American Airlines Group Inc.
Form 10-Q
April 26, 2019

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended March 31, 2019
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 1-8400

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

Delaware	75-1825172
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4333 Amon Carter Blvd., Fort Worth, Texas 76155	(817) 963-1234
(Address of principal executive offices, including zip code)	(Registrant's telephone number, including area code)

Commission file number 1-2691

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

Delaware	13-1502798
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4333 Amon Carter Blvd., Fort Worth, Texas 76155	(817) 963-1234

(Address of principal executive offices, including zip code) (Registrant's telephone number, including area code)

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.

American Airlines Group Inc. Yes No
American Airlines, Inc. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

American Airlines Group Inc. Yes No
American Airlines, Inc. Yes No

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

American Airlines Group Inc.	Large Accelerated Filer	Accelerated Filer	Non-accelerated Filer	Smaller Reporting Company	Emerging Growth Company
American Airlines, Inc.	Large Accelerated Filer	Accelerated Filer	Non-accelerated Filer	Smaller Reporting Company	Emerging Growth Company

If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

American Airlines Group Inc.
American Airlines, Inc.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

American Airlines Group Inc. Yes No
American Airlines, Inc. Yes No

As of April 22, 2019, there were 444,835,115 shares of American Airlines Group Inc. common stock outstanding.

As of April 22, 2019, there were 1,000 shares of American Airlines, Inc. common stock outstanding, all of which were held by American Airlines Group Inc.

American Airlines Group Inc.
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General

This report is filed by American Airlines Group Inc. (AAG) and its wholly-owned subsidiary American Airlines, Inc. (American). References in this report to “we,” “us,” “our,” the “Company” and similar terms refer to AAG and its consolidated subsidiaries. References in this report to “mainline” refer to the operations of American only and exclude regional operations.

Note Concerning Forward-Looking Statements

Certain of the statements contained in this report should be considered forward-looking statements within the meaning of the Securities Act of 1933, as amended (the Securities Act), the Securities Exchange Act of 1934, as amended (the Exchange Act), and the Private Securities Litigation Reform Act of 1995. These forward-looking statements may be identified by words such as “may,” “will,” “expect,” “intend,” “anticipate,” “believe,” “estimate,” “plan,” “project,” “could,” “
“continue,” “seek,” “target,” “guidance,” “outlook,” “if current trends continue,” “optimistic,” “forecast” and other similar wor
statements include, but are not limited to, statements about our plans, objectives, expectations, intentions, estimates and strategies for the future, and other statements that are not historical facts. These forward-looking statements are based on our current objectives, beliefs and expectations, and they are subject to significant risks and uncertainties that may cause actual results and financial position and timing of certain events to differ materially from the information in the forward-looking statements. These risks and uncertainties include, but are not limited to, those described below under Part I, Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations, Part II, Item 1A. Risk Factors and other risks and uncertainties listed from time to time in our filings with the Securities and Exchange Commission (the SEC).

All of the forward-looking statements are qualified in their entirety by reference to the factors discussed in Part II, Item 1A. Risk Factors and elsewhere in this report. There may be other factors of which we are not currently aware that may affect matters discussed in the forward-looking statements and may also cause actual results to differ materially from those discussed. We do not assume any obligation to publicly update or supplement any forward-looking statement to reflect actual results, changes in assumptions or changes in other factors affecting such statements other than as required by law. Forward-looking statements speak only as of the date of this report or as of the dates indicated in the statements.

PART I: FINANCIAL INFORMATION

This report on Form 10-Q is filed by both AAG and American and includes the Condensed Consolidated Financial Statements of each company in Item 1A and Item 1B, respectively.

ITEM 1A. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES GROUP INC.
AMERICAN AIRLINES GROUP INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except shares and per share amounts)(Unaudited)

	Three Months Ended March 31,	
	2019	2018
Operating revenues:		
Passenger	$9,658	$9,480
Cargo	218	227
Other	708	694
Total operating revenues	10,584	10,401
Operating expenses:		
Aircraft fuel and related taxes	1,726	1,763
Salaries, wages and benefits	3,090	3,017
Regional expenses	1,763	1,698
Maintenance, materials and repairs	561	469
Other rent and landing fees	503	467
Aircraft rent	327	309
Selling expenses	370	356
Depreciation and amortization	480	440
Special items, net	138	225
Other	1,251	1,261
Total operating expenses	10,209	10,005
Operating income	375	396
Nonoperating income (expense):		
Interest income	33	25
Interest expense, net	(271)	(262)
Other income, net	108	79
Total nonoperating expense, net	(130)	(158)
Income before income taxes	245	238
Income tax provision	60	79
Net income	$185	$159
Earnings per common share:		
Basic	$0.41	$0.34
Diluted	$0.41	$0.34
Weighted average shares outstanding (in thousands):		
Basic	451,951	472,297
Diluted	453,429	474,598
Cash dividends declared per common share	$0.10	$0.10

See accompanying notes to condensed consolidated financial statements.

AMERICAN AIRLINES GROUP INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)(Unaudited)

	Three Months Ended March 31,	
	2019	2018
Net income	$185	$159
Other comprehensive income (loss), net of tax:		
Pension, retiree medical and other postretirement benefits	(16)	(16)
Investments	3	(2)
Total other comprehensive loss, net of tax	(13)	(18)
Total comprehensive income	$172	$141

See accompanying notes to condensed consolidated financial statements.

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

	March 31, 2019 (Unaudited)	December 31, 2018
ASSETS		
Current assets		
Cash	$337	$ 275
Short-term investments	4,012	4,485
Restricted cash and short-term investments	156	154
Accounts receivable, net	1,876	1,706
Aircraft fuel, spare parts and supplies, net	1,666	1,522
Prepaid expenses and other	607	495
Total current assets	8,654	8,637
Operating property and equipment		
Flight equipment	42,013	41,499
Ground property and equipment	8,932	8,764
Equipment purchase deposits	1,211	1,278
Total property and equipment, at cost	52,156	51,541
Less accumulated depreciation and amortization	(17,746)	(17,443)
Total property and equipment, net	34,410	34,098
Operating lease right-of-use assets	9,124	9,151
Other assets		
Goodwill	4,091	4,091
Intangibles, net of accumulated amortization of $673 and $663, respectively	2,115	2,137
Deferred tax asset	1,007	1,145
Other assets	1,386	1,321
Total other assets	8,599	8,694
Total assets	$60,787	$ 60,580
LIABILITIES AND STOCKHOLDERS’ EQUITY (DEFICIT)		
Current liabilities		
Current maturities of long-term debt and finance leases	$3,370	$ 3,294
Accounts payable	2,139	1,773
Accrued salaries and wages	1,217	1,427
Air traffic liability	5,930	4,339
Loyalty program liability	3,354	3,267
Operating lease liabilities	1,629	1,654
Other accrued liabilities	2,210	2,342
Total current liabilities	19,849	18,096
Noncurrent liabilities		
Long-term debt and finance leases, net of current maturities	20,660	21,179
Pension and postretirement benefits	6,519	6,907
Loyalty program liability	5,214	5,272
Operating lease liabilities	7,785	7,902
Other liabilities	1,396	1,393
Total noncurrent liabilities	41,574	42,653
Commitments and contingencies		
Stockholders’ equity (deficit)		

Common stock, $0.01 par value; 1,750,000,000 shares authorized, 444,216,229 shares issued and outstanding at March 31, 2019; 460,610,870 shares issued and outstanding at December 31, 2018	5	5
Additional paid-in capital	4,371	4,964
Accumulated other comprehensive loss	(5,909)	(5,896)
Retained earnings	897	758
Total stockholders' deficit	(636)	(169)
Total liabilities and stockholders' equity (deficit)	$60,787	$ 60,580

See accompanying notes to condensed consolidated financial statements.

AMERICAN AIRLINES GROUP INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)(Unaudited)

	Three Months Ended March 31, 2019	2018
Net cash provided by operating activities	$ 1,651	$ 1,800
Cash flows from investing activities:		
Capital expenditures and aircraft purchase deposits	(1,305)	(779)
Proceeds from sale of property and equipment and sale-leaseback transactions	359	22
Purchases of short-term investments	(570)	(1,252)
Sales of short-term investments	1,051	1,029
Decrease (increase) in restricted short-term investments	(1)	24
Other investing activities	(14)	—
Net cash used in investing activities	(480)	(956)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	400	236
Payments on long-term debt and finance leases	(849)	(568)
Deferred financing costs	(6)	(1)
Treasury stock repurchases	(608)	(461)
Dividend payments	(46)	(48)
Net cash used in financing activities	(1,109)	(842)
Net increase in cash and restricted cash	62	2
Cash and restricted cash at beginning of period	286	398
Cash and restricted cash at end of period	$ 348	$ 400

(1)

Non-cash transactions:				
Right-of-use assets obtained in exchange for lease liabilities:				
Operating leases	$	332	$	43
Finance leases	2		—	
Supplemental information:				
Interest paid, net	267		258	
Income taxes paid	3		3	

[1] The following table provides a reconciliation of cash and restricted cash to amounts reported within the condensed consolidated balance sheets:

Cash	$337	$297
Restricted cash included in restricted cash and short-term investments	11	103
Total cash and restricted cash	$348	$400

See accompanying notes to condensed consolidated financial statements.

AMERICAN AIRLINES GROUP INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In millions)(Unaudited)

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	Total
Balance at December 31, 2018	$ 5	$ 4,964	$ (5,896)	$ 758	$ (169)
Net income	—	—	—	185	185
Other comprehensive loss, net	—	—	(13)	—	(13)
Purchase and retirement of 16,947,393 shares of AAG common stock	—	(610)	—	—	(610)
Dividends declared on AAG common stock ($0.10 per share)	—	—	—	(46)	(46)
Issuance of 552,752 shares of AAG common stock pursuant to employee stock plans net of shares withheld for cash taxes	—	(8)	—	—	(8)
Share-based compensation expense	—	25	—	—	25
Balance at March 31, 2019	$ 5	$ 4,371	$ (5,909)	$ 897	$ (636)

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	Total
Balance at December 31, 2017	$ 5	$ 5,714	$ (5,776)	$ (723)	$ (780)
Net income	—	—	—	159	159
Other comprehensive loss, net	—	—	(18)	—	(18)
Purchase and retirement of 8,431,150 shares of AAG common stock	—	(449)	—	—	(449)
Dividends declared on AAG common stock ($0.10 per share)	—	—	—	(48)	(48)
Issuance of 313,744 shares of AAG common stock pursuant to employee stock plans net of shares withheld for cash taxes	—	(10)	—	—	(10)
Share-based compensation expense	—	24	—	—	24
Impact of adoption of Accounting Standards Update (ASU) 2016-01 related to financial instruments	—	—	—	60	60
Impact of adoption of ASU 2016-02 related to leases	—	—	—	197	197
Balance at March 31, 2018	$ 5	$ 5,279	$ (5,794)	$ (355)	$ (865)

See accompanying notes to condensed consolidated financial statements.

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

1. Basis of Presentation and Recent Accounting Pronouncements

(a) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of American Airlines Group Inc. (we, us, our and similar terms, or AAG) should be read in conjunction with the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2018. The accompanying unaudited condensed consolidated financial statements include the accounts of AAG and its wholly-owned subsidiaries. AAG's principal subsidiary is American Airlines, Inc. (American). All significant intercompany transactions have been eliminated. Management believes that all adjustments necessary for the fair presentation of results, consisting of normally recurring items, have been included in the unaudited condensed consolidated financial statements for the interim periods presented. The preparation of financial statements in accordance with accounting principles generally accepted in the United States (GAAP) requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The most significant areas of judgment relate to passenger revenue recognition, impairment of goodwill, impairment of long-lived and intangible assets, the loyalty program, as well as pension and retiree medical and other postretirement benefits.

In the fourth quarter of 2018, we adopted ASU 2016-02: Leases (Topic 842) (the New Lease Standard) as of January 1, 2018. In accordance with the New Lease Standard, 2018 periods have been recast to reflect the effects of this adoption. As a result of the adoption of the New Lease Standard, our first quarter of 2018 net income decreased by $27 million.

(b) Recent Accounting Pronouncements

ASU 2018-02: Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

This ASU provides the option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings due to the U.S. federal corporate income tax rate change as a result of H.R. 1, the 2017 Tax Cuts and Jobs Act (the 2017 Tax Act). The amount of the reclassification is the difference between the amount initially charged or credited directly to other comprehensive income at the previous U.S. federal corporate income tax rate that remains in accumulated other comprehensive income and the amount that would have been charged or credited directly to other comprehensive income using the newly enacted U.S. federal corporate income tax rate, excluding the effect of any valuation allowance previously charged to income from continuing operations. This standard is effective for interim and annual reporting periods beginning after December 15, 2018. In the first quarter of 2019, we adopted this standard retrospectively as of December 22, 2017, the date the 2017 Tax Act was enacted, which resulted in the recast of prior reporting periods. As a result of the adoption, we reclassified $622 million of stranded tax effects principally related to our pension plans from accumulated other comprehensive loss to retained earnings.

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

2. Special Items, Net

Special items, net in the condensed consolidated statements of operations consisted of the following (in millions):

	Three Months Ended March 31,	
	2019	2018
Fleet restructuring expenses [1]	$83	$112
Merger integration expenses [2]	37	59
Litigation settlement	—	40
Labor contract expenses	—	13
Other operating charges, net	18	1
Mainline operating special items, net	138	225
Mark-to-market adjustments on equity investments, net [3]	(76)	—
Other nonoperating charges, net	7	—
Nonoperating special items, net	(69)	—
Income tax special items, net [4]	—	22

(1) Fleet restructuring expenses principally included accelerated depreciation and rent expense for aircraft and related equipment grounded or expected to be grounded earlier than planned.

(2) Merger integration expenses included costs associated with integration projects, principally our technical operations, flight attendant, human resources and payroll systems.

(3) Mark-to-market adjustments on equity investments relate to net unrealized gains primarily associated with our equity investment in China Southern Airlines Company Limited (China Southern Airlines).

(4) Income tax special items for the three months ended March 31, 2018 included a $22 million charge to income tax expense to establish a required valuation allowance related to our estimated refund for Alternative Minimum Tax (AMT) credits.

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

3. Earnings Per Common Share

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

	Three Months Ended March 31,	
	2019	2018
Basic EPS:		
Net income	$ 185	$ 159
Weighted average common shares outstanding (in thousands)	451,954	472,297
Basic EPS	$ 0.41	$ 0.34
Diluted EPS:		
Net income for purposes of computing diluted EPS	$ 185	$ 159
Share computation for diluted EPS (in thousands):		
Basic weighted average common shares outstanding	451,954	472,297
Dilutive effect of stock awards	1,478	2,301
Diluted weighted average common shares outstanding	453,429	474,598
Diluted EPS	$ 0.41	$ 0.34
Restricted stock unit awards excluded from the calculation of diluted EPS because inclusion would be antidilutive (in thousands)	2,267	1

4. Share Repurchase Programs and Dividends

In April 2018, we announced that our Board of Directors authorized a $2.0 billion share repurchase program that expires on December 31, 2020. Since July 2014, our Board of Directors has approved seven share repurchase programs aggregating $13.0 billion of authority. As of March 31, 2019, there was $1.1 billion of remaining authority to repurchase shares under our current $2.0 billion share repurchase program. Share repurchases under our repurchase programs may be made through a variety of methods, which may include open market purchases, privately negotiated transactions, block trades or accelerated share repurchase transactions. Any such repurchases that may be made from time to time will be subject to market and economic conditions, applicable legal requirements and other relevant factors. We are not obligated to repurchase any specific number of shares and our repurchase of AAG common stock may be limited, suspended or discontinued at any time at our discretion and without prior notice.

During the three months ended March 31, 2019, we repurchased 16.7 million shares of AAG common stock for $600 million at a weighted average cost per share of $36.02. Since the inception of our share repurchase programs in July 2014 through March 31, 2019, we repurchased 295.6 million shares of AAG common stock for $11.9 billion at a weighted average cost per share of $40.43.

In January 2019, our Board of Directors declared a cash dividend of $0.10 per share for stockholders of record as of February 6, 2019 and paid on February 20, 2019, totaling $46 million for the first three months of 2019.

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

5. Revenue Recognition
Revenue
The following are the significant categories comprising our reported operating revenues (in millions):

	Three Months Ended March 31,	
	2019	2018
Passenger revenue:		
Passenger travel	$8,772	$8,630
Loyalty revenue - travel [1]	886	850
Total passenger revenue	9,658	9,480
Cargo	218	227
Other:		
Loyalty revenue - marketing services	578	570
Other revenue	130	124
Total other revenue	708	694
Total operating revenues	$10,584	$10,401

(1) Loyalty revenue included in passenger revenue is principally comprised of mileage credit redemptions earned through travel and mileage credits sold to co-branded credit card and other partners. See "Loyalty Revenue" below for further discussion on these mileage credits.

The following is our total passenger revenue by geographic region (in millions):

	Three Months Ended March 31,	
	2019	2018
Domestic	$7,226	$6,963
Latin America	1,371	1,445
Atlantic	673	669
Pacific	388	403
Total passenger revenue	$9,658	$9,480

We attribute passenger revenue by geographic region based upon the origin and destination of each flight segment.

Contract Balances

Our significant contract liabilities are comprised of (1) outstanding loyalty program mileage credits that may be redeemed for future travel and other non-air travel awards, reported as loyalty program liability on the condensed consolidated balance sheets and (2) ticket sales for transportation that has not yet been provided, reported as air traffic liability on the condensed consolidated balance sheets.

	March 31, 2019	December 31, 2018
	(In millions)	
Loyalty program liability	$8,568	$ 8,539
Air traffic liability	5,930	4,339
Total	$14,498	$ 12,878

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

The balance of the loyalty program liability fluctuates based on seasonal patterns, which impact the volume of mileage credits issued through travel or sold to co-branded credit card and other partners (deferral of revenue) and mileage credits redeemed (recognition of revenue). Changes in loyalty program liability are as follows (in millions):

Balance at December 31, 2018	$8,539
Deferral of revenue	963
Recognition of revenue [1]	(934)
Balance at March 31, 2019 [2]	$8,568

(1) Principally relates to revenue recognized from the redemption of mileage credits for both air and non-air travel awards. Mileage credits are combined in one homogenous pool and are not separately identifiable. As such, the revenue is comprised of miles that were part of the loyalty program deferred revenue balance at the beginning of the period as well as miles that were issued during the period.

(2) Mileage credits can be redeemed at any time and do not expire as long as that AAdvantage member has any type of qualifying activity at least every 18 months. As of March 31, 2019, our current loyalty program liability was $3.4 billion and represents our current estimate of revenue expected to be recognized in the next twelve months based on historical trends, with the balance reflected in long-term loyalty program liability expected to be recognized as revenue in periods thereafter.

The air traffic liability principally represents tickets sold for future travel on American and partner airlines, as well as estimated future refunds and exchanges of tickets sold for past travel. The balance in our air traffic liability also fluctuates with seasonal travel patterns. The contract duration of passenger tickets is one year. Accordingly, any revenue associated with tickets sold for future travel will be recognized within twelve months. For the three months ended March 31, 2019, $2.6 billion of revenue was recognized in passenger revenue that was included in our air traffic liability at December 31, 2018.

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

6. Debt

Long-term debt included in the condensed consolidated balance sheets consisted of (in millions):

	March 31, 2019	December 31, 2018
Secured		
2013 Credit Facilities, variable interest rate of 4.24%, installments through 2025	$1,825	$ 1,825
2014 Credit Facilities, variable interest rate of 4.49%, installments through 2021	1,215	1,215
April 2016 Credit Facilities, variable interest rate of 4.50%, installments through 2023	980	980
December 2016 Credit Facilities, variable interest rate of 4.48%, installments through 2023	1,225	1,225
Aircraft enhanced equipment trust certificates (EETCs), fixed interest rates ranging from 3.00% to 8.39%, averaging 4.17%, maturing from 2019 to 2029	11,059	11,648
Equipment loans and other notes payable, fixed and variable interest rates ranging from 2.34% to 7.89%, averaging 4.27%, maturing from 2019 to 2031	5,217	5,060
Special facility revenue bonds, fixed interest rates ranging from 5.00% to 8.00%, maturing from 2019 to 2031	798	798
	22,319	22,751
Unsecured		
5.50% senior notes, interest only payments until due in October 2019	750	750
4.625% senior notes, interest only payments until due in March 2020	500	500
	1,250	1,250
Total long-term debt	23,569	24,001
Less: Total unamortized debt discount, premium and issuance costs	218	222
Less: Current maturities	3,286	3,213
Long-term debt, net of current maturities	$20,065	$ 20,566

The table below shows the maximum availability under revolving credit facilities, all of which were undrawn, as of March 31, 2019 (in millions):

2013 Revolving Facility	$1,000
2014 Revolving Facility	1,543
April 2016 Revolving Facility	300
Total	$2,843

The December 2016 Credit Facilities provide for a revolving credit facility that may be established in the future.

2019 Aircraft Financing Activities

Equipment Notes Issued in 2019

In the first three months of 2019, American entered into agreements under which it borrowed $400 million in connection with the financing of certain aircraft. Debt incurred under these agreements matures in 2031 and bears interest at variable rates (comprised of LIBOR plus an applicable margin) averaging 4.07% at March 31, 2019.

7. Income Taxes

At December 31, 2018, we had approximately $10.2 billion of federal net operating losses (NOLs) carried over from prior taxable years (NOL Carryforwards) to reduce future federal taxable income, substantially all of which we expect to be available for use in 2019. The federal NOL Carryforwards will expire beginning in 2022 if unused. We also had approximately $3.2 billion of NOL Carryforwards to reduce future state taxable income at December 31, 2018, which will expire in years 2019 through 2038 if unused.

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

At December 31, 2018, we had an AMT credit carryforward of approximately $339 million available for federal income tax purposes, which is expected to be fully refundable over the next several years as a result of the repeal of corporate AMT.

During the three months ended March 31, 2019, we recorded an income tax provision of $60 million, which was substantially non-cash as we utilized our NOLs as described above.

8. Fair Value Measurements

Assets Measured at Fair Value on a Recurring Basis

We utilize the market approach to measure fair value for our financial assets. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets. Our short-term investments classified as Level 2 primarily utilize broker quotes in a non-active market for valuation of these securities. No changes in valuation techniques or inputs occurred during the three months ended March 31, 2019.

Assets measured at fair value on a recurring basis are summarized below (in millions):

	Fair Value Measurements as of March 31, 2019			
	Total	Level 1	Level 2	Level 3
Short-term investments [1] [2]:				
Money market funds	$12	$12	$—	$ —
Corporate obligations	1,310	—	1,310	—
Bank notes/certificates of deposit/time deposits	2,465	—	2,465	—
Repurchase agreements	225	—	225	—
	4,012	12	4,000	—
Restricted cash and short-term investments [1]	156	12	144	—
Long-term investments [3]	265	265	—	—
Total	$4,433	$289	$4,144	$ —

(1) Unrealized gains or losses on short-term investments are recorded in accumulated other comprehensive loss at each measurement date.

(2) All short-term investments are classified as available-for-sale and stated at fair value. Our short-term investments mature in one year or less except for $1.2 billion of bank notes/certificates of deposit/time deposits and $188 million of corporate obligations.

(3) Long-term investments primarily include our equity investment in China Southern Airlines, in which we presently own a 2.2% equity interest, and are classified in other assets on the condensed consolidated balance sheets.

Fair Value of Debt

The fair value of our long-term debt was estimated using quoted market prices or discounted cash flow analyses, based on our current estimated incremental borrowing rates for similar types of borrowing arrangements. If our long-term debt was measured at fair value, it would have been classified as Level 2 in the fair value hierarchy.

The carrying value and estimated fair value of our long-term debt, including current maturities, were as follows (in millions):

	March 31, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current maturities	$23,351	$23,634	$23,779	$23,775

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

9. Employee Benefit Plans

The following table provides the components of net periodic benefit cost (income) (in millions):

	Pension Benefits		Retiree Medical and Other Postretirement Benefits	
Three Months Ended March 31,	2019	2018	2019	2018
Service cost	$1	$1	$ 1	$ 1
Interest cost	176	169	8	9
Expected return on assets	(204)	(226)	(4)	(6)
Amortization of:				
Prior service cost (benefit)	7	7	(59)	(59)
Unrecognized net loss (gain)	38	36	(8)	(5)
Net periodic benefit cost (income)	$18	$(13)	$ (62)	$ (60)

Effective November 1, 2012, substantially all of our defined benefit pension plans were frozen.

The components of net periodic benefit income other than the service cost component are included in nonoperating other income, net in the condensed consolidated statements of operations.

During the first three months of 2019, we made contributions of $364 million to our defined benefit pension plans.

10. Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss (AOCI) are as follows (in millions):

	Pension, Retiree Medical and Other Postretirement Benefits	Unrealized Gain (Loss) on Investments	Income Tax Benefit (Provision) [1]	Total
Balance at December 31, 2018	$ (4,673)	$ (5)	$ (1,218)	$(5,896)
Other comprehensive income (loss) before reclassifications	—	4	(1)	3
Amounts reclassified from AOCI	(22)	—	6 [2]	(16)
Net current-period other comprehensive income (loss)	(22)	4	5	(13)
Balance at March 31, 2019	$ (4,695)	$ (1)	$ (1,213)	$(5,909)

(1) Relates principally to pension, retiree medical and other postretirement benefits obligations that will not be recognized in net income until the obligations are fully extinguished.

(2) Relates to pension, retiree medical and other postretirement benefits obligations and is recognized within the income tax provision on the condensed consolidated statement of operations.

Reclassifications out of AOCI are as follows (in millions):

AOCI Components	Amounts reclassified from AOCI Three Months Ended March 31, 2019	2018	Affected line items on the condensed consolidated statements of operations
Amortization of pension, retiree medical and other postretirement benefits:			

Prior service benefit	$(40)	$(40)	Nonoperating other income, net
Actuarial loss	24	24	Nonoperating other income, net
Total reclassifications for the period, net of tax	$(16)	$(16)	

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

11. Regional Expenses
Expenses associated with American Eagle operations are classified as regional expenses on the condensed consolidated statements of operations. Regional expenses consist of the following (in millions):

	Three Months Ended March 31,	
	2019	2018
Aircraft fuel and related taxes	$423	$398
Salaries, wages and benefits	409	383
Capacity purchases from third-party regional carriers (1)	340	354
Maintenance, materials and repairs	93	80
Other rent and landing fees	167	147
Aircraft rent	7	9
Selling expenses	92	85
Depreciation and amortization	79	82
Other	153	160
Total regional expenses	$1,763	$1,698

(1) During the three months ended March 31, 2019 and 2018, we recognized $143 million and $138 million, respectively, of expense under our capacity purchase agreement with Republic Airline Inc. (Republic). We hold a 25% equity interest in Republic Airways Holdings Inc., the parent company of Republic.

12. Legal Proceedings
Chapter 11 Cases. On November 29, 2011, AMR Corporation (AMR), American, and certain of AMR’s other direct and indirect domestic subsidiaries (the Debtors) filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York (the Bankruptcy Court). On October 21, 2013, the Bankruptcy Court entered an order approving and confirming the Debtors’ fourth amended joint plan of reorganization (as amended, the Plan). On the Effective Date, December 9, 2013, the Debtors consummated their reorganization pursuant to the Plan and completed the acquisition of US Airways Group, Inc. by AMR (the Merger).
Pursuant to rulings of the Bankruptcy Court, the Plan established the Disputed Claims Reserve to hold shares of AAG common stock reserved for issuance to disputed claimholders at the Effective Date that ultimately become holders of allowed claims. The shares of AAG common stock issued to the Disputed Claims Reserve were originally issued on December 13, 2013 and have at all times since been included in the number of shares issued and outstanding as reported from time to time in our quarterly and annual reports, including for purposes of calculating earnings per common share. As disputed claims are resolved, the claimants will receive distributions of shares from the Disputed Claims Reserve. However, we are not required to distribute additional shares above the limits contemplated by the Plan, even if the shares remaining for distribution in the Disputed Claims Reserve are not sufficient to fully pay any additional allowed unsecured claims. To the extent that any of the reserved shares remain undistributed upon resolution of all remaining disputed claims, such shares will not be returned to us but rather will be distributed to former AMR stockholders and former convertible noteholders treated as stockholders under the Plan. On February 12, 2019, in accordance with the approval granted by the Bankruptcy Court on December 6, 2018, an aggregate of approximately 17.3 million shares of AAG common stock were distributed from the Disputed Claims Reserve to former AMR shareholders and convertible noteholders. After giving effect to this distribution, the Disputed Claims Reserve holds approximately 7 million shares of AAG common stock.

Private Party Antitrust Action Related to Passenger Capacity. We, along with Delta Air Lines, Inc., Southwest Airlines Co., United Airlines, Inc. and, in the case of litigation filed in Canada, Air Canada, have been named as defendants in approximately 100 putative class action lawsuits alleging unlawful agreements with respect to air passenger capacity. The U.S. lawsuits have been consolidated in the Federal District Court for the District of Columbia (the DC Court). On June 15, 2018, we reached a preliminary settlement agreement with the plaintiffs in the amount of $45 million that, once approved, will resolve all class claims in the U.S. lawsuits. That settlement received preliminary approval from the DC Court on June 18, 2018.

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

Private Party Antitrust Action Related to the Merger. On August 6, 2013, a lawsuit captioned Carolyn Fjord, et al., v. AMR Corporation, et al., was filed in the United States Bankruptcy Court for the Southern District of New York. The complaint named as defendants US Airways Group, Inc., US Airways, Inc., AMR and American, alleged that the effect of the Merger may be to create a monopoly in violation of Section 7 of the Clayton Antitrust Act, and sought injunctive relief and/or divestiture. On November 27, 2013, the Bankruptcy Court denied plaintiffs’ motion to preliminarily enjoin the Merger. On August 29, 2018, the Court denied in part defendants' motion for summary judgment, and fully denied plaintiffs' cross-motion for summary judgment. The parties' evidentiary cases were presented before the Bankruptcy Court in a bench trial in March 2019. The parties submitted proposed findings of fact and conclusions of law on April 15, 2019 and closing arguments are scheduled to be heard on April 26, 2019. We believe this lawsuit is without merit and intend to vigorously defend against the allegations.

DOJ Investigation Related to the United States Postal Service. In April 2015, the Department of Justice (DOJ) informed us of an inquiry regarding American’s 2009 and 2011 contracts with the United States Postal Service for the international transportation of mail by air. In October 2015, we received a Civil Investigative Demand from the DOJ seeking certain information relating to these contracts and the DOJ has also sought information concerning certain of the airlines that transport mail on a codeshare basis. The DOJ has indicated it is investigating potential violations of the False Claims Act or other statutes. We are cooperating fully with the DOJ with regard to its investigation.

General. In addition to the specifically identified legal proceedings, we and our subsidiaries are also engaged in other legal proceedings from time to time. Legal proceedings can be complex and take many months, or even years, to reach resolution, with the final outcome depending on a number of variables, some of which are not within our control. Therefore, although we will vigorously defend ourselves in each of the actions described above and such other legal proceedings, their ultimate resolution and potential financial and other impacts on us are uncertain but could be material. See Part II, Item 1A. Risk Factors – “We may be a party to litigation in the normal course of business or otherwise, which could affect our financial position and liquidity” for additional discussion.

13. Subsequent Events

Dividend Declaration

In April 2019, we announced that our Board of Directors declared a $0.10 per share dividend for stockholders of record as of May 8, 2019, and payable on May 22, 2019. Any future dividends that may be declared and paid from time to time will be subject to market and economic conditions, applicable legal requirements and other relevant factors. We are not obligated to continue a dividend for any fixed period, and the payment of dividends may be suspended or discontinued at any time at our discretion and without prior notice.

ITEM 1B. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES, INC.
AMERICAN AIRLINES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions)(Unaudited)

	Three Months Ended March 31,	
	2019	2018
Operating revenues:		
Passenger	$9,658	$9,480
Cargo	218	227
Other	705	691
Total operating revenues	10,581	10,398
Operating expenses:		
Aircraft fuel and related taxes	1,726	1,763
Salaries, wages and benefits	3,089	3,014
Regional expenses	1,791	1,682
Maintenance, materials and repairs	561	469
Other rent and landing fees	503	467
Aircraft rent	327	309
Selling expenses	370	356
Depreciation and amortization	480	440
Special items, net	138	225
Other	1,251	1,261
Total operating expenses	10,236	9,986
Operating income	345	412
Nonoperating income (expense):		
Interest income	127	73
Interest expense, net	(277)	(250)
Other income, net	109	79
Total nonoperating expense, net	(41)	(98)
Income before income taxes	304	314
Income tax provision	74	105
Net income	$230	$209

See accompanying notes to condensed consolidated financial statements.

AMERICAN AIRLINES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)(Unaudited)

	Three Months Ended March 31,	
	2019	2018
Net income	$230	$209
Other comprehensive income (loss), net of tax:		
Pension, retiree medical and other postretirement benefits	(16)	(16)
Investments	3	(2)
Total other comprehensive loss, net of tax	(13)	(18)
Total comprehensive income	$217	$191

See accompanying notes to condensed consolidated financial statements.

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

	March 31, 2019 (Unaudited)	December 31, 2018
ASSETS		
Current assets		
Cash	$ 328	$ 265
Short-term investments	4,010	4,482
Restricted cash and short-term investments	156	154
Accounts receivable, net	1,953	1,755
Receivables from related parties, net	11,422	10,666
Aircraft fuel, spare parts and supplies, net	1,584	1,442
Prepaid expenses and other	601	493
Total current assets	20,054	19,257
Operating property and equipment		
Flight equipment	41,678	41,180
Ground property and equipment	8,612	8,466
Equipment purchase deposits	1,211	1,277
Total property and equipment, at cost	51,501	50,923
Less accumulated depreciation and amortization	(17,418)	(17,123)
Total property and equipment, net	34,083	33,800
Operating lease right-of-use assets	9,070	9,094
Other assets		
Goodwill	4,091	4,091
Intangibles, net of accumulated amortization of $673 and $663, respectively	2,115	2,137
Deferred tax asset	1,100	1,280
Other assets	1,284	1,219
Total other assets	8,590	8,727
Total assets	$ 71,797	$ 70,878
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Current maturities of long-term debt and finance leases	$ 2,122	$ 2,547
Accounts payable	2,070	1,707
Accrued salaries and wages	1,165	1,363
Air traffic liability	5,930	4,339
Loyalty program liability	3,354	3,267
Operating lease liabilities	1,615	1,639
Other accrued liabilities	2,119	2,259
Total current liabilities	18,375	17,121
Noncurrent liabilities		
Long-term debt and finance leases, net of current maturities	20,631	20,650
Pension and postretirement benefits	6,475	6,863
Loyalty program liability	5,214	5,272
Operating lease liabilities	7,743	7,857
Other liabilities	1,347	1,345
Total noncurrent liabilities	41,410	41,987
Commitments and contingencies		

Stockholder’s equity		
Common stock, $1.00 par value; 1,000 shares authorized, issued and outstanding	—	—
Additional paid-in capital	16,827	16,802
Accumulated other comprehensive loss	(6,005)	(5,992)
Retained earnings	1,190	960
Total stockholder’s equity	12,012	11,770
Total liabilities and stockholder’s equity	$ 71,797	$ 70,878

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,					
	2019			2018		
Net cash provided by operating activities	$	956		$	1,263	
Cash flows from investing activities:						
Capital expenditures and aircraft purchase deposits	(1,263		)	(762		)
Proceeds from sale of property and equipment and sale-leaseback transactions	359			19		
Purchases of short-term investments	(570		)	(1,244		)
Sales of short-term investments	1,051			1,029		
Decrease (increase) in restricted short-term investments	(1		)	24		
Other investing activities	(14		)	—		
Net cash used in investing activities	(438		)	(934		)
Cash flows from financing activities:						
Proceeds from issuance of long-term debt	400			236		
Payments on long-term debt and finance leases	(849		)	(568		)
Deferred financing costs	(6		)	(1		)
Net cash used in financing activities	(455		)	(333		)
Net increase (decrease) in cash and restricted cash	63			(4		)
Cash and restricted cash at beginning of period	276			390		
Cash and restricted cash at end of period (1)	$	339		$	386	

Non-cash transactions:				
Right-of-use assets obtained in exchange for lease liabilities:				
Operating leases	$	332	$	36
Finance leases	2		—	
Supplemental information:				
Interest paid, net	256		246	
Income taxes paid	3		3	

(1) The following table provides a reconciliation of cash and restricted cash to amounts reported within the condensed consolidated balance sheets:

Cash	$328	$283
Restricted cash included in restricted cash and short-term investments	11	103
Total cash and restricted cash	$339	$386

See accompanying notes to condensed consolidated financial statements.

AMERICAN AIRLINES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY
(In millions)(Unaudited)

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance at December 31, 2018	$ —	$ 16,802	$ (5,992)	$ 960	$ 11,770
Net income	—	—	—	230	230
Other comprehensive loss, net	—	—	(13)	—	(13)
Share-based compensation expense	—	25	—	—	25
Balance at March 31, 2019	$ —	$ 16,827	$ (6,005)	$ 1,190	$ 12,012

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	Total
Balance at December 31, 2017	$ —	$ 16,716	$ (5,873)	$ (955)	$ 9,888
Net income	—	—	—	209	209
Other comprehensive loss, net	—	—	(18)	—	(18)
Share-based compensation expense	—	24	—	—	24
Impact of adoption of Accounting Standards Update (ASU) 2016-01 related to financial instruments	—	—	—	60	60
Impact of adoption of ASU 2016-02 related to leases	—	—	—	197	197
Balance at March 31, 2018	$ —	$ 16,740	$ (5,891)	$ (489)	$ 10,360

See accompanying notes to condensed consolidated financial statements.

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

1. Basis of Presentation and Recent Accounting Pronouncements

(a) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of American Airlines, Inc. (American) should be read in conjunction with the consolidated financial statements contained in American’s Annual Report on Form 10-K for the year ended December 31, 2018. American is the principal wholly-owned subsidiary of American Airlines Group Inc. (AAG). All significant intercompany transactions have been eliminated.

Management believes that all adjustments necessary for the fair presentation of results, consisting of normally recurring items, have been included in the unaudited condensed consolidated financial statements for the interim periods presented. The preparation of financial statements in accordance with accounting principles generally accepted in the United States (GAAP) requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The most significant areas of judgment relate to passenger revenue recognition, impairment of goodwill, impairment of long-lived and intangible assets, the loyalty program, as well as pension and retiree medical and other postretirement benefits.

In the fourth quarter of 2018, American adopted ASU 2016-02: Leases (Topic 842) (the New Lease Standard) as of January 1, 2018. In accordance with the New Lease Standard, 2018 periods have been recast to reflect the effects of this adoption. As a result of the adoption of the New Lease Standard, American's first quarter of 2018 net income decreased by $27 million.

(b) Recent Accounting Pronouncements

ASU 2018-02: Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

This ASU provides the option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings due to the U.S. federal corporate income tax rate change as a result of H.R. 1, the 2017 Tax Cuts and Jobs Act (the 2017 Tax Act). The amount of the reclassification is the difference between the amount initially charged or credited directly to other comprehensive income at the previous U.S. federal corporate income tax rate that remains in accumulated other comprehensive income and the amount that would have been charged or credited directly to other comprehensive income using the newly enacted U.S. federal corporate income tax rate, excluding the effect of any valuation allowance previously charged to income from continuing operations. This standard is effective for interim and annual reporting periods beginning after December 15, 2018. In the first quarter of 2019, American adopted this standard retrospectively as of December 22, 2017, the date the 2017 Tax Act was enacted, which resulted in the recast of prior reporting periods. As a result of the adoption, American reclassified $622 million of stranded tax effects principally related to its pension plans from accumulated other comprehensive loss to retained earnings.

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

2. Special Items, Net

Special items, net in the condensed consolidated statements of operations consisted of the following (in millions):

	Three Months Ended March 31,	
	2019	2018
Fleet restructuring expenses [1]	$83	$112
Merger integration expenses [2]	37	59
Litigation settlement	—	40
Labor contract expenses	—	13
Other operating charges, net	18	1
Mainline operating special items, net	138	225
Mark-to-market adjustments on equity investments, net [3]	(76)	—
Other nonoperating charges, net	7	—
Nonoperating special items, net	(69)	—
Income tax special items, net [4]	—	30

(1) Fleet restructuring expenses principally included accelerated depreciation and rent expense for aircraft and related equipment grounded or expected to be grounded earlier than planned.

(2) Merger integration expenses included costs associated with integration projects, principally American's technical operations, flight attendant, human resources and payroll systems.

(3) Mark-to-market adjustments on equity investments relate to net unrealized gains primarily associated with American's equity investment in China Southern Airlines Company Limited (China Southern Airlines).

(4) Income tax special items for the three months ended March 31, 2018 included a $30 million charge to income tax expense to establish a required valuation allowance related to American's estimated refund for Alternative Minimum Tax (AMT) credits.

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

3. Revenue Recognition
Revenue
The following are the significant categories comprising American's reported operating revenues (in millions):

	Three Months Ended March 31,	
	2019	2018
Passenger revenue:		
Passenger travel	$8,772	$8,630
Loyalty revenue - travel [1]	886	850
Total passenger revenue	9,658	9,480
Cargo	218	227
Other:		
Loyalty revenue - marketing services	578	570
Other revenue	127	121
Total other revenue	705	691
Total operating revenues	$10,581	$10,398

(1) Loyalty revenue included in passenger revenue is principally comprised of mileage credit redemptions earned through travel and mileage credits sold to co-branded credit card and other partners. See "Loyalty Revenue" below for further discussion on these mileage credits.

The following is American's total passenger revenue by geographic region (in millions):

	Three Months Ended March 31,	
	2019	2018
Domestic	$7,226	$6,963
Latin America	1,371	1,445
Atlantic	673	669
Pacific	388	403
Total passenger revenue	$9,658	$9,480

American attributes passenger revenue by geographic region based upon the origin and destination of each flight segment.

Contract Balances
American's significant contract liabilities are comprised of (1) outstanding loyalty program mileage credits that may be redeemed for future travel and other non-air travel awards, reported as loyalty program liability on the condensed consolidated balance sheets and (2) ticket sales for transportation that has not yet been provided, reported as air traffic liability on the condensed consolidated balance sheets.

	March 31, 2019	December 31, 2018
	(In millions)	
Loyalty program liability	$8,568	$ 8,539
Air traffic liability	5,930	4,339
Total	$14,498	$ 12,878

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

The balance of the loyalty program liability fluctuates based on seasonal patterns, which impact the volume of mileage credits issued through travel or sold to co-branded credit card and other partners (deferral of revenue) and mileage credits redeemed (recognition of revenue). Changes in loyalty program liability are as follows (in millions):

Balance at December 31, 2018	$8,539
Deferral of revenue	963
Recognition of revenue (1)	(934)
Balance at March 31, 2019 (2)	$8,568

(1) Principally relates to revenue recognized from the redemption of mileage credits for both air and non-air travel awards. Mileage credits are combined in one homogenous pool and are not separately identifiable. As such, the revenue is comprised of miles that were part of the loyalty program deferred revenue balance at the beginning of the period, as well as miles that were issued during the period.

(2) Mileage credits can be redeemed at any time and do not expire as long as that AAdvantage member has any type of qualifying activity at least every 18 months. As of March 31, 2019, American's current loyalty program liability was $3.4 billion and represents American's current estimate of revenue expected to be recognized in the next twelve months based on historical trends, with the balance reflected in long-term loyalty program liability expected to be recognized as revenue in periods thereafter.

The air traffic liability principally represents tickets sold for future travel on American and partner airlines, as well as estimated future refunds and exchanges of tickets sold for past travel. The balance in American's air traffic liability also fluctuates with seasonal travel patterns. The contract duration of passenger tickets is one year. Accordingly, any revenue associated with tickets sold for future travel will be recognized within twelve months. For the three months ended March 31, 2019, $2.6 billion of revenue was recognized in passenger revenue that was included in American's air traffic liability at December 31, 2018.

4. Debt

Long-term debt included in the condensed consolidated balance sheets consisted of (in millions):

	March 31, 2019	December 31, 2018
Secured		
2013 Credit Facilities, variable interest rate of 4.24%, installments through 2025	$1,825	$ 1,825
2014 Credit Facilities, variable interest rate of 4.49%, installments through 2021	1,215	1,215
April 2016 Credit Facilities, variable interest rate of 4.50%, installments through 2023	980	980
December 2016 Credit Facilities, variable interest rate of 4.48%, installments through 2023	1,225	1,225
Aircraft enhanced equipment trust certificates (EETCs), fixed interest rates ranging from 3.00% to 8.39%, averaging 4.17%, maturing from 2019 to 2029	11,059	11,648
Equipment loans and other notes payable, fixed and variable interest rates ranging from 2.34% to 7.89%, averaging 4.27%, maturing from 2019 to 2031	5,217	5,060
Special facility revenue bonds, fixed interest rates of 5.00%, maturing from 2019 to 2031	769	769
Total long-term debt	22,290	22,722
Less: Total unamortized debt discount, premium and issuance costs	215	219
Less: Current maturities	2,038	2,466
Long-term debt, net of current maturities	$20,037	$ 20,037

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

The table below shows the maximum availability under revolving credit facilities, all of which were undrawn, as of March 31, 2019 (in millions):

2013 Revolving Facility	$1,000
2014 Revolving Facility	1,543
April 2016 Revolving Facility	300
Total	$2,843

The December 2016 Credit Facilities provide for a revolving credit facility that may be established in the future.

2019 Aircraft Financing Activities

Equipment Notes Issued in 2019

In the first three months of 2019, American entered into agreements under which it borrowed $400 million in connection with the financing of certain aircraft. Debt incurred under these agreements matures in 2031 and bears interest at variable rates (comprised of LIBOR plus an applicable margin) averaging 4.07% at March 31, 2019.

5. Income Taxes

At December 31, 2018, American had approximately $10.6 billion of federal net operating losses (NOLs) carried over from prior taxable years (NOL Carryforwards) to reduce future federal taxable income, substantially all of which American expects to be available for use in 2019. American is a member of AAG’s consolidated federal and certain state income tax returns. The amount of federal NOL Carryforwards available in those returns is $10.2 billion, substantially all of which is expected to be available for use in 2019. The federal NOL Carryforwards will expire beginning in 2022 if unused. American also had approximately $3.1 billion of NOL Carryforwards to reduce future state taxable income at December 31, 2018, which will expire in years 2019 through 2038 if unused.

At December 31, 2018, American had an AMT credit carryforward of approximately $452 million available for federal income tax purposes, which is expected to be fully refundable over the next several years as a result of the repeal of corporate AMT.

During the three months ended March 31, 2019, American recorded an income tax provision of $74 million, which was substantially non-cash as American utilized its NOLs as described above.

6. Fair Value Measurements

Assets Measured at Fair Value on a Recurring Basis

American utilizes the market approach to measure fair value for its financial assets. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets. American’s short-term investments classified as Level 2 primarily utilize broker quotes in a non-active market for valuation of these securities. No changes in valuation techniques or inputs occurred during the three months ended March 31, 2019.

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

Assets measured at fair value on a recurring basis are summarized below (in millions):

	Fair Value Measurements as of March 31, 2019			
	Total	Level 1	Level 2	Level 3
Short-term investments [1] [2]:				
Money market funds	$11	$11	$—	$ —
Corporate obligations	1,310	—	1,310	—
Bank notes/certificates of deposit/time deposits	2,464	—	2,464	—
Repurchase agreements	225	—	225	—
	4,010	11	3,999	—
Restricted cash and short-term investments [1]	156	12	144	—
Long-term investments [3]	265	265	—	—
Total	$4,431	$288	$4,143	$ —

(1) Unrealized gains or losses on short-term investments are recorded in accumulated other comprehensive loss at each measurement date.

(2) All short-term investments are classified as available-for-sale and stated at fair value. American’s short-term investments mature in one year or less except for $1.2 billion of bank notes/certificates of deposit/time deposits and $188 million of corporate obligations.

(3) Long-term investments primarily include American's equity investment in China Southern Airlines, in which American presently owns a 2.2% equity interest, and are classified in other assets on the condensed consolidated balance sheets.

Fair Value of Debt

The fair value of American’s long-term debt was estimated using quoted market prices or discounted cash flow analyses, based on American’s current estimated incremental borrowing rates for similar types of borrowing arrangements. If American’s long-term debt was measured at fair value, it would have been classified as Level 2 in the fair value hierarchy.

The carrying value and estimated fair value of American’s long-term debt, including current maturities, were as follows (in millions):

	March 31, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current maturities	$22,075	$22,347	$22,503	$22,497

7. Employee Benefit Plans

The following table provides the components of net periodic benefit cost (income) (in millions):

	Pension Benefits		Retiree Medical and Other Postretirement Benefits	
Three Months Ended March 31,	2019	2018	2019	2018
Service cost	$1	$1	$ 1	$ 1
Interest cost	175	168	8	9
Expected return on assets	(203)	(225)	(4)	(6)
Amortization of:				
Prior service cost (benefit)	7	7	(59)	(59)

Unrecognized net loss (gain)	38	36	(8)	(5)
Net periodic benefit cost (income)	$18	$(13)	$ (62)	$ (60)

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

Effective November 1, 2012, substantially all of American's defined benefit pension plans were frozen.
The components of net periodic benefit income other than the service cost component are included in nonoperating other income, net in the condensed consolidated statements of operations.
During the first three months of 2019, American made contributions of $364 million to its defined benefit pension plans.
8. Accumulated Other Comprehensive Loss
The components of accumulated other comprehensive loss (AOCI) are as follows (in millions):

	Pension, Retiree Medical and Other Postretirement Benefits	Unrealized Gain (Loss) on Investments	Income Tax Benefit (Provision) (1)	Total
Balance at December 31, 2018	$ (4,658)	$ (5)	$ (1,329)	$ (5,992)
Other comprehensive income (loss) before reclassifications	—	4	(1)	3
Amounts reclassified from AOCI	(22)	—	6 (2)	(16)
Net current-period other comprehensive income (loss)	(22)	4	5	(13)
Balance at March 31, 2019	$ (4,680)	$ (1)	$ (1,324)	$ (6,005)

(1) Relates principally to pension, retiree medical and other postretirement benefits obligations that will not be recognized in net income until the obligations are fully extinguished.
(2) Relates to pension, retiree medical and other postretirement benefits obligations and is recognized within the income tax provision on the condensed consolidated statement of operations.

Reclassifications out of AOCI are as follows (in millions):

AOCI Components	Amounts reclassified from AOCI Three Months Ended March 31, 2019	2018	Affected line items on the condensed consolidated statements of operations
Amortization of pension, retiree medical and other postretirement benefits:			
Prior service benefit	$ (40)	$ (40)	Nonoperating other income, net
Actuarial loss	24	24	Nonoperating other income, net
Total reclassifications for the period, net of tax	$ (16)	$ (16)	

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

9. Regional Expenses

Expenses associated with American Eagle operations are classified as regional expenses on the condensed consolidated statements of operations. Regional expenses consist of the following (in millions):

	Three Months Ended March 31,	
	2019	2018
Aircraft fuel and related taxes	$423	$398
Salaries, wages and benefits	80	82
Capacity purchases from third-party regional carriers [1]	857	798
Maintenance, materials and repairs	4	2
Other rent and landing fees	160	141
Aircraft rent	7	7
Selling expenses	92	85
Depreciation and amortization	68	68
Other	100	101
Total regional expenses	$1,791	$1,682

(1) During the three months ended March 31, 2019 and 2018, American recognized $143 million and $138 million, respectively, of expense under its capacity purchase agreement with Republic Airline Inc. (Republic). American holds a 25% equity interest in Republic Airways Holdings Inc., the parent company of Republic.

10. Transactions with Related Parties

The following represents the net receivables (payables) to related parties (in millions):

	March 31, 2019	December 31, 2018
AAG [1]	$13,587	$12,808
AAG's wholly-owned subsidiaries[2]	(2,165)	(2,142)
Total	$11,422	$10,666

(1) The increase in American's net related party receivable from AAG is primarily due to American providing the cash funding for AAG's dividend and share repurchase programs.

(2) The net payable to AAG's wholly-owned subsidiaries consists primarily of amounts due under regional capacity purchase agreements with AAG's wholly-owned regional airlines operating under the brand name of American Eagle.

11. Legal Proceedings

Chapter 11 Cases. On November 29, 2011, AMR Corporation (AMR), American, and certain of AMR's other direct and indirect domestic subsidiaries (the Debtors) filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York (the Bankruptcy Court). On October 21, 2013, the Bankruptcy Court entered an order approving and confirming the Debtors' fourth amended joint plan of reorganization (as amended, the Plan). On the Effective Date, December 9, 2013, the Debtors consummated their reorganization pursuant to the Plan and completed the acquisition of US Airways Group, Inc. by AMR (the Merger).

Pursuant to rulings of the Bankruptcy Court, the Plan established the Disputed Claims Reserve to hold shares of AAG common stock reserved for issuance to disputed claimholders at the Effective Date that ultimately become holders of allowed claims. The shares of AAG common stock issued to the Disputed Claims Reserve were originally issued on December 13, 2013 and have at all times since been included in the number of shares issued and outstanding as reported by AAG from time to time in its quarterly and annual reports, including for purposes of calculating earnings per common share. As disputed claims are resolved, the claimants will receive distributions of shares from the Disputed Claims Reserve. However, American is not required to distribute additional shares above the limits contemplated by the Plan, even if the shares remaining for distribution in the Disputed Claims Reserve are not sufficient to fully pay any additional allowed unsecured claims. To the

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

extent that any of the reserved shares remain undistributed upon resolution of all remaining disputed claims, such shares will not be returned to AAG but rather will be distributed to former AMR stockholders and former convertible noteholders treated as stockholders under the Plan. On February 12, 2019, in accordance with the approval granted by the Bankruptcy Court on December 6, 2018, an aggregate of approximately 17.3 million shares of AAG common stock were distributed from the Disputed Claims Reserve to former AMR shareholders and convertible noteholders. After giving effect to this distribution, the Disputed Claims Reserve holds approximately 7 million shares of AAG common stock.

Private Party Antitrust Action Related to Passenger Capacity. American, along with Delta Air Lines, Inc., Southwest Airlines Co., United Airlines, Inc. and, in the case of litigation filed in Canada, Air Canada, have been named as defendants in approximately 100 putative class action lawsuits alleging unlawful agreements with respect to air passenger capacity. The U.S. lawsuits have been consolidated in the Federal District Court for the District of Columbia (the DC Court). On June 15, 2018, American reached a preliminary settlement agreement with the plaintiffs in the amount of $45 million that, once approved, will resolve all class claims in the U.S. lawsuits. That settlement received preliminary approval from the DC Court on June 18, 2018.

Private Party Antitrust Action Related to the Merger. On August 6, 2013, a lawsuit captioned Carolyn Fjord, et al., v. AMR Corporation, et al., was filed in the United States Bankruptcy Court for the Southern District of New York. The complaint named as defendants US Airways Group, Inc., US Airways, Inc., AMR and American, alleged that the effect of the Merger may be to create a monopoly in violation of Section 7 of the Clayton Antitrust Act, and sought injunctive relief and/or divestiture. On November 27, 2013, the Bankruptcy Court denied plaintiffs’ motion to preliminarily enjoin the Merger. On August 29, 2018, the Court denied in part defendants' motion for summary judgment, and fully denied plaintiffs' cross-motion for summary judgment. The parties' evidentiary cases were presented before the Bankruptcy Court in a bench trial in March 2019. The parties submitted proposed findings of fact and conclusions of law on April 15, 2019 and closing arguments are scheduled to be heard on April 26, 2019. American believes this lawsuit is without merit and intends to vigorously defend against the allegations.

DOJ Investigation Related to the United States Postal Service. In April 2015, the Department of Justice (DOJ) informed American of an inquiry regarding American’s 2009 and 2011 contracts with the United States Postal Service for the international transportation of mail by air. In October 2015, American received a Civil Investigative Demand from the DOJ seeking certain information relating to these contracts and the DOJ has also sought information concerning certain of the airlines that transport mail on a codeshare basis. The DOJ has indicated it is investigating potential violations of the False Claims Act or other statutes. American is cooperating fully with the DOJ with regard to its investigation.

General. In addition to the specifically identified legal proceedings, American and its subsidiaries are also engaged in other legal proceedings from time to time. Legal proceedings can be complex and take many months, or even years, to reach resolution, with the final outcome depending on a number of variables, some of which are not within American’s control. Therefore, although American will vigorously defend itself in each of the actions described above and such other legal proceedings, their ultimate resolution and potential financial and other impacts on American are uncertain but could be material. See Part II, Item 1A. Risk Factors – “We may be a party to litigation in the normal course of business or otherwise, which could affect our financial position and liquidity” for additional discussion.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Part I, Item 2 of this report should be read in conjunction with Part II, Item 7 of AAG's and American's Annual Report on Form 10-K for the year ended December 31, 2018 (the 2018 Form 10-K). The information contained herein is not a comprehensive discussion and analysis of the financial condition and results of operations of AAG and American, but rather updates disclosures made in the 2018 Form 10-K.

Background

Together with our wholly-owned regional airline subsidiaries and third-party regional carriers operating as American Eagle, we operate an average of nearly 6,700 flights per day to nearly 350 destinations in more than 50 countries through hubs and gateways in Charlotte, Chicago, Dallas/Fort Worth, London Heathrow, Los Angeles, Miami, New York, Philadelphia, Phoenix and Washington, D.C. In the first quarter of 2019, approximately 50 million passengers boarded our flights.

Financial Overview

AAG's First Quarter 2019 Results

The selected financial data presented below is derived from AAG's unaudited condensed consolidated financial statements included in Part I, Item 1A of this report and should be read in conjunction with those financial statements and the related notes thereto.

In the fourth quarter of 2018, we adopted Accounting Standards Update (ASU) 2016-02: Leases (Topic 842) (the New Lease Standard) as of January 1, 2018. In accordance with the New Lease Standard, we have recast our 2018 financial information presented within this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

	Three Months Ended March 31, 2019	2018	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Passenger revenue	$9,658	$9,480	$ 178	1.9
Cargo revenue	218	227	(9)	(4.0)
Other operating revenue	708	694	14	1.9
Total operating revenues	10,584	10,401	183	1.8
Mainline and regional aircraft fuel and related taxes	2,149	2,161	(12)	(0.6)
Salaries, wages and benefits	3,090	3,017	73	2.5
Total operating expenses	10,209	10,005	204	2.0
Operating income	375	396	(21)	(5.4)
Pre-tax income	245	238	7	3.2
Income tax provision	60	79	(19)	(23.6)
Net income	185	159	26	16.4
Pre-tax income	$245	$238	$ 7	3.2
Adjusted for: Total pre-tax special items, net [1]	69	225	(156)	(69.6)
Pre-tax income excluding special items	$314	$463	$ (149)	(32.2)

(1) See below "Reconciliation of GAAP to Non-GAAP Financial Measures" and Note 2 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A of this report for details on the components of special items.

Pre-Tax Income and Net Income

Pre-tax income and net income were $245 million and $185 million, respectively, in the first quarter of 2019. This compares to first quarter 2018 pre-tax income and net income of $238 million and $159 million, respectively. The quarter-over-quarter increase in our pre-tax income was principally driven by higher revenues and a decrease in our pre-tax net special items, offset in part by increases in maintenance expenses and salaries, wages and benefits. See

Note 2 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A for further information on special items.

Excluding the effects of pre-tax net special items, we recognized pre-tax income of $314 million in the first quarter of 2019 as compared to $463 million in the first quarter of 2018. The quarter-over-quarter decrease in our pre-tax income excluding pre-tax net special items was principally driven by increases in maintenance expenses and salaries, wages and benefits, offset in part by higher revenues.

Fleet

On March 7, 2019, we announced the unplanned removal of 14 Boeing 737-800 aircraft from service for remediation work following the installation of new aircraft interiors. This resulted in the cancellation of approximately 940 flights in the first quarter of 2019. Work on these aircraft has been completed and all aircraft have been returned to service.

In addition, on March 13, 2019, the Federal Aviation Administration (FAA) grounded all U.S.-registered Boeing 737 MAX aircraft. Our fleet currently includes 24 Boeing 737 MAX aircraft with an additional 76 aircraft on order. As a result, we canceled approximately 1,200 flights in the first quarter of 2019.

In aggregate, we estimate that these grounded aircraft and associated flight cancellations decreased our first quarter 2019 pre-tax income by approximately $80 million.

We have removed all Boeing 737 MAX flying from our flight schedule through August 19, 2019, which is approximately 115 flights per day. These flights represent approximately 2% of our total capacity each day this summer. Although these aircraft represent a small portion of our total fleet, its financial impact is disproportionate as most of the revenue from the cancellations is lost while the vast majority of the costs remain in place. In total, we currently estimate the Boeing 737 MAX cancellations, which are assumed to extend through August 19, 2019, to decrease our 2019 pre-tax income by approximately $350 million.

Revenue

In the first quarter of 2019, we reported total operating revenues of $10.6 billion, an increase of $183 million, or 1.8%, as compared to the first quarter of 2018. Passenger revenue was $9.7 billion in the first quarter of 2019, an increase of $178 million, or 1.9%, as compared to the first quarter of 2018. The increase in passenger revenue in the first quarter of 2019 was due to strong demand and higher passenger load factor.

Cargo revenue decreased $9 million, or 4.0%, primarily driven by declines in international freight volumes, offset in part by increases in freight yields. Other revenue increased $14 million, or 1.9%, as compared to the first quarter of 2018, driven by higher loyalty revenue.

Our total revenue per available seat mile (TRASM) was 15.87 cents in the first quarter of 2019, a 0.5% increase as compared to 15.80 cents in the first quarter of 2018. This marks our tenth consecutive quarter of positive TRASM growth.

Fuel

Our mainline and regional fuel expense totaled $2.1 billion in the first quarter of 2019, which was $12 million, or 0.6%, lower as compared to the first quarter of 2018. This decrease was primarily driven by a 2.7% decrease in the average price per gallon of fuel to $2.04 in the first quarter of 2019 from $2.10 in the first quarter of 2018, offset in part by a 2.2% increase in gallons of fuel consumed principally due to increased capacity.

As of March 31, 2019, we did not have any fuel hedging contracts outstanding to hedge our fuel consumption. As such, and assuming we do not enter into any future transactions to hedge our fuel consumption, we will continue to be fully exposed to fluctuations in fuel prices. Our current policy is not to enter into transactions to hedge our fuel consumption, although we review that policy from time to time based on market conditions and other factors.

Other Costs

We remain committed to actively managing our cost structure, which we believe is necessary in an industry whose economic prospects are heavily dependent upon two variables we cannot control: the health of the economy and the price of fuel.

Our 2019 first quarter total cost per available seat mile (CASM) was 15.31 cents, an increase of 0.7%, from 15.20 cents in the first quarter of 2018.

Our 2019 first quarter CASM excluding special items and fuel was 11.88 cents, an increase of 2.7%, as compared to the first quarter of 2018. The increase was primarily driven by higher maintenance expenses and salaries, wages and benefits.

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For a reconciliation of total CASM excluding special items and fuel, see below “Reconciliation of GAAP to Non-GAAP Financial Measures.”

Liquidity

As of March 31, 2019, we had approximately $7.2 billion in total available liquidity, consisting of $4.4 billion in unrestricted cash and short-term investments and $2.8 billion in undrawn revolving credit facilities. We also had restricted cash and short-term investments of $156 million.

During the first quarter of 2019, we completed the following financing transactions:

- raised $400 million from aircraft debt financings; and
- raised $352 million in proceeds from aircraft sale-leaseback transactions.

See Note 6 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A for additional information on our debt obligations.

Additionally during the first quarter of 2019, we returned $646 million to our stockholders, including quarterly dividend payments of $46 million and the repurchase of $600 million of our common stock, or 16.7 million shares. Since our capital return program commenced in mid-2014, we have returned $13.0 billion to stockholders, including $1.1 billion in quarterly dividend payments and $11.9 billion in share repurchases, or 295.6 million shares.

Reconciliation of GAAP to Non-GAAP Financial Measures

We sometimes use financial measures that are derived from the condensed consolidated financial statements but that are not presented in accordance with GAAP to understand and evaluate our current operating performance and to allow for period-to-period comparisons. We believe these non-GAAP financial measures may also provide useful information to investors and others. These non-GAAP measures may not be comparable to similarly titled non-GAAP measures of other companies, and should be considered in addition to and not as a substitute for or superior to, any measure of performance, cash flow or liquidity prepared in accordance with GAAP. We are providing a reconciliation of reported non-GAAP financial measures to their comparable financial measures on a GAAP basis.

The following table presents the reconciliation of pre-tax income (GAAP measure) to pre-tax income excluding special items (non-GAAP measure). Management uses this non-GAAP financial measure to evaluate our current operating performance and to allow for period-to-period comparisons. As special items may vary from period-to-period in nature and amount, the adjustment to exclude special items allows management an additional tool to understand our core operating performance.

	Three Months Ended March 31,	
	2019	2018
	(In millions)	
Reconciliation of Pre-Tax Income Excluding Special Items:		
Pre-tax income - GAAP	$245	$238
Pre-tax special items [1]:		
Operating special items, net	138	225
Nonoperating special items, net	(69)	—
Total pre-tax special items, net	69	225
Pre-tax income excluding special items	$314	$463

(1) See Note 2 to AAG’s Condensed Consolidated Financial Statements in Part I, Item 1A for further information on special items.

Additionally, the table below presents the reconciliation of total operating costs (GAAP measure) to total operating costs excluding special items and fuel (non-GAAP measure). Management uses total operating costs excluding special items and fuel to evaluate our current operating performance and for period-to-period comparisons. The price of fuel, over which we have no control, impacts the comparability of period-to-period financial performance. The adjustment to exclude aircraft fuel and special items allows management an additional tool to understand and analyze our non-fuel costs and core operating performance. Amounts may not recalculate due to rounding.

	Three Months Ended March 31,	
	2019	2018
Reconciliation of Total Operating Costs per Available Seat Mile (CASM) Excluding Special Items and Fuel:		
(In millions)		
Total operating expenses - GAAP	$10,209	$10,005
Special items:		
Special items, net [1]	(138)	(225)
Fuel:		
Aircraft fuel and related taxes - mainline	(1,726)	(1,763)
Aircraft fuel and related taxes - regional	(423)	(398)
Total operating expenses, excluding special items and fuel	$7,922	$7,619
(In millions)		
Total Available Seat Miles (ASM)	66,674	65,823
(In cents)		
Total operating CASM	15.31	15.20
Special items per ASM:		
Special items, net [1]	(0.21)	(0.34)
Fuel per ASM:		
Aircraft fuel and related taxes - mainline	(2.59)	(2.68)
Aircraft fuel and related taxes - regional	(0.63)	(0.60)
Total CASM, excluding special items and fuel	11.88	11.57

(1) See Note 2 to AAG’s Condensed Consolidated Financial Statements in Part I, Item 1A for further information on special items.

AAG's Results of Operations

Operating Statistics

The table below sets forth selected operating data for the three months ended March 31, 2019 and 2018.

	Three Months Ended March 31, 2019	2018	Increase (Decrease)	
Revenue passenger miles (millions) [(a)]	54,802	52,945	3.5	%
Available seat miles (millions) [(b)]	66,674	65,823	1.3	%
Passenger load factor (percent) [(c)]	82.2	80.4	1.8	pts
Yield (cents) [(d)]	17.62	17.90	(1.6	)%
Passenger revenue per available seat mile (cents) [(e)]	14.49	14.40	0.6	%
Total revenue per available seat mile (cents) [(f)]	15.87	15.80	0.5	%
Aircraft at end of period	1,564	1,539	1.6	%
Fuel consumption (gallons in millions)	1,053	1,030	2.2	%
Average aircraft fuel price including related taxes (dollars per gallon)	2.04	2.10	(2.7	)%
Full-time equivalent employees at end of period	129,800	128,600	0.9	%
Operating cost per available seat mile (cents) [(g)]	15.31	15.20	0.7	%

(a) Revenue passenger mile (RPM) – A basic measure of sales volume. One RPM represents one passenger flown one mile.

(b) Available seat mile (ASM) – A basic measure of production. One ASM represents one seat flown one mile.

(c) Passenger load factor – The percentage of available seats that are filled with revenue passengers.

(d) Yield – A measure of airline revenue derived by dividing passenger revenue by RPMs.

(e) Passenger revenue per available seat mile (PRASM) – Passenger revenue divided by ASMs.

(f) Total revenue per available seat mile (TRASM) – Total revenues divided by ASMs.

(g) Operating cost per available seat mile (CASM) – Operating expenses divided by ASMs.

Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

Pre-tax income and net income were $245 million and $185 million, respectively, in the first quarter of 2019. This compares to first quarter 2018 pre-tax income and net income of $238 million and $159 million, respectively. The quarter-over-quarter increase in our pre-tax income was principally driven by higher revenues and a decrease in our pre-tax net special items, offset in part by increases in maintenance expenses and salaries, wages and benefits. Excluding the effects of pre-tax net special items, pre-tax income was $314 million and $463 million in the first quarters of 2019 and 2018, respectively. The quarter-over-quarter decrease in our pre-tax income excluding pre-tax net special items was principally driven by increases in maintenance expenses and salaries, wages and benefits, offset in part by higher revenues.

Operating Revenues

	Three Months Ended March 31, 2019	2018	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Passenger	$9,658	$9,480	$ 178	1.9
Cargo	218	227	(9)	(4.0)
Other	708	694	14	1.9
Total operating revenues	$10,584	$10,401	$ 183	1.8

This table presents our passenger revenue and the quarter-over-quarter change in certain operating statistics:

	Three Months Ended March 31, 2019 (In millions)	Increase (Decrease) vs. Three Months Ended March 31, 2018 RPMs	ASMs	Load Factor	Passenger Yield	PRASM
Passenger revenue	$ 9,658	3.5%	1.3%	1.8 pts	(1.6)%	0.6 %

Passenger revenue increased $178 million, or 1.9%, in the first quarter of 2019 from the first quarter of 2018 due to a 3.5% quarter-over-quarter increase in RPMs driven by strong demand and higher load factor.

Cargo revenue decreased $9 million, or 4.0%, in the first quarter of 2019 from the first quarter of 2018 primarily driven by declines in international freight volume, offset in part by increases in freight yields.

Other revenue increased $14 million, or 1.9%, in the first quarter of 2019 from the first quarter of 2018 due in part to higher revenue associated with our loyalty program. For the three months ended March 31, 2019 and 2018, loyalty revenue included in other revenue was $578 million and $570 million, respectively.

Total operating revenues in the first quarter of 2019 increased $183 million, or 1.8%, from the first quarter of 2018 driven principally by a 1.9% increase in passenger revenue as described above.

Operating Expenses

	Three Months Ended March 31, 2019	2018	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Aircraft fuel and related taxes	$1,726	$1,763	$ (37)	(2.1)
Salaries, wages and benefits	3,090	3,017	73	2.5
Maintenance, materials and repairs	561	469	92	19.7
Other rent and landing fees	503	467	36	7.8
Aircraft rent	327	309	18	5.4
Selling expenses	370	356	14	3.9
Depreciation and amortization	480	440	40	9.1
Special items, net	138	225	(87)	(38.8)
Other	1,251	1,261	(10)	(0.8)
Regional expenses:				
Aircraft fuel and related taxes	423	398	25	6.1
Other	1,340	1,300	40	3.1
Total operating expenses	$10,209	$10,005	$ 204	2.0

Total operating expenses increased $204 million, or 2.0%, in the first quarter of 2019 from the first quarter of 2018. See detailed explanations below relating to changes in total CASM.

Total CASM

We sometimes use financial measures that are derived from the condensed consolidated financial statements but that are not presented in accordance with GAAP to understand and evaluate our current operating performance to allow for period-to-period comparisons. We believe these non-GAAP financial measures may also provide useful information to investors and others. These non-GAAP measures may not be comparable to similarly titled non-GAAP measures of other companies, and should be considered in addition to, and not as a substitute for or superior to, any measure of performance, cash flow or liquidity prepared in accordance with GAAP. We are providing a reconciliation of reported non-GAAP financial measures to their comparable financial measures on a GAAP basis.

The table below presents the reconciliation of total operating expenses (GAAP measure) to total operating costs excluding special items and fuel (non-GAAP measure). Management uses total operating costs excluding special items and fuel to evaluate our current operating performance and for period-to-period comparisons. The price of fuel, over which we have no control, impacts the comparability of period-to-period financial performance. The adjustment to exclude aircraft fuel and special items allows management an additional tool to understand and analyze our non-fuel costs and core operating performance.

The major components of our total CASM and our total CASM excluding special items and fuel for the three months ended March 31, 2019 and 2018 are as follows (amounts may not recalculate due to rounding):

	Three Months Ended March 31,		Percent Increase (Decrease)
	2019	2018	
	(In cents, except percentage changes)		
Total CASM:			
Aircraft fuel and related taxes	2.59	2.68	(3.3)
Salaries, wages and benefits	4.64	4.58	1.2
Maintenance, materials and repairs	0.84	0.71	18.1
Other rent and landing fees	0.75	0.71	6.4
Aircraft rent	0.49	0.47	4.1
Selling expenses	0.56	0.54	2.6
Depreciation and amortization	0.72	0.67	7.7
Special items, net	0.21	0.34	(39.6)
Other	1.88	1.92	(2.0)
Regional expenses:			
Aircraft fuel and related taxes	0.63	0.60	4.8
Other	2.01	1.97	1.8
Total CASM	15.31	15.20	0.7
Special items, net	(0.21)	(0.34)	(39.6)
Aircraft fuel and related taxes:			
Aircraft fuel and related taxes - mainline	(2.59)	(2.68)	(3.3)
Aircraft fuel and related taxes - regional	(0.63)	(0.60)	4.8
Total CASM, excluding special items and fuel	11.88	11.57	2.7

Significant changes in the components of total CASM are as follows:

- Mainline aircraft fuel and related taxes per ASM decreased 3.3% primarily due to a 3.0% decrease in the average price per gallon of fuel to $2.02 in the first quarter of 2019 from $2.09 in the first quarter of 2018.
- Maintenance, materials and repairs per ASM increased 18.1% in the first three months of 2019 as compared to the same period in 2018, primarily due to an increase in the volume of airframe overhauls performed under time and material contracts where expense is incurred and recognized as maintenance is performed. An increase in the volume of component part repairs also drove higher maintenance expenses in the first quarter of 2019.

- Other rent and landing fees per ASM increased 6.4% primarily due to rate increases at certain hub airports in the first quarter of 2019 as compared to the first quarter of 2018.
- Depreciation and amortization per ASM increased 7.7% due in part to information technology and software development projects associated with our merger integration as well as the continued rollout of Premium Economy and harmonization of seating configurations across our fleet. Depreciation associated with our fleet renewal program also contributed to the increase as subsequent to the first quarter of 2018, we took delivery of five owned mainline aircraft.
- Regional aircraft fuel and related taxes per ASM increased 4.8% primarily due to a 7.7% increase in gallons of fuel consumed, principally due to increased capacity. This increase was offset in part by a 1.4% decrease in the average price per gallon of fuel to $2.12 in the first quarter of 2019 from $2.15 in the first quarter of 2018.

Operating Special Items, Net

	Three Months Ended March 31, 2019	2018
	(In millions)	
Fleet restructuring expenses [1]	$83	$112
Merger integration expenses [2]	37	59
Litigation settlement	—	40
Labor contract expenses	—	13
Other operating charges, net	18	1
Total mainline operating special items, net	$138	$225

(1) Fleet restructuring expenses principally included accelerated depreciation and rent expense for aircraft and related equipment grounded or expected to be grounded earlier than planned.

(2) Merger integration expenses included costs associated with integration projects, principally our technical operations, flight attendant, human resources and payroll systems.

Nonoperating Results

	Three Months Ended March 31, 2019	2018	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Interest income	$33	$25	$ 8	33.9
Interest expense, net	(271)	(262)	(9)	3.2
Other income, net	108	79	29	37.0
Total nonoperating expense, net	$(130)	$(158)	$ 28	(18.4)

In the first quarter of 2019, other nonoperating income, net included $46 million of non-service related pension and other postretirement benefit plan income and $69 million of net special credits principally due to mark-to-market unrealized gains associated with certain of our equity investments.

In the first quarter of 2018, other nonoperating income, net principally included $75 million of non-service related pension and other postretirement benefit plan income.

The decrease in non-service related pension and other postretirement benefit plan income in the first quarter of 2019 as compared to the first quarter of 2018 is principally due to a decrease in the expected return on pension plan assets.

Income Taxes

In the first quarter of 2019, we recorded an income tax provision of $60 million, which was substantially non-cash due to utilization of our net operating losses (NOLs). Substantially all of our income before income taxes is attributable to the United States. At December 31, 2018, we had approximately $10.2 billion of federal NOLs and $3.2 billion of state NOLs, substantially all of which are expected to be available in 2019 to reduce federal and state taxable income. See Note 7 to AAG’s Condensed Consolidated Financial Statements in Part I, Item 1A for additional information on income taxes.

American’s Results of Operations

Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

American realized pre-tax income of $304 million and net income of $230 million in the first quarter of 2019. This compares to first quarter 2018 pre-tax income of $314 million and net income of $209 million.

The quarter-over-quarter decrease in American's pre-tax income was principally driven by increases in maintenance expenses and salaries, wages and benefits, offset in part by higher revenues and a decrease in net special items.

Operating Revenues

	Three Months Ended March 31, 2019	2018	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Passenger	$9,658	$9,480	$ 178	1.9
Cargo	218	227	(9)	(4.0)
Other	705	691	14	1.9
Total operating revenues	$10,581	$10,398	$ 183	1.8

Passenger revenue increased $178 million, or 1.9%, in the first quarter of 2019 from the first quarter of 2018 due to a quarter-over-quarter increase in RPMs driven by strong demand and higher load factor.

Cargo revenue decreased $9 million, or 4.0%, in the first quarter of 2019 from the first quarter of 2018 primarily driven by declines in international freight volume, offset in part by increases in freight yields.

Other revenue increased $14 million, or 1.9%, in the first quarter of 2019 from the first quarter of 2018 due in part to higher revenue associated with American's loyalty program. For the three months ended March 31, 2019 and 2018, loyalty revenue included in other revenue was $578 million and $570 million, respectively.

Total operating revenues in the first quarter of 2019 increased $183 million, or 1.8%, from the first quarter of 2018 driven principally by a 1.9% increase in passenger revenue as described above.

Operating Expenses

	Three Months Ended March 31,		Increase (Decrease)	Percent Increase (Decrease)
	2019	2018		
	(In millions, except percentage changes)			
Aircraft fuel and related taxes	$1,726	$1,763	$ (37)	(2.1)
Salaries, wages and benefits	3,089	3,014	75	2.5
Maintenance, materials and repairs	561	469	92	19.7
Other rent and landing fees	503	467	36	7.8
Aircraft rent	327	309	18	5.4
Selling expenses	370	356	14	3.9
Depreciation and amortization	480	440	40	9.1
Special items, net	138	225	(87)	(38.8)
Other	1,251	1,261	(10)	(0.8)
Regional expenses:				
Aircraft fuel and related taxes	423	398	25	6.1
Other	1,368	1,284	84	6.5
Total operating expenses	$10,236	$9,986	$ 250	2.5

Total operating expenses increased $250 million, or 2.5%, in the first quarter of 2019 from the first quarter of 2018. Significant changes in the components of American's total operating expenses are as follows:

- Mainline aircraft fuel and related taxes decreased 2.1% primarily due to a 3.0% decrease in the average price per gallon of fuel to $2.02 in the first quarter of 2019 from $2.09 in the first quarter of 2018.
- Maintenance, materials and repairs increased 19.7% in the first three months of 2019 as compared to the same period in 2018, primarily due to an increase in the volume of airframe overhauls performed under time and material contracts where expense is incurred and recognized as maintenance is performed. An increase in the volume of component part repairs also drove higher maintenance expenses in the first quarter of 2019.
- Other rent and landing fees increased 7.8% primarily due to rate increases at certain hub airports in the first quarter of 2019 as compared to the first quarter of 2018.
- Depreciation and amortization increased 9.1% due in part to information technology and software development projects associated with American's merger integration as well as the continued rollout of Premium Economy and harmonization of seating configurations across its fleet. Depreciation associated with American's fleet renewal program also contributed to the increase as subsequent to the first quarter of 2018, American took delivery of five owned mainline aircraft.
- Regional aircraft fuel and related taxes increased 6.1% primarily due to a 7.7% increase in gallons of fuel consumed, principally due to increased capacity. This increase was offset in part by a 1.4% decrease in the average price per gallon of fuel to $2.12 in the first quarter of 2019 from $2.15 in the first quarter of 2018.

Operating Special Items, Net

	Three Months Ended March 31,	
	2019	2018
	(In millions)	
Fleet restructuring expenses [1]	$83	$112
Merger integration expenses [2]	37	59
Litigation settlement	—	40
Labor contract expenses	—	13
Other operating charges, net	18	1
Total mainline operating special items, net	$138	$225

(1) Fleet restructuring expenses principally included accelerated depreciation and rent expense for aircraft and related equipment grounded or expected to be grounded earlier than planned.

(2) Merger integration expenses included costs associated with integration projects, principally American's technical operations, flight attendant, human resources and payroll systems.

Nonoperating Results

	Three Months Ended March 31,		Increase (Decrease)	Percent Increase (Decrease)
	2019	2018		
	(In millions, except percentage changes)			
Interest income	$127	$73	$ 54	73.1
Interest expense, net	(277)	(250)	(27)	10.6
Other income, net	109	79	30	37.4
Total nonoperating expense, net	$(41)	$(98)	$ 57	(57.7)

Interest income increased $54 million in the first quarter of 2019 as compared to the first quarter of 2018, primarily due to higher interest-bearing related party receivables from American's parent company, AAG.

In the first quarter of 2019, other nonoperating income, net included $46 million of non-service related pension and other postretirement benefit plan income and $69 million of net special credits principally due to mark-to-market unrealized gains associated with certain of American's equity investments.

In the first quarter of 2018, other nonoperating income, net principally included $75 million of non-service related pension and other postretirement benefit plan income.

The decrease in non-service related pension and other postretirement benefit plan income in the first quarter of 2019 as compared to the first quarter of 2018 is principally due to a decrease in the expected return on pension plan assets.

Income Taxes

American is part of the AAG consolidated income tax return.

In the first quarter of 2019, American recorded an income tax provision of $74 million, which was substantially non-cash due to utilization of its net operating losses (NOLs). Substantially all of American’s income before income taxes is attributable to the United States. At December 31, 2018, American had approximately $10.6 billion of federal NOLs and $3.1 billion of state NOLs, substantially all of which are expected to be available in 2019 to reduce federal and state taxable income.

See Note 5 to American’s Condensed Consolidated Financial Statements in Part I, Item 1B for additional information on income taxes.

Liquidity and Capital Resources

Liquidity

As of March 31, 2019, AAG had approximately $7.2 billion in total available liquidity and $156 million in restricted cash and short-term investments. Additional detail of our available liquidity is provided in the table below (in millions):

	AAG		American	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Cash	$337	$ 275	$328	$ 265
Short-term investments	4,012	4,485	4,010	4,482
Undrawn revolving credit facilities	2,843	2,843	2,843	2,843
Total available liquidity	$7,192	$ 7,603	$7,181	$ 7,590

Share Repurchase Programs

In April 2018, we announced that our Board of Directors authorized a $2.0 billion share repurchase program that expires on December 31, 2020. Since July 2014, our Board of Directors has approved seven share repurchase programs aggregating $13.0 billion of authority. As of March 31, 2019, there was $1.1 billion of remaining authority to repurchase shares under our current $2.0 billion share repurchase program. Share repurchases under our repurchase programs may be made through a variety of methods, which may include open market purchases, privately negotiated transactions, block trades or accelerated share repurchase transactions. Any such repurchases that may be made from time to time will be subject to market and economic conditions, applicable legal requirements and other relevant factors. We are not obligated to repurchase any specific number of shares and our repurchase of AAG common stock may be limited, suspended or discontinued at any time at our discretion and without prior notice.

During the three months ended March 31, 2019, we repurchased 16.7 million shares of AAG common stock for $600 million at a weighted average cost per share of $36.02. Since the inception of our share repurchase programs in July 2014 through March 31, 2019, we repurchased 295.6 million shares of AAG common stock for $11.9 billion at a weighted average cost per share of $40.43.

Cash Dividends

In January 2019, our Board of Directors declared a cash dividend of $0.10 per share for stockholders of record as of February 6, 2019 and paid on February 20, 2019, totaling $46 million for the first three months of 2019.

In April 2019, we announced that our Board of Directors declared a $0.10 per share dividend for stockholders of record as of May 8, 2019, and payable on May 22, 2019.

Any future dividends that may be declared and paid from time to time will be subject to market and economic conditions, applicable legal requirements and other relevant factors. We are not obligated to continue a dividend for any fixed period, and the payment of dividends may be suspended or discontinued at any time at our discretion and without prior notice.

Collateral-Related Covenants

Certain of our debt financing agreements contain loan to value ratio covenants and require us to appraise the related collateral annually. Pursuant to such agreements, if the loan to value ratio exceeds a specified threshold, we are required, as applicable, to pledge additional qualifying collateral (which in some cases may include cash collateral), or pay down such financing, in whole or in part. As of March 31, 2019, we were in compliance with the collateral coverage tests for our term loans and revolving credit facilities as of the most recent measurement dates.

Sources and Uses of Cash
AAG
Operating Activities
Our net cash provided by operating activities was $1.7 billion and $1.8 billion for the first three months of 2019 and 2018, respectively, a period-over-period decrease of $149 million. This decrease in operating cash flows from the 2018 to the 2019 period was primarily due to lower profitability in the first three months of 2019 driven by higher maintenance expenses and salaries, wages and benefits, offset in part by higher revenues. In addition, we contributed $364 million to our defined benefit pension plans in the first quarter of 2019 as compared to $155 million in the first quarter of 2018.
Investing Activities
Our net cash used in investing activities was $480 million and $956 million for the first three months of 2019 and 2018, respectively.
Our principal investing activities in the first quarter of 2019 included expenditures of $1.3 billion for property and equipment, including seven Embraer E175 aircraft, four Boeing 737-8 MAX aircraft, two Boeing 787 Family aircraft and two Airbus A321neo aircraft. These cash outflows were offset in part by $359 million of net proceeds primarily from aircraft sale-leaseback transactions and $481 million in net sales of short-term investments.
Our principal investing activities in the first quarter of 2018 included expenditures of $779 million for property and equipment, including three Boeing 737-8 MAX aircraft and one Boeing 787 Family aircraft and $223 million in net purchases of short-term investments.
Financing Activities
Our net cash used in financing activities was $1.1 billion and $842 million for the first three months of 2019 and 2018, respectively.
Our principal financing activities in the first quarter of 2019 included $849 million in scheduled debt repayments, $608 million in share repurchases and $46 million in dividend payments. These cash outflows were offset in part by net proceeds of $400 million from the issuance of debt for the financing of certain aircraft.
Our principal financing activities in the first quarter of 2018 included $568 million in scheduled debt repayments, $461 million in share repurchases and $48 million in dividend payments. These cash outflows were offset in part by net proceeds of $236 million from the issuance of debt, including the issuance of equipment notes related to EETCs.
American
Operating Activities
American’s net cash provided by operating activities was $956 million and $1.3 billion for the first three months of 2019 and 2018, respectively, a period-over-period decrease of $307 million. This decrease in operating cash flows for the first three months of 2019 as compared to the same period in 2018 was primarily due to higher intercompany transfers of cash from American to AAG to fund share repurchases and lower profitability in the first three months of 2019 driven by higher maintenance expenses and salaries, wages and benefits, offset in part by higher revenues. In addition, American contributed $364 million to its defined benefit pension plans in the first quarter of 2019 as compared to $155 million in the first quarter of 2018.
Investing Activities
American’s net cash used in investing activities was $438 million and $934 million for the first three months of 2019 and 2018, respectively.
American’s principal investing activities in the first quarter of 2019 included expenditures of $1.3 billion for property and equipment, including seven Embraer E175 aircraft, four Boeing 737-8 MAX aircraft, two Boeing 787 Family aircraft and two Airbus A321neo aircraft. These cash outflows were offset in part by $359 million of net proceeds primarily from aircraft sale-leaseback transactions and $481 million in net sales of short-term investments.

American's principal investing activities in the first quarter of 2018 included expenditures of $762 million for property and equipment, including three Boeing 737-8 MAX aircraft and one Boeing 787 Family aircraft and $215 million in net purchases of short-term investments.

Financing Activities

American's net cash used in financing activities was $455 million and $333 million for the first three months of 2019 and 2018, respectively.

American's principal financing activities in the first quarter of 2019 included $849 million in scheduled debt repayments. These cash outflows were offset in part by net proceeds of $400 million from the issuance of debt for the financing of certain aircraft.

American's principal financing activities in the first quarter of 2018 included $568 million in scheduled debt repayments, offset in part by net proceeds of $236 million from the issuance of debt, including the issuance of equipment notes related to EETCs.

Commitments

Significant Indebtedness

As of March 31, 2019, AAG had $23.6 billion in long-term debt, including current maturities of $3.3 billion (of which $750 million in aggregate principal amount relates to the 5.50% senior notes is due in October 2019 and $500 million in aggregate principal amount relates to the 4.625% senior notes due March 2020). As of March 31, 2019, American had $22.3 billion in long-term debt, including current maturities of $2.0 billion. During the three months ended March 31, 2019, there have been no material changes in our significant indebtedness as discussed in our 2018 Form 10-K, except as discussed in Note 6 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A and Note 4 to American's Condensed Consolidated Financial Statements in Part I, Item 1B.

Aircraft and Engine Purchase Commitments

As of March 31, 2019, we had definitive purchase agreements with Airbus, Boeing, Embraer and Bombardier for the acquisition of the following mainline and regional aircraft:

	Remainder of 2019	2020	2021	2022	2023	2024 and Thereafter	Total
Airbus							
A320neo Family	10	20	18	20	8	22	98
Boeing							
737 MAX Family (1)	16	10	10	—	—	40	76
787 Family	—	12	10	—	6	19	47
Embraer							
E175	13	15	—	—	—	—	28
Bombardier							
CRJ900	11	4	—	—	—	—	15
Total	50	61	38	20	14	81	264

(1) On March 13, 2019, the FAA grounded all U.S.-registered Boeing 737 MAX aircraft. We currently have 76 Boeing 737 MAX Family aircraft on order. We have not taken delivery of any Boeing 737 MAX Family aircraft since the grounding, and the timing of future deliveries cannot presently be forecasted.

We also have agreements for 35 spare engines to be delivered in 2019 and beyond.

We currently have financing commitments for all aircraft on order and scheduled to be delivered through December 2019, with the exception of three Embraer E175 aircraft. Additionally, we have financing commitments for 25 aircraft scheduled to be delivered in 2020: 12 Boeing 787 Family aircraft, seven Airbus A320neo Family aircraft, four Bombardier CRJ900 aircraft, and two Boeing 737 MAX Family aircraft. We do not have financing commitments in place for the remaining 36 aircraft to be delivered in 2020 and any of the aircraft to be delivered beyond 2020, except for 10 Boeing 787 Family aircraft to be delivered in 2021. See Part II, Item 1A. Risk Factors – "We will need to obtain sufficient financing or other capital to operate successfully" for additional discussion.

Off-Balance Sheet Arrangements

An off-balance sheet arrangement is any transaction, agreement or other contractual arrangement involving an unconsolidated entity under which a company has (1) made guarantees, (2) a retained or a contingent interest in transferred assets, (3) an obligation under derivative instruments classified as equity or (4) any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to us, or that engages in leasing, hedging or research and development arrangements with us.

There have been no material changes in our off-balance sheet arrangements as discussed in our 2018 Form 10-K.

Contractual Obligations

The following table provides details of our future cash contractual obligations as of March 31, 2019 (in millions). The table does not include commitments that are contingent on events or other factors that are uncertain or unknown at this time.

	Payments Due by Period						
	Remainder of 2019	2020	2021	2022	2023	2024 and Thereafter	Total
American							
Long-term debt:							
Principal amount [(a), (c)]	$1,664	$1,867	$3,433	$1,369	$3,919	$ 10,038	$22,290
Interest obligations [(b) (c)]	712	856	750	614	525	1,181	4,638
Finance lease obligations	98	120	118	122	105	282	845
Aircraft and engine purchase commitments [(d)]	1,916	1,923	988	1,379	1,447	6,025	13,678
Operating lease commitments [(e)]	1,348	1,913	1,852	1,680	1,503	5,310	13,606
Regional capacity purchase agreements [(f)]	835	918	751	611	486	1,040	4,641
Minimum pension obligations [(g)]	437	625	671	939	909	1,263	4,844
Retiree medical and other postretirement benefits	17	17	17	17	23	280	371
Other purchase obligations [(h)]	1,430	1,109	1,067	334	9	84	4,033
Total American Contractual Obligations	$8,457	$9,348	$9,647	$7,065	$8,926	$ 25,503	$68,946
AAG Parent and Other AAG Subsidiaries							
Long-term debt:							
Principal amount [(a)]	$750	$505	$2	$2	$2	$ 18	$1,279
Interest obligations [(b)]	55	14	2	2	1	4	78
Minimum pension obligations [(g)]	6	4	5	5	5	13	38
Operating lease commitments	13	15	13	12	5	10	68
Total AAG Contractual Obligations	$9,281	$9,886	$9,669	$7,086	$8,939	$ 25,548	$70,409

(a) Amounts represent contractual amounts due. Excludes $215 million and $3 million of unamortized debt discount, premium and issuance costs as of March 31, 2019 for American and AAG Parent, respectively. For additional information, see Note 6 and Note 4 to AAG's and American's Condensed Consolidated Financial Statements in Part I, Items 1A and 1B.

(b) For variable-rate debt, future interest obligations are estimated using the current forward rates at March 31, 2019.

(c) Includes $11.1 billion of future principal payments and $2.3 billion of future interest payments, respectively, as of March 31, 2019, related to EETCs associated with mortgage financings for the purchase of certain aircraft.

(d) See Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – "Liquidity and Capital Resources" for additional information about these obligations. Boeing has committed to provide sale-leaseback financing (in the form of operating leases) for 22 787-8 aircraft to be delivered in 2020 and 2021. This financing is reflected in the operating lease commitments line above.

(e) Includes $275 million of future minimum lease payments related to EETC leveraged lease financings of certain aircraft as of March 31, 2019.

(f) Represents minimum payments under capacity purchase agreements with third-party regional carriers. These commitments are estimates of costs based on assumed minimum levels of flying under the capacity purchase agreements and our actual payments could differ materially. Rental payments under operating leases for certain aircraft flown under these capacity purchase agreements are reflected in the operating lease commitments line above.

(g) Includes minimum pension contributions based on actuarially determined estimates and is based on estimated payments through 2028. The total expected pension contribution of $443 million for the remainder of 2019 assumes a supplemental contribution of $21 million in addition to the $422 million minimum required contribution.

(h) Includes purchase commitments for jet fuel, construction projects and information technology support.

Capital Raising Activity and Other Possible Actions

In light of our significant financial commitments related to, among other things, new aircraft, the servicing and amortization of existing debt and equipment leasing arrangements, and future pension funding obligations, we and our subsidiaries will regularly consider, and enter into negotiations related to, capital raising activity, which may include the entry into leasing transactions and future issuances of secured or unsecured debt obligations or additional equity securities in public or private offerings or otherwise. The cash available from operations and these sources, however, may not be sufficient to cover cash contractual obligations because economic factors may reduce the amount of cash generated by operations or increase costs. For instance, an economic downturn or general global instability caused by military actions, terrorism, disease outbreaks, natural disasters or other causes could reduce the demand for air travel, which would reduce the amount of cash generated by operations. An increase in costs, either due to an increase in borrowing costs caused by a reduction in credit ratings or a general increase in interest rates, or due to an increase in the cost of fuel, maintenance, or aircraft, aircraft engines or parts, could decrease the amount of cash available to cover cash contractual obligations. Moreover, certain of our financing arrangements contain significant minimum cash balance requirements. As a result, we cannot use all of our available cash to fund operations, capital expenditures and cash obligations without violating these requirements.

In the past, we have from time to time refinanced, redeemed or repurchased our debt and taken other steps to reduce or otherwise manage the aggregate amount and cost of our debt or lease obligations or otherwise improve our balance sheet. Going forward, depending on market conditions, our cash position and other considerations, we may continue to take such actions.

Our Board of Directors has from time to time authorized programs to repurchase shares of our common stock, one of which is currently in effect, and may authorize additional share repurchase programs in the future.

Critical Accounting Policies and Estimates

In the first quarter of 2019, there were no changes to our critical accounting policies and estimates from those disclosed in the Consolidated Financial Statements and accompanying notes contained in our 2018 Form 10-K.

Recent Accounting Pronouncements

ASU 2018-02: Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

This ASU provides the option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings due to the U.S. federal corporate income tax rate change as a result of H.R. 1, the 2017 Tax Cuts and Jobs Act (the 2017 Tax Act). The amount of the reclassification is the difference between the amount initially charged or credited directly to other comprehensive income at the previous U.S. federal corporate income tax rate that remains in accumulated other comprehensive income and the amount that would have been charged or credited directly to other comprehensive income using the newly enacted U.S. federal corporate income tax rate, excluding the effect of any valuation allowance previously charged to income from continuing operations. This standard is effective for interim and annual reporting periods beginning after December 15, 2018. In the first quarter of 2019, we adopted this standard retrospectively as of December 22, 2017, the date the 2017 Tax Act was enacted, which resulted in the recast of prior reporting periods. As a result of the adoption, we reclassified $622 million of stranded tax effects principally related to our pension plans from accumulated other comprehensive loss to retained earnings.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

AAG and American's Market Risk Sensitive Instruments and Positions

Our primary market risk exposures include the price of aircraft fuel, foreign currency exchange rates and interest rate risk. Our exposure to these market risks has not changed materially from our exposure discussed in our 2018 Form 10-K except as updated below.

Aircraft Fuel

As of March 31, 2019, we did not have any fuel hedging contracts outstanding to hedge our fuel consumption. As such, and assuming we do not enter into any future transactions to hedge our fuel consumption, we will continue to be fully exposed to fluctuations in fuel prices. Our current policy is not to enter into transactions to hedge our fuel consumption, although we review that policy from time to time based on market conditions and other factors. Based on our 2019 forecasted fuel consumption, we estimate that a one cent per gallon increase in aviation fuel price would increase our 2019 annual fuel expense by $46 million.

Foreign Currency

We are exposed to the effect of foreign exchange rate fluctuations on the U.S. dollar value of foreign currency-denominated operating revenues and expenses. Our largest exposure comes from the British pound, Euro, Canadian dollar and various Latin American currencies, primarily the Brazilian real. We do not currently have a foreign currency hedge program.

Generally, fluctuations in foreign currencies, including devaluations, cannot be predicted by us and can significantly affect the value of our assets located outside the United States. These conditions, as well as any further delays, devaluations or imposition of more stringent repatriation restrictions, may materially adversely affect our business, results of operations and financial condition. See Part II, Item 1A. Risk Factors – "We operate a global business with international operations that are subject to economic and political instability and have been, and in the future may continue to be, adversely affected by numerous events, circumstances or government actions beyond our control" for additional discussion of this and other currency risks.

Interest

Our earnings and cash flow are affected by changes in interest rates due to the impact those changes have on our interest expense from variable rate debt instruments and our interest income from short-term, interest bearing investments. If annual interest rates increase 100 basis points, based on our March 31, 2019 variable-rate debt and short term investments balances, annual interest expense on variable rate debt would increase by approximately $101 million and annual interest income on short-term investments would increase by approximately $43 million.

ITEM 4. CONTROLS AND PROCEDURES

Management’s Evaluation of Disclosure Controls and Procedures

The term “disclosure controls and procedures” is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act). This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and is accumulated and communicated to management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate to allow timely decisions regarding required disclosure. An evaluation of the effectiveness of AAG’s and American’s disclosure controls and procedures as of March 31, 2019 was performed under the supervision and with the participation of AAG’s and American’s management, including AAG’s and American’s CEO and CFO. Based on that evaluation, AAG’s and American’s management, including AAG’s and American’s CEO and CFO, concluded that AAG’s and American’s disclosure controls and procedures were effective as of March 31, 2019 at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

On December 9, 2013, AAG acquired US Airways Group, Inc. (US Airways Group) and its subsidiaries. We are still in the process of integrating certain processes, technology and operations for the post-Merger combined company, and we will continue to evaluate the impact of any related changes to our internal control over financial reporting. For the quarter ended March 31, 2019, there have been no changes in AAG’s or American’s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, AAG’s and American’s internal control over financial reporting.

Limitation on the Effectiveness of Controls

We believe that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, and, as noted above, the CEO and CFO of AAG and American believe that our disclosure controls and procedures were effective at the reasonable assurance level as of March 31, 2019.

PART II: OTHER INFORMATION
ITEM 1. LEGAL PROCEEDINGS

Chapter 11 Cases. On November 29, 2011, AMR Corporation (AMR), American, and certain of AMR’s other direct and indirect domestic subsidiaries (the Debtors) filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York (the Bankruptcy Court). On October 21, 2013, the Bankruptcy Court entered an order approving and confirming the Debtors’ fourth amended joint plan of reorganization (as amended, the Plan). On the Effective Date, December 9, 2013, the Debtors consummated their reorganization pursuant to the Plan and completed the acquisition of US Airways Group by AMR (the Merger).

Pursuant to rulings of the Bankruptcy Court, the Plan established the Disputed Claims Reserve to hold shares of AAG common stock reserved for issuance to disputed claimholders at the Effective Date that ultimately become holders of allowed claims. The shares of AAG common stock issued to the Disputed Claims Reserve were originally issued on December 13, 2013 and have at all times since been included in the number of shares issued and outstanding as reported from time to time in our quarterly and annual reports, including for purposes of calculating earnings per common share. As disputed claims are resolved, the claimants will receive distributions of shares from the Disputed Claims Reserve. However, we are not required to distribute additional shares above the limits contemplated by the Plan, even if the shares remaining for distribution in the Disputed Claims Reserve are not sufficient to fully pay any additional allowed unsecured claims. To the extent that any of the reserved shares remain undistributed upon resolution of all remaining disputed claims, such shares will not be returned to us but rather will be distributed to former AMR stockholders and former convertible noteholders treated as stockholders under the Plan. On February 12, 2019, in accordance with the approval granted by the Bankruptcy Court on December 6, 2018, an aggregate of approximately 17.3 million shares of AAG common stock were distributed from the Disputed Claims Reserve to former AMR shareholders and convertible noteholders. After giving effect to this distribution, the Disputed Claims Reserve holds approximately 7 million shares of AAG common stock.

Private Party Antitrust Action Related to Passenger Capacity. We, along with Delta Air Lines, Inc., Southwest Airlines Co., United Airlines, Inc. and, in the case of litigation filed in Canada, Air Canada, have been named as defendants in approximately 100 putative class action lawsuits alleging unlawful agreements with respect to air passenger capacity. The U.S. lawsuits have been consolidated in the Federal District Court for the District of Columbia (the DC Court). On June 15, 2018, we reached a preliminary settlement agreement with the plaintiffs in the amount of $45 million that, once approved, will resolve all class claims in the U.S. lawsuits. That settlement received preliminary approval from the DC Court on June 18, 2018.

Private Party Antitrust Action Related to the Merger. On August 6, 2013, a lawsuit captioned Carolyn Fjord, et al., v. AMR Corporation, et al., was filed in the United States Bankruptcy Court for the Southern District of New York. The complaint named as defendants US Airways Group, US Airways, Inc. (US Airways), AMR and American, alleged that the effect of the Merger may be to create a monopoly in violation of Section 7 of the Clayton Antitrust Act, and sought injunctive relief and/or divestiture. On November 27, 2013, the Bankruptcy Court denied plaintiffs’ motion to preliminarily enjoin the Merger. On August 29, 2018, the Court denied in part defendants' motion for summary judgment, and fully denied plaintiffs' cross-motion for summary judgment. The parties' evidentiary cases were presented before the Bankruptcy Court in a bench trial in March 2019. The parties submitted proposed findings of fact and conclusions of law on April 15, 2019 and closing arguments are scheduled to be heard on April 26, 2019. We believe this lawsuit is without merit and intend to vigorously defend against the allegations.

DOJ Investigation Related to the United States Postal Service. In April 2015, the Department of Justice (DOJ) informed us of an inquiry regarding American’s 2009 and 2011 contracts with the United States Postal Service for the international transportation of mail by air. In October 2015, we received a Civil Investigative Demand from the DOJ seeking certain information relating to these contracts and the DOJ has also sought information concerning certain of the airlines that transport mail on a codeshare basis. The DOJ has indicated it is investigating potential violations of the False Claims Act or other statutes. We are cooperating fully with the DOJ with regard to its investigation.

General. In addition to the specifically identified legal proceedings, we and our subsidiaries are also engaged in other legal proceedings from time to time. Legal proceedings can be complex and take many months, or even years, to reach resolution, with the final outcome depending on a number of variables, some of which are not within our control. Therefore, although we will vigorously defend ourselves in each of the actions described above and such other legal proceedings, their ultimate resolution and potential financial and other impacts on us are uncertain but could be material. See Part II, Item 1A. Risk Factors – "We may be a party to litigation in the normal course of business or otherwise, which could affect our financial position and liquidity" for additional discussion.

ITEM 1A. RISK FACTORS

Below are certain risk factors that may affect our business, results of operations and financial condition, or the trading price of our common stock or other securities. We caution the reader that these risk factors may not be exhaustive. We operate in a continually changing business environment, and new risks and uncertainties emerge from time to time. Management cannot predict such new risks and uncertainties, nor can it assess the extent to which any of the risk factors below or any such new risks and uncertainties, or any combination thereof, may impact our business.

Downturns in economic conditions could adversely affect our business.

Due to the discretionary nature of business and leisure travel spending and the highly competitive nature of the airline industry, our revenues are heavily influenced by the condition of the U.S. economy and economies in other regions of the world. Unfavorable conditions in these broader economies have resulted, and may result in the future, in decreased passenger demand for air travel, changes in booking practices and related reactions by our competitors, all of which in turn have had, and may have in the future, a strong negative effect on our business. See also “The airline industry is intensely competitive and dynamic” below.

Our business is very dependent on the price and availability of aircraft fuel. Continued periods of high volatility in fuel costs, increased fuel prices or significant disruptions in the supply of aircraft fuel could have a significant negative impact on our operating results and liquidity.

Our operating results are materially impacted by changes in the availability, price volatility and cost of aircraft fuel, which represents one of the largest single cost items in our business. Market prices for jet fuel have fluctuated substantially over the past several years and prices continue to be highly volatile.

Because of the amount of fuel needed to operate our business, even a relatively small increase or decrease in the price of fuel can have a material effect on our operating results and liquidity. Due to the competitive nature of the airline industry and unpredictability of the market for air travel, we can offer no assurance that we may be able to increase our fares, impose fuel surcharges or otherwise increase revenues or decrease other operating costs sufficiently to offset fuel price increases. Similarly, we cannot predict actions that may be taken by our competitors in response to changes in fuel prices.

Although we are currently able to obtain adequate supplies of aircraft fuel, we cannot predict the future availability, price volatility or cost of aircraft fuel. Natural disasters (including hurricanes or similar events in the U.S. Southeast and on the Gulf Coast where a significant portion of domestic refining capacity is located), political disruptions or wars involving oil-producing countries, economic sanctions imposed against oil-producing countries or specific industry participants, changes in fuel-related governmental policy, the strength of the U.S. dollar against foreign currencies, changes in the cost to transport or store petroleum products, changes in access to petroleum product pipelines and terminals, speculation in the energy futures markets, changes in aircraft fuel production capacity, environmental concerns and other unpredictable events may result in fuel supply shortages, distribution challenges, additional fuel price volatility and cost increases in the future. Any of these factors or events could cause a disruption in oil production, refinery operations, pipeline capacity or terminal access and possibly result in significant increases in the price of aircraft fuel and diminished availability of aircraft fuel supply.

Our aviation fuel purchase contracts generally do not provide meaningful price protection against increases in fuel costs. Our current policy is not to enter into transactions to hedge our fuel consumption, although we review this policy from time to time based on market conditions and other factors. Accordingly, as of March 31, 2019, we did not have any fuel hedging contracts outstanding. As such, and assuming we do not enter into any future transactions to hedge our fuel consumption, we will continue to be fully exposed to fluctuations in fuel prices. See also the discussion in Part I, Item 3. Quantitative and Qualitative Disclosures About Market Risk – “Aircraft Fuel.”

The airline industry is intensely competitive and dynamic.

Our competitors include other major domestic airlines and foreign, regional and new entrant airlines, as well as joint ventures formed by some of these airlines, many of which have more financial or other resources and/or lower cost structures than ours, as well as other forms of transportation, including rail and private automobiles. In many of our markets we compete with at least one low-cost carrier (including so-called ultra-low cost carriers). Our revenues are sensitive to the actions of other carriers in many areas including pricing, scheduling, capacity, amenities, loyalty benefits and promotions, which can have a substantial adverse impact not only on our revenues, but on overall industry revenues. These factors may become even more significant in periods when the industry experiences large losses, as airlines under financial stress, or in bankruptcy, may institute pricing structures intended to achieve near-term survival rather than long-term viability.

Low-cost carriers (including so-called ultra-low-cost carriers) have a profound impact on industry revenues. Using the advantage of low unit costs, these carriers offer lower fares in order to shift demand from larger, more established airlines, and represent significant competitors, particularly for customers who fly infrequently and are price sensitive and tend not to be loyal to any one particular carrier. While historically these carriers have provided competition in domestic markets, we have recently experienced new competition from low-cost carriers on international routes. A number of these low-cost carriers have announced growth strategies including commitments to acquire significant numbers of new aircraft for delivery in the next few years. These low-cost carriers are attempting to continue to increase their market share through growth and, potentially, consolidation, and are expected to continue to have an impact on our revenues and overall performance. We and several other large network carriers have implemented “Basic Economy” fares designed to more effectively compete against low-cost carriers, but we cannot predict whether these initiatives will be successful or the competitive reaction of the low-cost carriers. Competition is also increasing from low-cost airlines executing international long-haul expansion strategies, including, for example, Icelandair and Norwegian Air Shuttle. The actions of existing or future low-cost carriers, including those described above, could have a material adverse effect on our operations and financial performance.

We provide air travel internationally, directly as well as through joint business, alliance, codeshare and similar arrangements to which we are a party. While our network is comprehensive, compared to some of our key global competitors, we generally have somewhat greater relative exposure to certain regions (for example, Latin America) and somewhat lower relative exposures to others (for example, China and parts of Asia). Our financial performance relative to our key competitors will therefore be influenced significantly by macro-economic conditions in particular regions around the world and the relative exposure of our network to the markets in those regions.

In providing international air transportation, we compete to provide scheduled passenger and cargo service between the U.S. and various overseas locations with U.S. airlines, foreign investor-owned airlines and foreign state-owned or state-affiliated airlines. Competition is increasing from foreign state-owned and state-affiliated airlines in the Gulf region, including Emirates, Etihad Airways and Qatar Airways. These carriers have large numbers of international widebody aircraft in service and on order and are increasing service to the U.S. from locations both in and outside the Middle East. Service to and from locations outside of the Middle East is provided by some of these carriers under so-called “fifth freedom” rights permitted under international treaties which allow service to and from stopover points between an airline’s home country and the ultimate destination. Such flights, such as a stopover in Europe on flights to the United States, allow the carrier to sell tickets for travel between the stopover point and the United States in competition with service provided by us. Additionally, these carriers have made significant investments in a number of airlines located outside of the Middle East, such as Air Italy, providing these affiliated airlines with capital and aircraft to permit increases in service that compete with us. We believe these state-owned and state-affiliated carriers in the Gulf region, including their affiliated carriers, benefit from significant government subsidies, which have allowed them to grow quickly, reinvest in their product and expand their global presence. Competition is also increasing from low-cost airlines executing international long-haul expansion strategies, including, for example, Icelandair and Norwegian Air Shuttle.

Our international service exposes us to foreign economies and the potential for reduced demand, such as we have recently experienced in Venezuela, when any foreign country we serve suffers adverse local economic conditions. In addition, open skies agreements with an increasing number of countries around the world provide international airlines with open access to U.S. markets, potentially subjecting us to increased competition on our international routes. See also “Our business is subject to extensive government regulation, which may result in increases in our costs, disruptions to our operations, limits on our operating flexibility, reductions in the demand for air travel, and competitive disadvantages.”

Certain airline alliances, joint ventures and joint businesses have been, or may in the future be, granted immunity from antitrust regulations by governmental authorities for specific areas of cooperation, such as joint pricing decisions. To the extent alliances formed by our competitors can undertake activities that are not available to us, our ability to effectively compete may be hindered. Our ability to attract and retain customers is dependent upon, among other things, our ability to offer our customers convenient access to desired markets. Our business could be adversely affected if we are unable to maintain or obtain alliance and marketing relationships with other air carriers in desired markets.

American has established a transatlantic joint business agreement (JBA) with British Airways, Iberia and Finnair, and separately, a transpacific JBA with Japan Airlines, each of which has been granted antitrust immunity. In October 2017, American and its transatlantic partners executed an amended and restated JBA which, among other things, extends the term of the agreement. An application is pending with the U.S. Department of Transportation (DOT) to add Aer Lingus, which is now owned by the parent company of British Airways and Iberia, to the transatlantic JBA. This relationship benefits from a grant of antitrust immunity from the DOT and was reviewed by the European Commission (EC) in July 2010. In connection with this review, we provided certain commitments to the EC regarding, among other things, the availability of take-off and landing slots at London Heathrow (LHR) or London Gatwick (LGW) airports. The commitments accepted by the EC are binding for 10 years with the possibility of renewal by the EC. However, in light of Brexit and the related possibility that the EC would no longer have regulatory responsibility for the United Kingdom when the commitments expire in July 2020, the United Kingdom Competition and Markets Authority (CMA) in October 2018 opened an investigation into the transatlantic JBA. We are cooperating fully with the CMA. Also, we had previously signed a JBA with Qantas Airways and in 2015, applied for antitrust immunity with the DOT for the revised relationship, but we withdrew that application in November 2016 after it was tentatively denied by the DOT. In February 2018, we filed a new application for antitrust immunity with the DOT, which, if granted, would allow us to further expand our relationship with Qantas Airways. This JBA has been approved by the competition law regulators in Australia and New Zealand. In addition, in 2016, we signed JBAs with certain air carriers of the LATAM Airlines Group for travel to certain South American countries. In November 2018, the Court of Free Competition in Chile approved the JBA between American and LATAM Airlines Group with respect to both our passenger and cargo businesses. That decision has been appealed to the Chilean Supreme Court. In the United States, approval for the JBA with LATAM Airlines Group is pending. We originally applied for antitrust immunity with the DOT in 2016, and recently withdrew and refiled that application in April 2019. This JBA has been approved in all other jurisdictions. The foregoing arrangements are important aspects of our international network and we are dependent on the performance and continued cooperation of the other airlines party to those agreements. No assurances can be given as to any benefits that we may derive from such arrangements or any other arrangements that may ultimately be implemented, or whether or not regulators will continue to approve or impose material conditions on our business activities.

Additional mergers and other forms of industry consolidation, including antitrust immunity grants, may take place and may not involve us as a participant. Depending on which carriers combine and which assets, if any, are sold or otherwise transferred to other carriers in connection with any such combinations, our competitive position relative to the post-combination carriers or other carriers that acquire such assets could be harmed. In addition, as carriers combine through traditional mergers or antitrust immunity grants, their route networks will grow, and that growth will result in greater overlap with our network, which in turn could result in lower overall market share and revenues for us. Such consolidation is not limited to the U.S., but could include further consolidation among international carriers in Europe and elsewhere.

Additionally, our AAdvantage loyalty program, which is an important element of our sales and marketing programs, faces significant and increasing competition from the loyalty programs offered by other travel companies, as well as from similar loyalty benefits offered by banks and other financial services companies. Competition among loyalty programs is intense regarding the rewards, fees, required usage, and other terms and conditions of these programs. These competitive factors affect our ability to attract and retain customers, increase usage of our loyalty program and maximize the revenue generated by our loyalty program.

Evolving data security and privacy requirements could increase our costs, and any significant data security incident could disrupt our operations, harm our reputation, expose us to legal risks and otherwise materially adversely affect our business, results of operations and financial condition.

Our business requires the secure processing and storage of sensitive information relating to our customers, employees, business partners and others. However, like any global enterprise operating in today's digital business environment, we are subject to threats to the security of our networks and data, including threats potentially involving criminal hackers, hacktivists, state-sponsored actors, corporate espionage, employee malfeasance, and human or technological error. These threats continue to increase as the frequency, intensity and sophistication of attempted attacks and intrusions increase around the world. We have been the target of cybersecurity attacks in the past and expect that we will continue to be in the future.

Furthermore, in response to these threats there has been heightened legislative and regulatory focus on data privacy and cybersecurity in the U.S., the European Union (EU) and elsewhere, particularly with respect to critical infrastructure providers, including those in the transportation sector. As a result, we must comply with a growing and fast-evolving set of legal requirements in this area, including substantive cybersecurity standards as well as requirements for notifying regulators and affected individuals in the event of a data security incident. This regulatory environment is increasingly challenging and may present material obligations and risks to our business, including significantly expanded compliance burdens, costs and enforcement risks. For example, in May 2018, the EU's new General Data Protection Regulation, commonly referred to as GDPR, came into effect, which imposes a host of new data privacy and security requirements, imposing significant costs on us and carrying substantial penalties for non-compliance.

In addition, many of our commercial partners, including credit card companies, have imposed data security standards that we must meet. In particular, we are required by the Payment Card Industry Security Standards Council, founded by the credit card companies, to comply with their highest level of data security standards. While we continue our efforts to meet these standards, new and revised standards may be imposed that may be difficult for us to meet and could increase our costs.

A significant cybersecurity incident could result in a range of potentially material negative consequences for us, including unauthorized access to, disclosure, modification, misuse, loss or destruction of company systems or data; theft of sensitive, regulated or confidential data, such as personal identifying information or our intellectual property; the loss of functionality of critical systems through ransomware, denial of service or other attacks; and business delays, service or system disruptions, damage to equipment and injury to persons or property. The methods used to obtain unauthorized access, disable or degrade service or sabotage systems are constantly evolving and may be difficult to anticipate or to detect for long periods of time. The constantly changing nature of the threats means that we may not be able to prevent all data security breaches or misuse of data. Similarly, we depend on the ability of our key commercial partners, including our regional carriers, distribution partners and technology vendors, to conduct their businesses in a manner that complies with applicable security standards and assures their ability to perform on a timely basis. A security failure, breach or other significant cybersecurity incident affecting one of our partners could result in potentially material negative consequences for us.

In addition, the costs and operational consequences of defending against, preparing for, responding to and remediating an incident of cybersecurity breach may be substantial. As cybersecurity threats become more frequent, intense and sophisticated, costs of proactive defense measures may increase. Further, we could be exposed to litigation, regulatory enforcement or other legal action as a result of an incident, carrying the potential for damages, fines, sanctions or other penalties, as well as injunctive relief requiring costly compliance measures. A cybersecurity incident could also impact our brand, harm our reputation and adversely impact our relationship with our customers, employees and stockholders. Failure to appropriately address these issues could also give rise to potentially material legal risks and liabilities.

Our high level of debt and other obligations may limit our ability to fund general corporate requirements and obtain additional financing, may limit our flexibility in responding to competitive developments and cause our business to be vulnerable to adverse economic and industry conditions.

We have significant amounts of indebtedness and other obligations, including pension obligations, obligations to make future payments on flight equipment and property leases related to airport and other facilities, and substantial non-cancelable obligations under aircraft and related spare engine purchase agreements. Moreover, currently a substantial portion of our assets are pledged to secure our indebtedness. Our substantial indebtedness and other obligations, which are generally greater than the indebtedness and other obligations of our competitors, could have important consequences. For example, they:

- may make it more difficult for us to satisfy our obligations under our indebtedness;
- may limit our ability to obtain additional funding for working capital, capital expenditures, acquisitions, investments, integration costs, and general corporate purposes, and adversely affect the terms on which such funding can be obtained;
-

require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness and other obligations, thereby reducing the funds available for other purposes;

- make us more vulnerable to economic downturns, industry conditions and catastrophic external events, particularly relative to competitors with lower relative levels of financial leverage;

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- contain covenants requiring us to maintain an aggregate of at least $2.0 billion of unrestricted cash and cash equivalents and amounts available to be drawn under revolving credit facilities; and
- contain restrictive covenants that could, among other things:
- limit our ability to merge, consolidate, sell assets, incur additional indebtedness, issue preferred stock, make investments and pay dividends;
- significantly constrain our ability to respond, or respond quickly, to unexpected disruptions in our own operations, the U.S. or global economies, or the businesses in which we operate, or to take advantage of opportunities that would improve our business, operations, or competitive position versus other airlines;
- limit our ability to withstand competitive pressures and reduce our flexibility in responding to changing business and economic conditions; and
- result in an event of default under our indebtedness.

Further, a substantial portion of our long-term indebtedness bears interest at fluctuating interest rates, primarily based on the London interbank offered rate (LIBOR) for deposits of U.S. dollars. LIBOR tends to fluctuate based on general short-term interest rates, rates set by the U.S. Federal Reserve and other central banks, the supply of and demand for credit in the London interbank market and general economic conditions. We have not hedged our interest rate exposure with respect to our floating rate debt. Accordingly, our interest expense for any particular period will fluctuate based on LIBOR and other variable interest rates. To the extent the interest rates applicable to our floating rate debt increase, our interest expense will increase, in which event we may have difficulties making interest payments and funding our other fixed costs, and our available cash flow for general corporate requirements may be adversely affected.

On July 27, 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, is considering replacing U.S. dollar LIBOR with a newly created index, calculated based on repurchase agreements backed by treasury securities. It is not possible to predict the effect of these changes, other reforms or the establishment of alternative reference rates in the United Kingdom, the United States or elsewhere. See also the discussion of interest rate risk in Part I, Item 3. Quantitative and Qualitative Disclosures About Market Risk – “Interest.”

These obligations also impact our ability to obtain additional financing, if needed, and our flexibility in the conduct of our business, and could materially adversely affect our liquidity, results of operations and financial condition.

We will need to obtain sufficient financing or other capital to operate successfully.

Our business plan contemplates continued significant investments related to modernizing our fleet, improving the experience of our customers and updating our facilities. Significant capital resources will be required to execute this plan. We estimate that, based on our commitments as of March 31, 2019, our planned aggregate expenditures for aircraft purchase commitments and certain engines on a consolidated basis for calendar years 2019-2023 would be approximately $8.4 billion. Accordingly, we will need substantial financing or other capital resources to finance such aircraft and engines. If we are unable to arrange financing for such aircraft and engines at customary advance rates and on terms and conditions acceptable to us, we may need to use cash from operations or cash on hand to purchase such aircraft and engines or may seek to negotiate deferrals for such aircraft and engines with the applicable aircraft and engine manufacturers. Depending on numerous factors applicable at the time we seek capital, many of which are out of our control, such as the state of the domestic and global economies, the capital and credit markets’ view of our prospects and the airline industry in general, and the general availability of debt and equity capital, the financing or other capital resources that we will need may not be available to us, or may be available only on onerous terms and conditions. There can be no assurance that we will be successful in obtaining financing or other needed sources of capital to operate successfully. An inability to obtain necessary financing on acceptable terms would have a material adverse impact on our business, results of operations and financial condition.

We have significant pension and other postretirement benefit funding obligations, which may adversely affect our liquidity, results of operations and financial condition.

Our pension funding obligations are significant. The amount of these obligations will depend on the performance of investments held in trust by the pension plans, interest rates for determining liabilities and actuarial experience. The minimum funding obligation applicable to our pension plans was subject to favorable temporary funding rules that expired at the end of 2017 and, as a result, our minimum pension funding obligations will increase materially beginning in 2019. In addition, we may have significant obligations for other postretirement benefits, retiree medical and other postretirement benefits.

If our financial condition worsens, provisions in our credit card processing and other commercial agreements may adversely affect our liquidity.

We have agreements with companies that process customer credit card transactions for the sale of air travel and other services. These agreements allow these credit card processing companies, under certain conditions (including, with respect to certain agreements, the failure of American to maintain certain levels of liquidity), to hold an amount of our cash (a holdback) equal to some or all of the advance ticket sales that have been processed by that credit card processor, but for which we have not yet provided the air transportation. These credit card processing companies are not currently entitled to maintain any holdbacks pursuant to these requirements. These holdback requirements can be modified at the discretion of the credit card processing companies upon the occurrence of specific events, including material adverse changes in our financial condition. An increase in the current holdbacks, up to and including 100% of relevant advanced ticket sales, would materially reduce our liquidity. Likewise, other of our commercial agreements contain provisions that allow other entities to impose less-favorable terms, including the acceleration of amounts due, in the event of material adverse changes in our financial condition.

Union disputes, employee strikes and other labor-related disruptions, or our inability to otherwise maintain labor costs at competitive levels may adversely affect our operations and financial performance.

Relations between air carriers and labor unions in the U.S. are governed by the Railway Labor Act (RLA). Under the RLA, collective bargaining agreements (CBAs) generally contain "amendable dates" rather than expiration dates, and the RLA requires that a carrier maintain the existing terms and conditions of employment following the amendable date through a multi-stage and usually lengthy series of bargaining processes overseen by the National Mediation Board (NMB). For the dates that the CBAs with our major work groups become amendable under the RLA, see Part I, Item 1. Business – "Employees and Labor Relations" in our 2018 Form 10-K.

In the case of a CBA that is amendable under the RLA, if no agreement is reached during direct negotiations between the parties, either party may request that the NMB appoint a federal mediator. The RLA prescribes no timetable for the direct negotiation and mediation processes, and it is not unusual for those processes to last for many months or even several years. If no agreement is reached in mediation, the NMB in its discretion may declare that an impasse exists and proffer binding arbitration to the parties. Either party may decline to submit to arbitration, and if arbitration is rejected by either party, a 30-day "cooling off" period commences. During or after that period, a Presidential Emergency Board (PEB) may be established, which examines the parties' positions and recommends a solution. The PEB process lasts for 30 days and is followed by another 30-day "cooling off" period. At the end of a "cooling off" period, unless an agreement is reached or action is taken by Congress, the labor organization may exercise "self-help," such as a strike, which could materially adversely affect our business, results of operations and financial condition.

None of the unions representing our employees presently may lawfully engage in concerted slowdowns or refusals to work, such as strikes, sick-outs or other similar activity, against us. Nonetheless, there is a risk that disgruntled employees, either with or without union involvement, could engage in one or more concerted refusals to work that could individually or collectively harm the operation of our airline and impair our financial performance.

Additionally, some of our unions have brought and may continue to bring grievances to binding arbitration, including those related to wages. If successful, there is a risk these judicial or arbitral avenues could result in material additional costs that we did not anticipate. See also Part I, Item 1. Business – "Employees and Labor Relations" in our 2018 Form 10-K.

As of December 31, 2018, approximately 84% of our employees were represented for collective bargaining purposes by labor unions. Currently, we believe our labor costs are competitive relative to the other large network carriers. However, we cannot provide assurance that labor costs going forward will remain competitive because we are in negotiations for some new agreements now and other agreements may become amendable, competitors may significantly reduce their labor costs or we may agree to higher-cost provisions unilaterally or in connection with our current or future labor negotiations.

Interruptions or disruptions in service at one of our key facilities could have a material adverse impact on our operations.

We operate principally through hubs in Charlotte, Chicago, Dallas/Fort Worth, Los Angeles, Miami, New York, Philadelphia, Phoenix and Washington, D.C. Substantially all of our flights either originate at or fly into one of these locations. A significant interruption or disruption in service at one of our hubs or other airports where we have a significant presence, such as LHR, resulting from air traffic control (ATC) delays, weather conditions, natural disasters, growth constraints, performance by third-party service providers (such as electric utility or telecommunications providers), failure of computer systems, disruptions at airport facilities or other key facilities used by us to manage our operations (such as occurred in the United Kingdom at LGW on December 20, 2018 and LHR on January 8, 2019 due to unauthorized drone activity), labor relations, power supplies, fuel supplies, terrorist activities, or otherwise could result in the cancellation or delay of a significant portion of our flights and, as a result, could have a severe impact on our business, results of operations and financial condition. We have limited control, particularly in the short term, over the operation, quality or maintenance of many of the services on which our operations depend and over whether vendors of such services will improve or continue to provide services that are essential to our business.

If we are unable to obtain and maintain adequate facilities and infrastructure throughout our system and, at some airports, adequate slots, we may be unable to operate our existing flight schedule and to expand or change our route network in the future, which may have a material adverse impact on our operations.

In order to operate our existing and proposed flight schedule and, where desirable, add service along new or existing routes, we must be able to maintain and/or obtain adequate gates, check-in counters, operations areas, operations control facilities and administrative support space. As airports around the world become more congested, it may not be possible for us to ensure that our plans for new service can be implemented in a commercially viable manner, given operating constraints at airports throughout our network, including those imposed by inadequate facilities at desirable airports.

In light of constraints on existing facilities, there is presently a significant amount of capital spending underway at major airports in the United States, including large projects underway at a number of airports where we have significant operations, such as Chicago O'Hare International Airport (ORD), Los Angeles International Airport (LAX), La Guardia Airport (LGA) and Ronald Reagan Washington National Airport (DCA). This spending is expected to result in increased costs to airlines and the traveling public that use those facilities as the airports seek to recover their investments through increased rental, landing and other facility costs. In some circumstances, such costs could be imposed by the relevant airport authority without our approval. Accordingly, our operating costs are expected to increase significantly at many airports at which we operate, including a number of our hubs and gateways, as a result of capital spending projects currently underway and additional projects that we expect to commence over the next several years.

In addition, operations at three major domestic airports, certain smaller domestic airports and many foreign airports served by us are regulated by governmental entities through the use of slots or similar regulatory mechanisms that limit the rights of carriers to conduct operations at those airports. Each slot represents the authorization to land at or take off from the particular airport during a specified time period and may have other operational restrictions as well. In the U.S., the DOT and the FAA currently regulate the allocation of slots or slot exemptions at DCA and two New York City airports: John F. Kennedy International Airport (JFK) and LGA. Our operations at these airports generally require the allocation of slots or similar regulatory authority. In addition to slot restrictions, operations at LGA and DCA are also limited based on a so-called “perimeter rule” which generally limits the stage length of the flights that can be operated from those airports to 1,500 and 1,250 miles, respectively. Similarly, our operations at LHR, international airports in Beijing, Frankfurt, Paris, Tokyo and other airports outside the U.S. are regulated by local slot authorities pursuant to the International Airline Trade Association (IATA) Worldwide Scheduling Guidelines and/or applicable local law. Termination of slot controls at some or all of the foregoing airports could affect our operational performance and competitive position. We currently have sufficient slots or analogous authorizations to operate our existing flights and we have generally, but not always, been able to obtain the rights to expand our operations and to change our schedules. However, there is no assurance that we will be able to obtain sufficient slots or analogous authorizations in the future or as to the cost of acquiring such rights because, among other reasons, such allocations are often sought after by other airlines and are subject to changes in governmental policies. We cannot provide any assurance that regulatory changes regarding the allocation of slots, the continued enforcement of a perimeter rule or similar regulatory authority will not have a material adverse impact on our operations.

Our ability to provide service can also be impaired at airports, such as ORD and LAX where the airport gate and other facilities are currently inadequate to accommodate all of the service that we would like to provide, or airports such as Dallas Love Field Airport where we have no access to gates at all.
Any limitation on our ability to acquire or maintain adequate gates, ticketing facilities, operations areas, operations control facilities, slots (where applicable), or office space could have a material adverse effect on our business, results of operations and financial condition.
If we encounter problems with any of our third-party regional operators or third-party service providers, our operations could be adversely affected by a resulting decline in revenue or negative public perception about our services.
A significant portion of our regional operations are conducted by third-party operators on our behalf, substantially all of which are provided for under capacity purchase agreements. Due to our reliance on third parties to provide these essential services, we are subject to the risk of disruptions to their operations, which may result from many of the same risk factors disclosed in this report, such as the impact of adverse economic conditions, the inability of third parties to hire or retain skilled personnel, including pilots and mechanics, and other risk factors, such as an out-of-court or bankruptcy restructuring of any of our regional operators. Many of these third-party regional operators provide significant regional capacity that we would be unable to replace in a short period of time should that operator fail to perform its obligations to us. Disruptions to capital markets, shortages of skilled personnel and adverse economic conditions in general have subjected certain of these third-party regional operators to significant financial pressures, which have in the past and may in the future lead to bankruptcies among these operators. We may also experience disruption to our regional operations if we terminate the capacity purchase agreement with one or more of our current operators and transition the services to another provider. Any significant disruption to our regional operations would have a material adverse effect on our business, results of operations and financial condition.
In addition, our reliance upon others to provide essential services on behalf of our operations may result in our relative inability to control the efficiency and timeliness of contract services. We have entered into agreements with contractors to provide various facilities and services required for our operations, including distribution and sale of airline seat inventory, reservations, provision of information technology and services, regional operations, aircraft maintenance, ground services and facilities and baggage handling. Similar agreements may be entered into in any new markets we decide to serve. These agreements are generally subject to termination after notice by the third-party service provider. We are also at risk should one of these service providers cease operations, and there is no guarantee that we could replace these providers on a timely basis with comparably priced providers, or at all. Any material problems with the efficiency and timeliness of contract services, resulting from financial hardships or otherwise, could have a material adverse effect on our business, results of operations and financial condition.
The commercial relationships that we have with airlines, including any related equity investment, may not produce the returns or results we expect.
An important part of our strategy to expand our network has been to expand our commercial relationships with other airlines, such as by entering into global alliance, joint business and codeshare relationships, and, in one recent instance involving China Southern Airlines, by making a significant equity investment in another airline in connection with initiating such a commercial relationship. We may explore similar non-controlling investments in, and joint ventures and strategic alliances with, other carriers as part of our global business strategy. We face competition in forming these commercial relationships since there are a limited number of potential arrangements and other airlines are looking to enter into similar relationships. Any such existing or future investment could involve significant challenges and risks, including that we may not realize a satisfactory return on our investment or that they may not generate the expected revenue synergies. These events could have a material adverse effect on our business, results of operations and financial condition.
We rely on third-party distribution channels and must manage effectively the costs, rights and functionality of these channels.
We rely on third-party distribution channels, including those provided by or through global distribution systems (GDSs) (e.g., Amadeus, Sabre and Travelport), conventional travel agents, travel management companies and online travel agents (OTAs) (e.g., Expedia, including its booking sites Orbitz and Travelocity, and The Priceline Group), to

distribute a significant portion of our airline tickets, and we expect in the future to continue to rely on these channels. We are also dependent upon the ability and willingness of these distribution channels to expand their ability to distribute and collect revenues for ancillary products (e.g., fees for selective seating). These distribution channels are more expensive and at present have less functionality in respect of ancillary product offerings than those we operate ourselves, such as our website at www.aa.com. Certain of these distribution channels also effectively restrict the manner in which we distribute our products generally. To remain competitive, we will need to manage successfully our distribution costs and rights, increase our distribution flexibility and improve the functionality of our distribution channels, while maintaining an industry-competitive cost structure. Further, as distribution technology changes we will need to continue to update our technology by acquiring new technology from third parties, building the functionality ourselves, or a combination, which in any event will likely entail significant technological and commercial risk and involve potentially material investments. These imperatives may affect our relationships with conventional travel agents, travel management companies, GDSs and OTAs, including if consolidation of conventional travel agents, travel management companies, GDSs or OTAs continues, or should any of these parties seek to acquire other technology providers thereby potentially limiting our technology alternatives, such as the proposed acquisition of Farelogix by Sabre. Any inability to manage our third-party distribution costs, rights and functionality at a competitive level or any material diminishment or disruption in the distribution of our tickets could have a material adverse effect on our business, results of operations and financial condition.

Our business is subject to extensive government regulation, which may result in increases in our costs, disruptions to our operations, limits on our operating flexibility, reductions in the demand for air travel, and competitive disadvantages.

Airlines are subject to extensive domestic and international regulatory requirements. In the last several years, Congress has passed laws, and the DOT, the FAA, the Transportation Security Administration (TSA) and the Department of Homeland Security have issued a number of directives and other regulations, that affect the airline industry. These requirements impose substantial costs on us and restrict the ways we may conduct our business.

For example, the FAA from time to time issues directives and other regulations relating to the maintenance and operation of aircraft that require significant expenditures or operational restrictions. These requirements can be issued with little or no notice, or can otherwise impact our ability to efficiently or fully utilize our aircraft, and in some instances have resulted in the temporary grounding of aircraft types altogether (including the March 2019 grounding of all Boeing 737 MAX aircraft, including the 24 aircraft in our fleet, which remains in place as of the date of this filing), or otherwise caused substantial disruption and resulted in material costs to us and lost revenues. The FAA also exercises comprehensive regulatory authority over nearly all technical aspects of our operations. Our failure to comply with such requirements has in the past and may in the future result in fines and other enforcement actions by the FAA or other regulators. In the future, any new regulatory requirements, particularly requirements that limit our ability to operate or price our products, could have a material adverse effect on us and the industry.

DOT consumer rules dictate procedures for customer handling during long onboard delays, further regulate airline interactions with passengers, including passengers with disabilities, through the ticketing process, at the airport, and onboard the aircraft, and require disclosures concerning airline fares and ancillary fees such as baggage fees. Other DOT rules apply to post-ticket purchase price increases and an expansion of tarmac delay regulations to international airlines.

The Aviation and Transportation Security Act mandates the federalization of certain airport security procedures and imposes additional security requirements on airports and airlines, most of which are funded by a per-ticket tax on passengers and a tax on airlines. Present and potential future security requirements can have the effect of imposing costs and inconvenience on travelers, potentially reducing the demand for air travel.

The results of our operations, demand for air travel, and the manner in which we conduct business each may be affected by changes in law and future actions taken by governmental agencies, including:

- changes in law that affect the services that can be offered by airlines in particular markets and at particular airports, or the types of fares offered or fees that can be charged to passengers;
- the granting and timing of certain governmental approvals (including antitrust or foreign government approvals) needed for codesharing alliances, joint businesses and other arrangements with other airlines;
- restrictions on competitive practices (for example, court orders, or agency regulations or orders, that would curtail an airline's ability to respond to a competitor);
- the adoption of new passenger security standards or regulations that impact customer service standards;
- restrictions on airport operations, such as restrictions on the use of slots at airports or the auction or reallocation of slot rights currently held by us; and

- the adoption of more restrictive locally-imposed noise restrictions.

Each additional regulation or other form of regulatory oversight increases costs and adds greater complexity to airline operations and, in some cases, may reduce the demand for air travel. There can be no assurance that our compliance with new rules, anticipated rules or other forms of regulatory oversight will not have a material adverse effect on us.
Any significant reduction in air traffic capacity at and in the airspace serving key airports in the U.S. or overseas could have a material adverse effect on our business, results of operations and financial condition. In addition, the United States National Airspace System (the ATC system) is not successfully modernizing to meet the growing demand for U.S. air travel. Air traffic controllers rely on outdated procedures and technologies that routinely compel airlines to fly inefficient routes or take significant delays on the ground. The ATC system's inability to manage existing travel demand has led government agencies to implement short-term capacity constraints during peak travel periods or adverse weather conditions in certain markets, resulting in delays and disruptions of air traffic. The outdated technologies also cause the ATC system to be less resilient in the event of a failure. For example, an automation failure and an evacuation, in 2015 and 2017, respectively, at the Washington Air Route Control Center resulted in cancellations and delays of hundreds of flights traversing the greater Washington, D.C. airspace.
In the early 2000s, the FAA embarked on a path to modernize the national airspace system, including migration from the current radar-based ATC system to a GPS-based system. This modernization of the ATC system, generally referred to as "NextGen," has been plagued by delays and cost overruns, and it remains uncertain when the full array of benefits expected from this modernization will be available to the public and the airlines. Failure to update the ATC system in a timely manner and the substantial costs that may be imposed on airlines in order to fund a modernized ATC system may have a material adverse effect on our business.
Further, our business has been adversely impacted when government agencies have ceased to operate as expected including due to partial shut-downs, sequestrations or similar events. These events have resulted in, among other things, reduced demand for air travel, an actual or perceived reduction in ATC and security screening resources and related travel delays, as well as disruption in the ability of the FAA to grant required regulatory approvals, such as are involved when a new aircraft is first placed into service.
Our operating authority in international markets is subject to aviation agreements between the U.S. and the respective countries or governmental authorities, such as the EU, and in some cases, fares and schedules require the approval of the DOT and/or the relevant foreign governments. Moreover, alliances with international carriers may be subject to the jurisdiction and regulations of various foreign agencies. The U.S. government has negotiated "open skies" agreements with many countries, which allow unrestricted route authority access between the U.S. and the foreign markets. While the U.S. has worked to increase the number of countries with which open skies agreements are in effect, a number of markets important to us, including China, do not have open skies agreements. For example, the open skies air services agreement between the U.S. and the EU, which took effect in March 2008, provides airlines from the U.S. and EU member states open access to each other's markets, with freedom of pricing and unlimited rights to fly from the U.S. to any airport in the EU, including LHR. As a result of the agreement and a subsequent open skies agreement involving the U.S. and the United Kingdom, which was agreed in anticipation of Brexit, we face increased competition in these markets, including LHR. Bilateral and multilateral agreements among the U.S. and various foreign governments of countries we serve but which are not covered by an open skies treaty are subject to periodic renegotiation. We currently operate a number of international routes under government arrangements that limit the number of airlines permitted to operate on the route, the capacity of the airlines providing services on the route, or the number of airlines allowed access to particular airports. If an open skies policy were to be adopted for any of these markets, it could have a material adverse impact on us and could result in the impairment of material amounts of our related tangible and intangible assets. In addition, competition from foreign airlines, revenue-sharing joint ventures, JBAs, and other alliance arrangements by and among other airlines could impair the value of our business and assets on the open skies routes.
The pending withdrawal of the United Kingdom from the EU, commonly referred to as Brexit, is currently scheduled to occur on November 1, 2019 but could take place before or after that date dependent on the outcome of ongoing negotiations between the United Kingdom's government and Members of the United Kingdom Parliament as well as with the EU. Brexit will mandate further modification in the current regulatory regime. We face risks associated with the United Kingdom's exit from the EU, notably given the extent of our passenger and cargo traffic and that of our

joint business partners that flows through LHR in the United Kingdom. Absent an approved withdrawal agreement between the United Kingdom and the EU (resulting in the so-called “No Deal Brexit” scenario), our expectation is that air services (including those involving our joint business and code share partners) will continue substantially as we currently conduct them, at least for a transition period, in reliance on “basic connectivity” traffic rights adopted by the EU and the United Kingdom's agreement to grant reciprocal rights to EU airlines as well as a new air services agreement between the U.S. and United Kingdom concluded on November 29, 2018. However, the precise scope of traffic rights between the EU and the United Kingdom remains uncertain and therefore the continuation of our current services is not assured and could be subject to disruption. If Brexit is accomplished pursuant to a withdrawal agreement consistent with the agreement presently being discussed between the United Kingdom and the EU, but which has yet to be approved by the United Kingdom, our current air services would continue as we currently conduct them during a transition period running through the end of 2020, with a potential extension of up to two years. During that transition period, the United Kingdom and the EU would seek to implement a new air services agreement. We cannot predict the terms of any such successor air services agreement or whether changes in the relationship between the United Kingdom and the EU, including whether or not the United Kingdom withdraws from the EU with or without an agreement, could materially adversely affect our business, results of operations and financial condition. More generally, changes in U.S. or foreign government aviation policies could result in the alteration or termination of such agreements, diminish the value of route authorities, slots or other assets located abroad, or otherwise adversely affect our international operations.

The airline industry is heavily taxed.

The airline industry is subject to extensive government fees and taxation that negatively impact our revenue and profitability. The U.S. airline industry is one of the most heavily taxed of all industries. These fees and taxes have grown significantly in the past decade for domestic flights, and various U.S. fees and taxes also are assessed on international flights. For example, as permitted by federal legislation, most major U.S. airports impose a per-passenger facility charge on us. In addition, the governments of foreign countries in which we operate impose on U.S. airlines, including us, various fees and taxes, and these assessments have been increasing in number and amount in recent years. Moreover, we are obligated to collect a federal excise tax, commonly referred to as the “ticket tax,” on domestic and international air transportation. We collect the excise tax, along with certain other U.S. and foreign taxes and user fees on air transportation (such as passenger security fees), and pass along the collected amounts to the appropriate governmental agencies. Although these taxes and fees are not our operating expenses, they represent an additional cost to our customers. There are continuing efforts in Congress and in other countries to raise different portions of the various taxes, fees, and charges imposed on airlines and their passengers, including the passenger facility charge, and we may not be able to recover all of these charges from our customers. Increases in such taxes, fees and charges could negatively impact our business, results of operations and financial condition.

Under DOT regulations, all governmental taxes and fees must be included in the prices we quote or advertise to our customers. Due to the competitive revenue environment, many increases in these fees and taxes have been absorbed by the airline industry rather than being passed on to the customer. Further increases in fees and taxes may reduce demand for air travel, and thus our revenues.

Recent U.S. tax legislation may adversely affect our financial condition, results of operations and cash flows.

Recently enacted U.S. tax legislation has significantly changed the U.S. federal income taxation of U.S. corporations, including by reducing the U.S. corporate income tax rate, limiting interest deductions, permitting immediate expensing of certain capital expenditures, adopting elements of a territorial tax system, revising the rules governing net operating losses (NOLs) and the rules governing foreign tax credits and introducing new anti-base erosion provisions. Many of these changes became effective immediately, without any transition periods or grandfathering for existing transactions. The legislation is unclear in many respects and could be subject to potential amendments and technical corrections, as well as interpretations and implementation regulations by the Treasury and Internal Revenue Service, any of which could materially affect the impacts of the legislation. In addition, it is unclear how these U.S. federal income tax changes will affect state and local taxation, which often uses federal taxable income as a starting point for computing state and local tax liabilities. While some of the changes made by the tax legislation may adversely affect us in one or more reporting periods and prospectively, other changes may be beneficial on a going forward basis.

See Note 7 to AAG’s Condensed Consolidated Financial Statements in Part I, Item 1A and Note 5 to American’s Condensed Consolidated Financial Statements in Part I, Item 1B for additional information on income taxes.

Changes to our business model that are designed to increase revenues may not be successful and may cause operational difficulties or decreased demand.

We have recently instituted, and intend to institute in the future, changes to our business model designed to increase revenues and offset costs. These measures include further segmentation of the classes of services we offer, such as Premium Economy service and Basic Economy service, enhancements to our AAdvantage loyalty program, charging separately for services that had previously been included within the price of a ticket, increasing other pre-existing fees, reconfiguration of our aircraft cabins, and efforts to optimize our network including by focusing growth on a limited number of large hubs. We may introduce additional initiatives in the future; however, as time goes on, we expect that it will be more difficult to identify and implement additional initiatives. We cannot assure that these measures or any future initiatives will be successful in increasing our revenues. Additionally, the implementation of these initiatives may create logistical challenges that could harm the operational performance of our airline or result in decreased demand. Also, our implementation of any new or increased fees might reduce the demand for air travel on our airline or across the industry in general, particularly if weakened economic conditions make our customers more sensitive to increased travel costs or provide a significant competitive advantage to other carriers that determine not to institute similar charges.

The loss of key personnel upon whom we depend to operate our business or the inability to attract additional qualified personnel could adversely affect our business.

We believe that our future success will depend in large part on our ability to retain or attract highly qualified management, technical and other personnel. We may not be successful in retaining key personnel or in attracting other highly qualified personnel. Any inability to retain or attract significant numbers of qualified management and other personnel would have a material adverse effect on our business, results of operations and financial condition.

We may be adversely affected by conflicts overseas or terrorist attacks; the travel industry continues to face ongoing security concerns.

Acts of terrorism or fear of such attacks, including elevated national threat warnings, wars or other military conflicts, may depress air travel, particularly on international routes, and cause declines in revenues and increases in costs. The attacks of September 11, 2001 and continuing terrorist threats, attacks and attempted attacks materially impacted and continue to impact air travel. Increased security procedures introduced at airports since the attacks of September 11, 2001 and any other such measures that may be introduced in the future generate higher operating costs for airlines. The Aviation and Transportation Security Act mandated improved flight deck security, deployment of federal air marshals on board flights, improved airport perimeter access security, airline crew security training, enhanced security screening of passengers, baggage, cargo, mail, employees and vendors, enhanced training and qualifications of security screening personnel, additional provision of passenger data to the U.S. Customs and Border Protection Agency and enhanced background checks. A concurrent increase in airport security charges and procedures, such as restrictions on carry-on baggage, has also had and may continue to have a disproportionate impact on short-haul travel, which constitutes a significant portion of our flying and revenue. Implementation of and compliance with increasingly-complex security and customs requirements will continue to result in increased costs for us and our passengers, and have caused and likely will continue to cause periodic service disruptions and delays. We have at times found it necessary or desirable to make significant expenditures to comply with security-related requirements while seeking to reduce their impact on our customers, such as expenditures for automated security screening lines at airports. As a result of competitive pressure, and the need to improve security screening throughput to support the pace of our operations, it is unlikely that we will be able to capture all security-related costs through increased fares. In addition, we cannot forecast what new security requirements may be imposed in the future, or their impact on our business.

We operate a global business with international operations that are subject to economic and political instability and have been, and in the future may continue to be, adversely affected by numerous events, circumstances or government actions beyond our control.

We operate a global business with significant operations outside of the U.S. Our current international activities and prospects have been and in the future could be adversely affected by government policies, reversals or delays in the opening of foreign markets, increased competition in international markets, the performance of our alliance, joint business and codeshare partners in a given market, exchange controls or other restrictions on repatriation of funds, currency and political risks (including changes in exchange rates and currency devaluations), environmental regulation, increases in taxes and fees and changes in international government regulation of our operations, including the inability to obtain or retain needed route authorities and/or slots. Fluctuations in foreign currencies, including devaluations, exchange controls and other restrictions on the repatriation of funds, have significantly affected and may continue to significantly affect our operating performance, liquidity and the value of any cash held outside the U.S. in local currency.

Such fluctuations in foreign currencies, including devaluations, cannot be predicted by us and can significantly affect the value of our assets located outside the United States. These conditions, as well as any further delays, devaluations or imposition of more stringent repatriation restrictions, may materially adversely affect our business, results of operations and financial condition.

More generally, much of the demand for international air travel is the result of business travel in support of global trade. Should protectionist governmental policies, such as increased tariff barriers, travel limitation and other actions, have the effect of reducing global commercial activity, the result could be a material decrease in the demand for international air travel.

The United Kingdom held a referendum in June 2016 regarding its membership in the EU in which a majority of the United Kingdom electorate voted in favor of the British government taking the necessary action for the United Kingdom to leave the EU, an event commonly referred to as Brexit. In March 2017, the United Kingdom served notice of its decision to withdraw from the EU, formally initiating the withdrawal process. Serving this notice began the two-year period for the United Kingdom to negotiate the terms for its withdrawal from the EU, which was originally scheduled to occur on March 29, 2019. The United Kingdom's exit from the EU is now scheduled to occur on November 1, 2019, but could take place before or after that date dependent on the outcome of ongoing negotiations between the United Kingdom's government and Members of the United Kingdom's Parliament as well as with the EU. We face risks associated with the uncertainty following the referendum and the consequences that may flow from the decision to exit the EU, notably given the extent of our passenger and cargo traffic and that of our joint business partners that flows through LHR in the United Kingdom. Absent an approved withdrawal agreement between the United Kingdom and the EU (resulting in the so-called “No Deal Brexit” scenario), our expectation is that air services (including those involving our joint business and code share partners) will continue substantially as we currently conduct them, at least for a transition period, in reliance on “basic connectivity” traffic rights adopted by the EU and the United Kingdom's agreement to grant reciprocal rights to EU airlines as well as the new air services agreements between the U.S. and United Kingdom concluded on November 29, 2018. However, the precise scope of traffic rights between the EU and the United Kingdom remains uncertain and therefore the continuation is not assured and could be subject to disruption. If Brexit is accomplished pursuant to a withdrawal agreement consistent with the agreement presently being discussed between the United Kingdom and the EU, but which has yet to be approved by the United Kingdom, our current air services would continue as we currently conduct them during a transition period running through the end of 2020, with a potential extension of up to two years. During that transition period, the United Kingdom and the EU would seek to implement a new air services agreement. We cannot predict the terms of any such successor air services agreement or whether changes in the relationship between the United Kingdom and the EU, including whether or not the United Kingdom withdraws from the EU with or without an agreement, could materially adversely affect our business, results of operations and financial condition.

Moreover, the exit of the United Kingdom from the EU could adversely affect European or worldwide economic or market conditions and could contribute to further instability in global financial markets. In addition, the exit of the United Kingdom from the EU has created uncertainty as to the future trade relationship between the EU and the United Kingdom, including air traffic services. LHR is presently a very important element of our international network, however it may become less desirable as a destination or as a hub location after Brexit when compared to other airports in Europe. The exit of the United Kingdom from the EU could also lead to legal and regulatory uncertainty such as the identity of the relevant regulators, new regulatory action and/or potentially divergent treaties, laws and regulations as the United Kingdom determines which EU treaties, laws and regulations to replace or replicate, including those governing aviation, labor, environmental, data protection/privacy, competition and other matters applicable to the provision of air transportation services by us or our alliance, joint business or codeshare partners. For example, in light of Brexit and the related possibility that the EC would no longer have regulatory responsibility for the United Kingdom when existing regulatory commitments are scheduled to expire in 2020, the United Kingdom CMA in October 2018 opened an investigation into our transatlantic JBA. We are cooperating fully with the CMA. The impact on our business of any treaties, laws and regulations that replace the existing EU counterparts, or other governmental or regulatory actions taken by the United Kingdom or the EU in connection with or subsequent to Brexit, cannot be predicted, including whether or not regulators will continue to approve or impose material conditions on our business activities. Any of these effects, and others we cannot anticipate, could materially adversely affect our business, results of operations and financial condition.

We are subject to many forms of environmental and noise regulation and may incur substantial costs as a result.

We are subject to increasingly stringent federal, state, local and foreign laws, regulations and ordinances relating to the protection of the environment and noise reduction, including those relating to emissions to the air, discharges to surface and subsurface waters, safe drinking water, and the management of hazardous substances, oils and waste materials. Compliance with environmental laws and regulations can require significant expenditures, and violations can lead to significant fines and penalties.

We are also subject to other environmental laws and regulations, including those that require us to investigate and remediate soil or groundwater to meet certain remediation standards. Under federal law, generators of waste materials, and current and former owners or operators of facilities, can be subject to liability for investigation and remediation costs at locations that have been identified as requiring response actions. Liability under these laws may be strict, joint and several, meaning that we could be liable for the costs of cleaning up environmental contamination regardless of fault or the amount of waste directly attributable to us. We have liability for investigation and remediation costs at various sites, although such costs currently are not expected to have a material adverse effect on our business.

We have various leases and agreements with respect to real property, tanks and pipelines with airports and other operators. Under these leases and agreements, we have agreed to indemnify the lessor or operator against environmental liabilities associated with the real property or operations described under the agreement, in some cases even if we are not the party responsible for the initial event that caused the environmental damage. We also participate in leases with other airlines in fuel consortiums and fuel committees at airports, where such indemnities are generally joint and several among the participating airlines.

Governmental authorities in several U.S. and foreign cities are also considering, or have already implemented, aircraft noise reduction programs, including the imposition of nighttime curfews and limitations on daytime take offs and landings. We have been able to accommodate local noise restrictions imposed to date, but our operations could be adversely affected if locally-imposed regulations become more restrictive or widespread.

Our intellectual property rights, particularly our branding rights, are valuable, and any inability to protect them may adversely affect our business and financial results.

We consider our intellectual property rights, particularly our branding rights such as our trademarks applicable to our airline and AAdvantage loyalty program, to be a significant and valuable aspect of our business. We protect our intellectual property rights through a combination of trademark, copyright and other forms of legal protection, contractual agreements and policing of third-party misuses of our intellectual property. Our failure to obtain or adequately protect our intellectual property or any change in law that lessens or removes the current legal protections of our intellectual property may diminish our competitiveness and adversely affect our business and financial results. Any litigation or disputes regarding intellectual property may be costly and time-consuming and may divert the attention of our management and key personnel from our business operations, either of which may adversely affect our business and financial results.

We are subject to risks associated with climate change, including increased regulation to reduce emissions of greenhouse gases.

There is increasing global regulatory focus on climate change and greenhouse gas (GHG) emissions. Efforts by the EU in 2009 to regulate flights arriving from or departing for airports outside of the EU have been postponed as members of the International Civil Aviation Organization (ICAO) implement a global agreement on GHG emissions from the aviation sector. In 2016, ICAO passed a resolution adopting the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), which is a global, market-based emissions offset program intended to achieve carbon-neutral growth beyond 2020. CORSIA was supported by the board of Airlines for America (the principal U.S. airline trade association) and IATA (the principal international airline trade association), along with American and many other U.S. and foreign airlines. On June 27, 2018, ICAO adopted standards pertaining to the collection and sharing of information on international aviation emissions beginning in 2019. In furtherance of these standards, on March 6, 2019, the FAA issued a notice of a CORSIA program permitting U.S. carriers to submit emissions data on a voluntary basis. The emissions monitoring plans American and its wholly-owned regional carriers submitted to the FAA have been approved by the FAA and the airlines have begun monitoring their GHG emissions. After data collection, CORSIA is expected to be implemented in phases, with a pilot phase beginning in 2021, the first phase beginning in 2024, and the mandatory second phase beginning in 2027. Certain details still need to be developed, but in early 2019, ICAO reached agreement on general criteria governing the eligibility of emissions units that may be used to comply with CORSIA. At this time, the impact of CORSIA cannot be fully predicted. CORSIA will increase operating costs for American and most other airlines, including other U.S. airlines that operate internationally, but the implementation of a global program, as compared to regional emission reduction schemes, should ensure that these costs will be more evenly applied to American and its competitors since there will be a common global regulatory regime. While we do not anticipate any significant expenditures in 2019, compliance with CORSIA or similar emissions-related requirements could significantly increase our operating costs beginning in 2021 and beyond when CORSIA's pilot phase begins. Additionally, in 2017, ICAO adopted new aircraft certification standards to reduce carbon dioxide emissions from aircraft, which will apply to new aircraft type designs in 2020, and to aircraft type designs already in production as of 2023.

Separately, the EU has established the Emissions Trading System (ETS) to regulate GHG emissions in the EU. The EU adopted a directive in 2008 under which each EU member state is required to extend the ETS to aviation operations. However, the EU ETS has never fully been imposed, in large part due to the effort to adopt CORSIA. The EU has extended its stay on the extra-territorial application of the EU ETS as applied to international flights to/from the EEA through year-end 2023, contingent on successful implementation of CORSIA. Thereafter, the EU will assess CORSIA implementation and decide the future status of the EU ETS as applied to international aviation to/from the EEA. The potential impact of CORSIA or other emissions-related requirements on our costs will ultimately depend on a number of factors, including baseline emissions, the price of emission allowances or offsets that American would need to acquire, the GHG efficiency of the American fleet, and the number of future American flights subject to such emissions-related requirements. These costs have not been completely defined and could fluctuate.

In 2019, the Environmental Protection Agency (EPA) could finalize a rule implementing aircraft engine GHG emission standards developed initially through ICAO. It is anticipated that the EPA rule will closely align with recent ICAO carbon dioxide emission standards. The new standards, which were supported by the airline industry and manufacturers, would apply to new type aircraft certified beginning in 2020, and would be phased in for newly manufactured existing aircraft type designs starting in 2023.

Additionally, several states have adopted or are considering initiatives to regulate GHG emissions, primarily through the planned development of GHG emissions inventories, regional GHG cap and trade programs or low carbon fuels programs. Depending on the scope of such regulation, certain of our facilities and operations, or the operations of our suppliers, may be subject to additional operating and other permit requirements, likely resulting in increased operating costs.

In addition, in December 2015, at the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change, over 190 countries, including the United States, reached an agreement (the Paris Agreement) to reduce GHG emissions. While the United States has since announced that it will withdraw from the Paris Agreement and there is no express reference to aviation in the Paris Agreement, to the extent countries implement the Paris Agreement or impose other climate change regulations, either with respect to the aviation industry or with respect to related industries such as the aviation fuel industry, it could have an adverse direct or indirect effect on our business. These regulatory efforts, both internationally and in the U.S. at the federal and state levels, are still developing, and we cannot yet determine what the final regulatory programs or their impact will be in the U.S., the EU or in other areas in which we do business. However, such climate change-related regulatory activity in the future may adversely affect our business and financial results by requiring us to reduce our emissions, purchase allowances/offsets or otherwise pay for our emissions. Such activity may also impact us indirectly by increasing our operating costs, including fuel costs.

Any damage to our reputation or brand image could adversely affect our business or financial results.

Maintaining a good reputation globally is critical to our business. Our reputation or brand image could be adversely impacted by any failure to maintain high ethical, social and environmental sustainability practices for all of our operations and activities, our impact on the environment, public pressure from investors or policy groups to change our policies, such as movements to institute a “living wage,” customer perceptions of our advertising campaigns, sponsorship arrangements or marketing programs, customer perceptions of our use of social media, or customer perceptions of statements made by us, our employees and executives, agents or other third parties. Damage to our reputation or brand image or loss of customer confidence in our services could adversely affect our business and financial results, as well as require additional resources to rebuild our reputation.

We face challenges in integrating our computer, communications and other technology systems.

Among the principal risks of integrating our businesses and operations are the risks relating to integrating various computer, communications and other technology systems that are necessary to operate US Airways and American as a single integrated business and to achieve cost synergies by eliminating redundancies. While we have to date successfully integrated many of our systems, including our customer reservations system and our pilot, flight attendant and fleet scheduling system, we still have to complete several additional important system integration or replacement projects. In a number of prior airline mergers, the integration of these systems or deployment of replacement systems has taken longer, been more disruptive and cost more than originally forecasted. The implementation process to integrate or replace these various systems will involve a number of risks that could adversely impact our business, results of operations and financial condition. New systems will replace multiple legacy systems and the related implementation will be a complex and time-consuming project involving substantial expenditures for implementation consultants, system hardware, software and implementation activities, as well as the transformation of business and financial processes.

We cannot assure that our security measures, change control procedures or disaster recovery plans will be adequate to prevent disruptions or delays in connection with systems integration or replacement. Disruptions in or changes to these systems could result in a disruption to our business and the loss of important data. Any of the foregoing could result in a material adverse effect on our business, results of operations and financial condition.

We rely heavily on technology and automated systems to operate our business, and any failure of these technologies or systems could harm our business, results of operations and financial condition.

We are highly dependent on existing and emerging technology and automated systems to operate our business. These technologies and systems include our computerized airline reservation system, flight operations systems, financial planning, management and accounting systems, telecommunications systems, website, maintenance systems and check-in kiosks. In order for our operations to work efficiently, our website and reservation system must be able to accommodate a high volume of traffic, maintain secure information and deliver flight information, as well as issue electronic tickets and process critical financial information in a timely manner. Substantially all of our tickets are issued to passengers as electronic tickets. We depend on our reservation system, which is hosted and maintained under a long-term contract by a third-party service provider, to be able to issue, track and accept these electronic tickets. If our technologies or automated systems are not functioning or if our third-party service providers were to fail to adequately provide technical support, system maintenance or timely software upgrades for any one of our key existing systems, we could experience service disruptions or delays, which could harm our business and result in the loss of important data, increase our expenses and decrease our revenues. In the event that one or more of our primary technology or systems vendors goes into bankruptcy, ceases operations or fails to perform as promised, replacement services may not be readily available on a timely basis, at competitive rates or at all, and any transition time to a new system may be significant.

Our technologies and automated systems cannot be completely protected against events that are beyond our control, including natural disasters, power failures, terrorist attacks, cyber-attacks, data theft, equipment and software failures, computer viruses or telecommunications failures. Substantial or sustained system failures could cause service delays or failures and result in our customers purchasing tickets from other airlines. We cannot assure that our security measures, change control procedures or disaster recovery plans are adequate to prevent disruptions or delays. Disruption in or changes to these technologies or systems could result in a disruption to our business and the loss of important data. Any of the foregoing could result in a material adverse effect on our business, results of operations and financial condition.

We are at risk of losses and adverse publicity stemming from any public incident involving our company, our people or our brand, including any accident or other public incident involving our personnel or aircraft, or the personnel or aircraft of our regional, codeshare or joint business operators.

In a modern world where news can be captured and travel rapidly, we are at risk of adverse publicity stemming from any public incident involving our company, our people or our brand. Such an incident could involve the actual or alleged behavior of any of our more than 125,000 employees. Further, if our personnel or one of our aircraft, or personnel of, or an aircraft that is operated under our brand by, one of our regional operators or an airline with which we have a marketing alliance, joint business or codeshare relationship, were to be involved in a public incident, accident or catastrophe, we could be exposed to significant reputational harm and potential legal liability. The insurance we carry may be inapplicable or inadequate to cover any such incident, accident or catastrophe. In the event that our insurance is inapplicable or not adequate, we may be forced to bear substantial losses from an incident or accident. In addition, any such incident, accident or catastrophe involving our personnel or one of our aircraft (or personnel and aircraft of our regional operators and our codeshare partners) could create an adverse public perception, which could harm our reputation, result in air travelers being reluctant to fly on our aircraft or those of our regional operators or codeshare partners, and adversely impact our business, results of operations and financial condition.

Delays in scheduled aircraft deliveries or other loss of anticipated fleet capacity, and failure of new aircraft to perform as expected, may adversely impact our business, results of operations and financial condition.

The success of our business depends on, among other things, effectively managing the number and types of aircraft we operate. If for any reason we are unable to accept or secure deliveries of new aircraft on contractually scheduled delivery dates, this could have a negative impact on our business, results of operations and financial condition. Our failure to integrate newly purchased aircraft into our fleet as planned might require us to seek extensions of the terms for some leased aircraft or otherwise delay the exit of certain aircraft from our fleet. Such unanticipated extensions or delays may require us to operate existing aircraft beyond the point at which it is economically optimal to retire them, resulting in increased maintenance costs. If new aircraft orders are not filled on a timely basis, we could face higher operating costs than planned. In addition, if the aircraft we receive do not meet expected performance or quality standards, including with respect to fuel efficiency and reliability, our business, results of operations and financial condition could be adversely impacted.

We depend on a limited number of suppliers for aircraft, aircraft engines and parts.

We depend on a limited number of suppliers for aircraft, aircraft engines and many aircraft and engine parts. For example, under our current fleet plan, by 2020 all of our mainline aircraft will have been manufactured by either Airbus or Boeing and all of our regional aircraft will have been manufactured by either Bombardier or Embraer. Further, our supplier base continues to consolidate as evidenced by the recent acquisition of Rockwell Collins by United Technologies, the recently completed transaction involving Airbus and Bombardier and the pending transaction involving Boeing and Embraer. Due to the limited number of these suppliers, we are vulnerable to any problems associated with the performance of their obligation to supply key aircraft, parts and engines, including design defects, mechanical problems, contractual performance by suppliers, adverse perception by the public that would result in customer avoidance of any of our aircraft or any action by the FAA or any other regulatory authority resulting in an inability to operate our aircraft, even temporarily.

Our business has been and will continue to be affected by many changing economic and other conditions beyond our control, including global events that affect travel behavior, and our results of operations could be volatile and fluctuate due to seasonality.

Our business, results of operations and financial condition have been and will continue to be affected by many changing economic and other conditions beyond our control, including, among others:

- actual or potential changes in international, national, regional and local economic, business and financial conditions, including recession, inflation, higher interest rates, wars, terrorist attacks and political instability;
- changes in consumer preferences, perceptions, spending patterns and demographic trends;
- changes in the competitive environment due to industry consolidation, changes in airline alliance affiliations, and other factors;
- actual or potential disruptions to the ATC systems;
- increases in costs of safety, security, and environmental measures;
- outbreaks of diseases that affect travel behavior; and
- weather and natural disasters, including increases in such disasters and related costs caused by more severe weather due to climate change.

In particular, an outbreak of a contagious disease such as the Ebola virus, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, H1N1 influenza virus, avian flu, Zika virus or any other similar illness, if it were to become associated with air travel or persist for an extended period, could materially affect the airline industry and us by reducing revenues and adversely impacting our operations and passengers' travel behavior. As a result of these or other conditions beyond our control, our results of operations could be volatile and subject to rapid and unexpected change. In addition, due to generally weaker demand for air travel during the winter, our revenues in the first and fourth quarters of the year could be weaker than revenues in the second and third quarters of the year.

A higher than normal number of pilot retirements, more stringent duty time regulations, increased flight hour requirement for commercial airline pilots, reductions in the number of military pilots entering the commercial workforce and other factors have caused a shortage of pilots that could materially adversely affect our business.

We currently have a higher than normal number of pilots eligible for retirement. Large numbers of pilots in the industry are approaching the FAA's mandatory retirement age of 65. Our pilots and other employees are subject to rigorous certification standards, and our pilots and other crew members must adhere to flight time and rest requirements. Commencing in 2013, the minimum flight hour requirement to achieve a commercial pilot's license in the United States (an Air Transport Pilot's certificate) increased from 250 to 1,500 hours, thereby significantly increasing the time and cost commitment required to become licensed to fly commercial aircraft. Additionally, the number of military pilots being trained by the U.S. armed forces and available as commercial pilots upon their retirement from military service has been decreasing. These and other factors have contributed to a shortage of qualified, entry-level pilots and increased compensation costs, particularly for our regional subsidiaries and our other regional partners who are being required by market conditions to pay significantly increased wages and large signing bonuses to their pilots in an attempt to achieve desired staffing levels. The foregoing factors have also led to increased competition from large, mainline carriers attempting to meet their hiring needs. We believe that this industry-wide pilot shortage is becoming an increasing problem for airlines in the United States. Our regional partners have recently been unable to hire adequate numbers of pilots to meet their needs, resulting in a reduction in the number of flights offered, disruptions, increased costs of operations, financial difficulties and other adverse effects, and these circumstances may become more severe in the future and thereby cause a material adverse effect on our business.

Increases in insurance costs or reductions in insurance coverage may adversely impact our operations and financial results.

The terrorist attacks of September 11, 2001 led to a significant increase in insurance premiums and a decrease in the insurance coverage available to commercial air carriers. Accordingly, our insurance costs increased significantly, and our ability to continue to obtain insurance even at current prices remains uncertain. If we are unable to maintain adequate insurance coverage, our business could be materially and adversely affected. Additionally, severe disruptions in the domestic and global financial markets could adversely impact the claims paying ability of some insurers. Future downgrades in the ratings of enough insurers could adversely impact both the availability of appropriate insurance coverage and its cost. Because of competitive pressures in our industry, our ability to pass along additional insurance costs to passengers is limited. As a result, further increases in insurance costs or reductions in available insurance coverage could have an adverse impact on our financial results.

We may be a party to litigation in the normal course of business or otherwise, which could affect our financial position and liquidity.

From time to time, we are a party to or otherwise involved in legal proceedings, claims and government inspections or investigations and other legal matters, both inside and outside the United States, arising in the ordinary course of our business or otherwise. We are currently involved in various legal proceedings and claims that have not yet been fully resolved, and additional claims may arise in the future. Legal proceedings can be complex and take many months, or even years, to reach resolution, with the final outcome depending on a number of variables, some of which are not within our control. Litigation is subject to significant uncertainty and may be expensive, time-consuming, and disruptive to our operations. Although we will vigorously defend ourselves in such legal proceedings, their ultimate resolution and potential financial and other impacts on us are uncertain. For these and other reasons, we may choose to settle legal proceedings and claims, regardless of their actual merit. If a legal proceeding is resolved against us, it could result in significant compensatory damages, and in certain circumstances punitive or trebled damages, disgorgement of revenue or profits, remedial corporate measures or injunctive relief imposed on us. If our existing insurance does not cover the amount or types of damages awarded, or if other resolution or actions taken as a result of the legal proceeding were to restrain our ability to operate or market our services, our consolidated financial position, results of operations or cash flows could be materially adversely affected. In addition, legal proceedings, and any adverse resolution thereof, can result in adverse publicity and damage to our reputation, which could adversely impact our business. Additional information regarding certain legal matters in which we are involved can be found in Part II, Item 1. Legal Proceedings.

Our ability to utilize our NOL Carryforwards may be limited.
Under the Internal Revenue Code of 1986, as amended (the Code), a corporation is generally allowed a deduction for NOLs carried over from prior taxable years (NOL Carryforwards). As of December 31, 2018, we had available NOL Carryforwards of approximately $10.2 billion for regular federal income tax purposes that will expire, if unused, beginning in 2022, and approximately $3.2 billion for state income tax purposes that will expire, if unused, between 2019 and 2038. Our NOL Carryforwards are subject to adjustment on audit by the Internal Revenue Service and the respective state taxing authorities.
A corporation's ability to deduct its federal NOL Carryforwards and to utilize certain other available tax attributes can be substantially constrained under the general annual limitation rules of Section 382 of the Code (Section 382) if it undergoes an "ownership change" as defined in Section 382 (generally where cumulative stock ownership changes among material stockholders exceed 50 percent during a rolling three-year period). We experienced an ownership change in connection with our emergence from the Chapter 11 Cases and US Airways Group experienced an ownership change in connection with the Merger. The general limitation rules for a debtor in a bankruptcy case are liberalized where the ownership change occurs upon emergence from bankruptcy. We elected to be covered by certain special rules for federal income tax purposes that permitted approximately $9.0 billion (with $8.4 billion of unlimited NOL still remaining at December 31, 2018) of our federal NOL Carryforwards to be utilized without regard to the annual limitation generally imposed by Section 382. If the special rules are determined not to apply, our ability to utilize such federal NOL Carryforwards may be subject to limitation. Substantially all of our remaining federal NOL Carryforwards attributable to US Airways Group and its subsidiaries are subject to limitation under Section 382 as a result of the Merger; however, our ability to utilize such NOL Carryforwards is not anticipated to be effectively constrained as a result of such limitation. Similar limitations may apply for state income tax purposes.
Notwithstanding the foregoing, an ownership change subsequent to our emergence from the Chapter 11 Cases may severely limit or effectively eliminate our ability to utilize our NOL Carryforwards and other tax attributes. To reduce the risk of a potential adverse effect on our ability to utilize our NOL Carryforwards, our Certificate of Incorporation contains transfer restrictions applicable to certain substantial stockholders. These restrictions may adversely affect the ability of certain holders of AAG common stock to dispose of or acquire shares of AAG common stock. Although the purpose of these transfer restrictions is to prevent an ownership change from occurring, no assurance can be given that an ownership change will not occur even with these restrictions in place.
Our ability to use our NOL Carryforwards also will depend on the amount of taxable income generated in future periods. The NOL Carryforwards may expire before we can generate sufficient taxable income to use them.
We have a significant amount of goodwill, which is assessed for impairment at least annually. In addition, we may never realize the full value of our intangible assets or long-lived assets, causing us to record material impairment charges.
Goodwill and indefinite-lived intangible assets are not amortized, but are assessed for impairment at least annually, or more frequently if conditions indicate that an impairment may have occurred. In accordance with applicable accounting standards, we first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test. In addition, we are required to assess certain of our other long-lived assets for impairment if conditions indicate that an impairment may have occurred.
Future impairment of goodwill or other long-lived assets could be recorded in results of operations as a result of changes in assumptions, estimates, or circumstances, some of which are beyond our control. There can be no assurance that a material impairment charge of goodwill or tangible or intangible assets will be avoided. The value of our aircraft could be impacted in future periods by changes in supply and demand for these aircraft. Such changes in supply and demand for certain aircraft types could result from grounding of aircraft by us or other airlines. An impairment charge could have a material adverse effect on our business, results of operations and financial condition.
The price of AAG common stock has recently been and may in the future be volatile.
The market price of AAG common stock has fluctuated in the past, and may fluctuate substantially in the future, due to a variety of factors, many of which are beyond our control, including:
- macro-economic conditions, including the price of fuel;
- changes in market values of airline companies as well as general market conditions;

- our operating and financial results failing to meet the expectations of securities analysts or investors;

- changes in financial estimates or recommendations by securities analysts;
- changes in our level of outstanding indebtedness and other obligations;
- changes in our credit rating;
- material announcements by us or our competitors;
- expectations regarding our capital deployment program, including any existing or potential future share repurchase programs and any future dividend payments that may be declared by our Board of Directors, or any determination to cease repurchasing stock or paying dividends;
- new regulatory pronouncements and changes in regulatory guidelines;
- general and industry-specific economic conditions;
- changes in our key personnel;
- distributions of shares of AAG common stock pursuant to the Plan, including distributions from the Disputed Claims Reserve established under the Plan;
- public sales of a substantial number of shares of AAG common stock or issuances of AAG common stock upon the exercise or conversion of restricted stock unit awards, stock appreciation rights, or other securities that may be issued from time to time;
- increases or decreases in reported holdings by insiders or other significant stockholders; and
- fluctuations in trading volume.

We cannot guarantee that we will continue to repurchase our common stock or pay dividends on our common stock or that our capital deployment program will enhance long-term stockholder value. Our capital deployment program could increase the volatility of the price of our common stock and diminish our cash reserves.

Since July 2014, as part of our capital deployment program, our Board of Directors has approved seven share repurchase programs aggregating $13.0 billion of authority. As of March 31, 2019, there was $1.1 billion of remaining authority to repurchase shares under our share repurchase programs. Share repurchases under our repurchase programs may be made through a variety of methods, which may include open market purchases, privately negotiated transactions, block trades or accelerated share repurchase transactions. These share repurchase programs do not obligate us to acquire any specific number of shares or to repurchase any specific number of shares for any fixed period, and may be suspended at any time at our discretion and without prior notice. The timing and amount of repurchases, if any, will be subject to market and economic conditions, applicable legal requirements and other relevant factors. Our repurchase of AAG common stock may be limited, suspended or discontinued at any time at our discretion and without prior notice.

Our Board of Directors commenced declaring quarterly cash dividends in July 2014 as part of our capital deployment program. However, any future dividends that may be declared and paid from time to time will be subject to market and economic conditions, applicable legal requirements and other relevant factors. We are not obligated to continue a dividend for any fixed period, and the payment of dividends may be suspended or discontinued at any time at our discretion and without prior notice. We will continue to retain future earnings to develop our business, as opportunities arise, and evaluate on a quarterly basis the amount and timing of future dividends based on our operating results, financial condition, capital requirements and general business conditions. The amount and timing of any future dividends may vary, and the payment of any dividend does not assure that we will pay dividends in the future.

In addition, any future repurchases of AAG common stock or payment of dividends, or any determination to cease repurchasing stock or paying dividends, could affect our stock price and increase its volatility. The existence of a share repurchase program and any future dividends could cause our stock price to be higher than it would otherwise be and could potentially reduce the market liquidity for our stock. Additionally, any future repurchases of AAG common stock or payment of dividends will diminish our cash reserves, which may impact our ability to finance future growth and to pursue possible future strategic opportunities and acquisitions. Further, our repurchase of AAG common stock may fluctuate such that our cash flow may be insufficient to fully cover our share repurchases. Although our share repurchase programs are intended to enhance long-term stockholder value, there is no assurance that it will do so because the market price of our common stock may decline below the levels at which we repurchased shares of stock and short-term stock price fluctuations could reduce the program’s effectiveness.

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Certain provisions of AAG's Certificate of Incorporation and Bylaws make it difficult for stockholders to change the composition of our Board of Directors and may discourage takeover attempts that some of our stockholders might consider beneficial.

Certain provisions of our Certificate of Incorporation and Bylaws, as currently in effect, may have the effect of delaying or preventing changes in control if our Board of Directors determines that such changes in control are not in our best interest and the best interest of our stockholders. These provisions include, among other things, the following:

- advance notice procedures for stockholder proposals to be considered at stockholders' meetings;
- the ability of our Board of Directors to fill vacancies on the board;
- a prohibition against stockholders taking action by written consent;
- stockholders are restricted from calling a special meeting unless they hold at least 20% of our outstanding shares and follow the procedures provided for in the amended Bylaws;
- a requirement that holders of at least 80% of the voting power of the shares entitled to vote in the election of directors approve any amendment of our Bylaws submitted to stockholders for approval; and
- super-majority voting requirements to modify or amend specified provisions of our Certificate of Incorporation.

These provisions are not intended to prevent a takeover, but are intended to protect and maximize the value of the interests of our stockholders. While these provisions have the effect of encouraging persons seeking to acquire control of our company to negotiate with our Board of Directors, they could enable our Board of Directors to prevent a transaction that some, or a majority, of our stockholders might believe to be in their best interest and, in that case, may prevent or discourage attempts to remove and replace incumbent directors. In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, which prohibits business combinations with interested stockholders. Interested stockholders do not include stockholders whose acquisition of our securities is approved by the Board of Directors prior to the investment under Section 203.

AAG's Certificate of Incorporation and Bylaws include provisions that limit voting and acquisition and disposition of our equity interests.

Our Certificate of Incorporation and Bylaws include provisions that limit voting and ownership and disposition of our equity interests, as described in Part II, Item 5. Market for American Airlines Group's Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities - "Ownership Restrictions" in our 2018 10-K. These restrictions may adversely affect the ability of certain holders of AAG common stock and our other equity interests to vote such interests and adversely affect the ability of persons to acquire shares of AAG common stock and our other equity interests.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table displays information with respect to our purchases of shares of AAG common stock during the three months ended March 31, 2019.

Period	Total number of shares purchased		Average price paid per share	Total number of shares purchased as part of publicly announced plan or program	Maximum dollar value of shares that may be purchased under the plan or program (in millions)
January 2019	2,844,790		$36.30	2,844,790	$1,547
February 2019	13,869,574	(1)	$35.98	13,580,209	$1,058
March 2019	233,029		$34.86	233,029	$1,050

(1) Separate from our share repurchase program, in February 2019, we repurchased 289,365 shares of AAG common stock for approximately $10 million from the Disputed Claims Reserve at the then prevailing market price in order to fund cash tax obligations resulting from distributions to former AMR shareholders by the Disputed Claims Reserve.

ITEM 6. EXHIBITS

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

Exhibit Number	Description
10.1	Supplemental Agreement No. 10, dated as of March 26, 2019, to Purchase Agreement No. 03735 dated as of February 1, 2013, between American Airlines, Inc. and The Boeing Company. *
31.1	Certification of AAG Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of AAG Chief Financial Officer pursuant to Rule 13a-14(a).
31.3	Certification of American Chief Executive Officer pursuant to Rule 13a-14(a).
31.4	Certification of American Chief Financial Officer pursuant to Rule 13a-14(a).
32.1	AAG Certification pursuant to Rule 13a-14(b) and section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code).
32.2	American Certification pursuant to Rule 13a-14(b) and section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code).
101.1	Interactive data files pursuant to Rule 405 of Regulation S-T.

* Certain confidential information contained in this agreement has been omitted because it (i) is not material and (ii) would be competitively harmful if publicly disclosed.

SIGNATURES

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 Group Inc.
Date: April 26, 2019	By:	/s/ Derek J. Kerr
		Derek J. Kerr
		Executive Vice President and Chief Financial Officer
		(Duly Authorized Officer and Principal Financial Officer)

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 26, 2019	By:	/s/ Derek J. Kerr
		Derek J. Kerr
		Executive Vice President and Chief Financial Officer
		(Duly Authorized Officer and Principal Financial Officer)