Merger Agreement contains certain termination rights for AMR and US Airways Group, and further provides that, upon termination of the Merger Agreement under specified circumstances, (i) AMR may be required to pay US Airways Group a termination fee of \$135 million in the event it terminates the agreement to enter into a superior proposal and \$195 million if US Airways Group terminates the Merger Agreement in the event of a knowing and deliberate breach of the Merger Agreement by AMR and (ii) US Airways Group may be required to pay AMR a termination fee of \$55 million in the event it terminates the agreement to enter into a superior proposal and \$195 million if AMR terminates the Merger Agreement in the event of a knowing and deliberate breach of the Merger Agreement by US Airways Group.

On February 22, 2013, the Debtors filed a motion for entry of the Merger Support Order, which is defined as an order of the Bankruptcy Court approving the Merger Agreement and certain related matters contemplated thereby in the

form required by the Merger Agreement. The Bankruptcy Court conducted a hearing on the Debtors' motion on March 27, 2013. As of April 29, 2013, the Bankruptcy Court has not entered the Merger Support Order in the form required by the Merger Agreement. If the Merger Support Order is not entered on or before May 14, 2013, the Merger Agreement may be terminated in accordance with its termination provisions. Unless and until the Merger Support Order is entered, the Merger Agreement is not binding on or enforceable against AMR, US Airways Group or AMR Merger Sub. Based on the Bankruptcy Court hearing on March 27, 2013 to consider the Merger Support Motion and any related objections and the memorandum of decision issued by the Bankruptcy Court on April 11, 2013, AMR and US Airways Group anticipate that the Bankruptcy Court will enter an order that fails to meet all of the requirements of the Merger Agreement. AMR and US Airways Group are discussing how to address this anticipated issue.

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#### Support Agreement and Term Sheet

On February 13, 2013, AMR and the other Debtors entered into a Support and Settlement Agreement (the "Support Agreement") with certain significant holders of certain prepetition claims against one or more of the Debtors (such holders of claims, the Consenting Creditors), aggregating approximately \$1.2 billion of prepetition unsecured claims. Pursuant to the terms of the Support Agreement, each Consenting Creditor has agreed, among other things, and subject to certain conditions, to (a) vote in favor of a Plan, which must include certain terms specified in a Term Sheet attached to the Support Agreement (the "Term Sheet"), (b) generally support confirmation and consummation of the Plan and (c) not to support or solicit any plan in opposition to the Plan. Confirmation and consummation of the Plan are subject to compliance with the provisions of the Bankruptcy Code and to the closing of the Merger.

The Support Agreement may be terminated upon the occurrence of certain events, including: (a) certain breaches by the Debtors or Consenting Creditors under the Support Agreement; (b) termination of the Merger Agreement or the announcement by AMR or US Airways Group of their intent to terminate the Merger Agreement (in which case the Support Agreement would terminate automatically); (c) the failure to meet certain milestones with respect to achieving confirmation and consummation of the Plan; (d) the filing, amendment or modification of certain documents, including the Plan, in a manner materially inconsistent with the Support Agreement and materially adverse to a Consenting Creditor (in which case the Support Agreement can be terminated by such Consenting Creditor solely with respect to itself); (e) the amendment or modification of the Merger Agreement in a manner that is materially adverse to a Consenting Creditor (in which case the Support Agreement can be terminated by such Consenting Creditor solely with respect to itself); and (f) if the volume weighted average price of US Airways Group common stock for the thirty trading days ending on the last trading day immediately prior to the date of termination is less than \$10.40. Termination of the Support Agreement would give the Consenting Creditors the right to withdraw their support of the Plan.

As described in the Term Sheet, the Plan implements the Merger, incorporates a compromise and settlement of certain intercreditor and intercompany claim issues, and is to contain the following provisions relating to the treatment of prepetition unsecured claims against the Debtors and equity interests in AMR:

Unless they elect to receive alternative treatment, holders of prepetition unsecured claims against AMR or American that also are guaranteed by either such company ("Double-Dip Unsecured Claims") will receive shares of preferred stock of AAG (the "AAG Preferred Stock") that will be mandatorily convertible into shares of AAG Common Stock on each of the 30th, 60th, 90th and 120th day after the effective date of the Plan. Upon the conversion of the remaining AAG Preferred Stock on the 120th day after the effective date of the Plan, all AAG Preferred Stock will have been converted to AAG Common Stock and no AAG Preferred Stock will remain outstanding. The conversion price of the AAG Preferred Stock will vary on each conversion date, based on the volume weighted average price of the shares of the AAG Common Stock on the five trading days immediately preceding each conversion date, at a 3.5% discount, subject to a cap and a floor price. The AAG Preferred Stock allocable to the Double-Dip Unsecured Claims will have a face amount equal to the allowed amount of their claims, including post-petition interest at the non-default rate;

- Holders of prepetition unsecured claims (other than claims of the Debtors' unions) that are not Double-Dip Unsecured Claims (and holders of Double-Dip Unsecured Claims that elect to receive such treatment) will receive shares of AAG Preferred Stock, as well as shares of AAG Common Stock;
- Holders of existing AMR equity interests (including stock, warrants, restricted stock units and options) will receive a distribution of shares of AAG Common Stock representing 3.5% of the total number of shares of AAG Common Stock (on an as-converted basis) in addition to the potential to receive shares of AAG Common Stock above such

amount; and

The satisfaction of certain labor-related claims through the allocation to such claims of shares of AAG Common Stock representing 23.6% of the total number of such shares of AAG Common Stock ultimately distributed to holders of prepetition general unsecured claims against the Debtors.

In each case, the distributions made to each of the foregoing stakeholders will be adjusted to take into account any reserves made for disputed claims under the Plan. The Debtors will be filing a motion with the Bankruptcy Court seeking approval of the Support Agreement.

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AMR CORPORATION, ET AL.  
DEBTORS AND DEBTORS IN POSSESSION  
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(Unaudited)

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#### Filing of Plan of Reorganization, Disclosure Statement and Form S-4

On April 15, 2013, the Company and other Debtors filed with the Bankruptcy Court the Plan and related Disclosure Statement, which contemplate that AMR will emerge from Chapter 11 and merge with US Airways Group (see above). The Plan addresses various subjects with respect to the Debtors, including the resolution of pre-petition obligations as well as the capital structure and corporate governance after exit from the Chapter 11 Cases. The Plan further provides that, upon the effectiveness of the Plan and the Merger, which are anticipated to occur contemporaneously, all shares of existing AMR common stock and other equity interests in AMR will be cancelled and any rights with respect thereto will cease to exist.

Generally, for purposes of the Plan, all 20 Debtors will be “substantively consolidated” into three nodes, consisting of: (i) AMR Debtors, (ii) American Debtors, and (iii) Eagle Debtors. As among the AMR Debtors, the American Debtors, and the Eagle Debtors, the Plan will separately classify creditor claims. However, pursuant to the compromises incorporated into the Plan relating to certain inter-creditor issues and the treatment of intercompany claims among the Debtors, general unsecured claims of similar rank and priority will be treated the same under the Plan regardless of the Debtor against which such claim was filed.

The Plan contains provisions related to the treatment of prepetition unsecured claims against the Debtors and equity interests in AMR as described above under "Support Agreement and Term Sheet."

On April 15, 2013, the Company also filed a Form S-4 registration statement with the Securities and Exchange Commission (the "SEC") to register the shares of AAG Common Stock that will be issued to stockholders of US Airways Group as consideration in the Merger in exchange for their US Airways Group common stock. The AAG Common Stock cannot be issued to US Airways Group stockholders until the SEC declares the registration statement to be effective, the US Airways Group stockholders vote to approve the Merger and the Plan is confirmed and consummated.

The Company and other Debtors have until July 29, 2013 to solicit and obtain acceptances for the Plan. To be accepted by holders of claims against the Debtors, the Plan must be approved by at least one-half in number and two-thirds in dollar amount of claims actually voting in each impaired class. Under certain circumstances set forth in Section 1129(b) of the Bankruptcy Code, the Bankruptcy Court may confirm a plan even if such plan has not been accepted by all impaired classes of claims and equity interests. A class of claims or equity interests that does not receive or retain any property under the plan on account of such claims or interests is deemed to have voted to reject the plan. The precise requirements and evidentiary showing for confirming a plan notwithstanding its rejection by one or more impaired classes of claims or equity interests depends upon a number of factors, including the status and seniority of the claims or equity interests in the rejecting class (i.e., secured claims or unsecured claims, subordinated or senior claims, preferred or common stock).

The information contained in the Disclosure Statement is subject to change, whether as a result of amendments to the Plan of Reorganization, actions of third parties or otherwise.

Nothing contained in this MOR is intended to be, nor should it be construed as, a solicitation for a vote on the Plan. The Plan will become effective only if it receives the requisite approval and is confirmed by the Bankruptcy Court. There can be no assurance that the Bankruptcy Court will confirm the Plan of Reorganization or that any such plan

will be implemented successfully.

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AMR CORPORATION, ET AL.  
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Notes to Condensed Consolidated Financial Statements  
(Unaudited)

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ADDITIONAL INFORMATION

AMR files annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy these reports, statements or other information filed by AMR at the SEC's Public Reference Room at Room 1580, 100 F Street NE, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. The SEC filings of AMR are also available to the public from commercial document retrieval services and at the website maintained by the SEC at [www.sec.gov](http://www.sec.gov). You can also find the SEC filings of AMR on its website, [www.aa.com](http://www.aa.com).

AMR has made and expects to make public disclosures of certain information regarding AMR and its subsidiaries, including, but not limited to, disclosures regarding the Merger, to investors and the general public by means of certain social media sites, including, but not limited to, Facebook and Twitter and by means of a joint merger website maintained by AMR and US Airways Group. Investors are encouraged to (i) follow American (@AmericanAir) on Twitter, (ii) "like" American ([www.facebook.com/AmericanAirlines](http://www.facebook.com/AmericanAirlines)) on its Facebook page and (iii) visit [www.aaarriving.com](http://www.aaarriving.com) for updated information regarding AMR, US Airways Group, and the Merger. AMR does not incorporate the contents of its social media posts or the joint merger website into this MOR.



AMR CORPORATION, ET AL.  
DEBTORS AND DEBTORS IN POSSESSION  
CONDENSED CONSOLIDATING BALANCE SHEET  
MARCH 31, 2013  
(Unaudited) (In millions)

## Schedule 1

	Debtors	Non-Debtors	Eliminations & Adjustments	Consolidated
Assets				
Current Assets				
Cash	\$602	\$4	\$—	\$606
Short-term investments	3,636	2	—	3,638
Restricted cash and short-term investments	853	—	—	853
Receivables, net	1,240	17	(14	)1,243
Inventories, net	595	—	—	595
Fuel derivative contracts	66	—	—	66
Other current assets	523	1	—	524
Total current assets	7,515	24	(14	)7,525
Equipment and Property				
Flight equipment, net	10,216	—	—	10,216
Other equipment and property, net	2,098	1	—	2,099
Purchase deposits for flight equipment	721	—	—	721
	13,035	1	—	13,036
Equipment and Property Under Capital Leases				
Flight equipment, net	212	—	—	212
Other equipment and property, net	57	—	—	57
	269	—	—	269
International slots and route authorities	708	—	—	708
Domestic slots and airport operating and gate lease rights, less accumulated amortization, net	155	—	—	155
Other assets	2,434	106	(381	)2,159
	\$24,116	\$131	\$(395	)\$23,852

AMR CORPORATION, ET AL. Schedule 1 (Continued)  
DEBTORS AND DEBTORS IN POSSESSION  
CONDENSED CONSOLIDATING BALANCE SHEET  
MARCH 31, 2013  
(Unaudited ) (In millions)

	Debtors	Non-Debtors	Eliminations & Adjustments	Consolidated	
<b>Liabilities and Stockholders' Equity (Deficit)</b>					
<b>Current Liability</b>					
Accounts payable	\$1,598	\$(144	)\$(14	)\$1,440	
Accrued liabilities	2,084	—	—	2,084	
Air traffic liability	5,180	—	—	5,180	
Current maturities of long-term debt	1,256	—	—	1,256	
Current obligations under capital leases	30	—	—	30	
Total current liabilities	10,148	(144	)(14	)9,990	
Long-term debt, less current maturities	6,752	—	(106	)6,646	
Obligations under capital leases, less current obligations	375	—	—	375	
Pensions and postretirement benefits	6,730	—	—	6,730	
Other liabilities, deferred gains and deferred credits	1,708	—	—	1,708	
	15,565	—	(106	)15,459	
Liabilities Subject to Compromise	6,779	—	—	6,779	
<b>Stockholders' Equity (Deficit)</b>					
Preferred stock	—	—	—	—	
Common stock	341	1	(1	)341	
Additional paid-in-capital	4,483	259	(259	)4,483	
Treasury stock	(367	)—	—	(367	)
Accumulated other comprehensive income	(3,030	)—	—	(3,030	)
Accumulated Deficit	(9,803	)15	(15	)(9,803	)
	\$24,116	\$131	\$(395	)\$23,852	

AMR CORPORATION, ET AL. Schedule 2  
DEBTORS AND DEBTORS IN POSSESSION  
CONSOLIDATING STATEMENT OF OPERATIONS  
MONTH ENDED MARCH 31, 2013  
(Unaudited)

	Debtors	Non-Debtors	Eliminations & Adjustments	Consolidated	
<b>Revenues</b>					
Passenger - American Airlines	\$1,664	\$—	\$—	\$1,664	
- Regional Affiliates	253	—	—	253	
Cargo	59	—	—	59	
Other revenues	211	1	(1	)211	
Total operating revenues	2,187	1	(1	)2,187	
<b>Expenses</b>					
Aircraft fuel	764	—	—	764	
Wages, salaries and benefits	523	—	—	523	
Other rentals and landing fees	119	—	—	119	
Maintenance, materials and repairs	128	—	—	128	
Depreciation and amortization	79	—	—	79	
Commissions, booking fees and credit card expense	95	—	—	95	
Aircraft rentals	56	—	—	56	
Food service	49	—	—	49	
Special charges	8	—	—	8	
Other operating expenses	275	1	(1	)275	
Total operating expenses	2,096	1	(1	)2,096	
Operating Income	91	—	—	91	
<b>Other Income (Expense)</b>					
Interest income	1	—	—	1	
Interest expense	(164	)—	—	(164	)
Interest capitalized	4	—	—	4	
Miscellaneous - net	(2	)—	—	(2	)
	(161	)—	—	(161	)
Income Before Reorganization Items	(70	)—	—	(70	)
Reorganization Items, Net	(145	)—	—	(145	)
Income Before Income Taxes	(215	)—	—	(215	)
Income tax	(22	)—	—	(22	)
Net Income	\$(193	)\$—	\$—	\$(193	)



AMR CORPORATION, ET AL.  
 DEBTORS AND DEBTORS IN POSSESSION  
 TOTAL DISBURSEMENTS BY FILED LEGAL ENTITY  
 MONTH ENDED MARCH 31, 2013  
 (Unaudited) (In thousands)

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Legal Entity	Case Number	Disbursements
American Airlines Realty (NYC) Holdings, Inc.	11-15462	\$29
AMR Corporation	11-15463	1,036
American Airlines, Inc.	11-15464	2,690,455
AMR Eagle Holding Corporation	11-15465	—
Americas Ground Services, Inc.	11-15466	349
PMA Investment Subsidiary, Inc.	11-15467	—
SC Investment, Inc.	11-15468	—
American Eagle Airlines, Inc.	11-15469	93,041
Executive Airlines, Inc.	11-15470	7,468
Executive Ground Services, Inc.	11-15471	14
Eagle Aviation Services, Inc.	11-15472	1,778
Admirals Club, Inc.	11-15473	—
Business Express Airlines, Inc.	11-15474	—
Reno Air, Inc.	11-15475	—
AA Real Estate Holding GP LLC	11-15476	—
AA Real Estate Holding L.P.	11-15477	—
American Airlines Marketing Services LLC	11-15478	52
American Airlines Vacations LLC	11-15479	64
American Aviation Supply LLC	11-15480	1,239
American Airlines IP Licensing Holding, LLC	11-15481	—



AMR CORPORATION, ET AL.

Schedule 4

DEBTORS AND DEBTORS IN POSSESSION

SCHEDULE OF FEDERAL, STATE AND LOCAL TAXES COLLECTED, RECEIVED, DUE OR WITHHELD

MONTH ENDED MARCH 31, 2013

(Unaudited) (In millions)

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Payroll Taxes	
Gross wages and salaries paid or incurred <sup>(3)</sup>	\$436.4
Payroll taxes withheld employee	78.7
Payroll taxes withheld employer	34.7
Total payroll taxes withheld	113.4
Amount of payroll tax remitted to tax authorities	123.7
Date(s) remitted to tax authorities	Various
Sales & Use Taxes	
Sales & use tax collected and incurred	4.2
Amount of sales & use tax remitted to tax authorities <sup>(1)</sup>	3.5
Date(s) remitted to tax authorities	Various
Federal Transportation Tax	
Federal transportation tax collected	136.4
Amount of federal transportation tax remitted to Internal Revenue Service <sup>(1)</sup>	117.5
Date(s) remitted to tax authorities	3/8 & 3/25
Passenger Facility Charges	
Passenger facility charges collected	30.9
Amount of passenger facility charges remitted to airport authorities <sup>(1)</sup>	31.2
Date(s) remitted to airport authorities	3/31
U.S. Security Fees	
U.S. Security Fees collected	21.1
Amount of U.S. Security Fees remitted to Transportation Security Administration <sup>(1)</sup>	21.1
Date(s) remitted to Transportation Security Administration	3/28
Customs User Fees	
Customs user fees collected	6.6
Amount of customs user fees remitted to Customs and Border Protection Agency <sup>(2)</sup>	—
Date(s) remitted to Customs and Border Protection Agency	n/a
Immigration User Fees	
Immigration user fees collected	8.5
Amount of immigration user fees remitted to Customs and Border Protection Agency <sup>(2)</sup>	—
Date(s) remitted to Customs and Border Protection Agency	n/a
Animal and Plant Health Inspection Service (APHIS) Fees	
APHIS user fees collected	6.2
Amount of user fees remitted to U.S. Department of Agriculture <sup>(2)</sup>	—
Date(s) remitted to U.S. Department of Agriculture	n/a

Property taxes paid

1.6

(1) Tax is remitted one month in arrears of collection month. Amounts noted reflect actual collections and remittances during the month ended March 31, 2013.

(2) Tax is remitted quarterly. Amounts noted reflect actual collections and remittances during the month ended March 31, 2013.

(3) Payroll tax remittance does not equal taxes withheld because of tax entity payment timing requirements.

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AMR CORPORATION, ET AL.

Schedule 5

DEBTORS AND DEBTORS IN POSSESSION

TOTAL DISBURSEMENTS TO RETAINED PROFESSIONALS

MONTH ENDED MARCH 31, 2013

(Unaudited) (In thousands)

Retained Professionals	Disbursements <sup>(1)</sup>
Debtors' Advisors and Notice and Claims Agent:	
Airport & Aviation Professionals Inc.	\$43
Bernstein Shur Sawyer & Nelson	101
Brinks Hofer Gilson & Lione	82
Cooley LLP	49
Debevoise & Plimpton	4,318
Deloitte Financial	2,284
Ernst & Young LLP	244
Ford & Harrison	14
Global Tax Associates Group	45
Grant Thornton LLP	166
Groom Law Group	381
Harris Finley & Bogle	11
Houlihan Lokey Capital Inc	182
Jenner & Block LLP	172
Kelly Hart & Hallman LLP	114
KPMG LLP	296
McKinsey Recovery & Transformation	336
Morgan Lewis & Bockius	131
Paul Hastings LLP	2,264
Rothschild Inc.	206
Sheppard Mullin Richter & Hampton LLP	125
Skyworks Capital LLC	1,428
The Garden City Group Inc.	400
Weil, Gotshal & Manges LLP	5,181
Winstead, Sechrest & Minick PC	249
Yetter Coleman LLP	1,129
Zolfo Cooper LLC	65
	\$20,016
Advisors to Unsecured Creditors' Committee:	
Epiq Bankruptcy Solutions LLC	\$6
Mesirow Financial Consulting LLC	460
Moelis & Company Holding LP	144
Skadden, Arps, Slate, Meagher & Flom LLP and Affiliates	2,145
	\$2,755
Total Disbursements to Retained Professionals	\$22,771

(1)

The Debtors have retained certain legal and financial professionals to advise them in the Chapter 11 Cases. The Creditors' Committee also retained certain legal and financial professionals in connection with the Chapter 11 Cases. For the month of March 2013, estimated based on the Debtors' books and records, the Debtors accrued \$13 million of professional fees relating to such professionals, as indicated in Note 2 to the Condensed Consolidated Financial Statements. Any payments to such professionals will be made in accordance with applicable orders of the Bankruptcy Court.