AMR Corporation Continues to Tackle Current Challenges

2008-06-19

AMR Chairman and CEO Gerard Arpey Says World's Largest Airline Is Better Prepared to Manage through Today's Uncertainty than it was Several Years Ago

Gerard Arpey, Chairman and Chief Executive Officer of AMR Corporation (NYSE:AMR) , the parent company of American Airlines, Inc., said today that the world's largest airline continues to tackle "head on" the challenges of record fuel prices and economic concerns and is much better positioned than it was several years ago to manage through the current industry uncertainty.

"As always, we are facing up to our challenges directly, tackling them head on, and we remain confident in our ability to work our way through this difficult period and toward a brighter future for our company," Arpey said while speaking at the Merrill Lynch Global Transportation Conference.

Presentation highlights include:

AMR expects to end the second quarter of 2008 with more than $5 billion in total cash and short-term investments, including a restricted balance of approximately $426 million. AMR's balance sheet improvement in recent years, including debt reduction and improved liquidity, offers "increased flexibility to do what is necessary to position American for long-term success," Arpey said.

Arpey also noted that AMR has approximately $5 billion in unencumbered assets and sources of liquidity beyond its cash balance, "and we'll continue to take a close look at appropriate cash levels."

As it continues to find ways to dampen the impact of record fuel prices, AMR is currently 36 percent hedged at $2.38 per gallon (at an average cap of $70 per barrel WTI crude) in the second quarter and 33 percent hedged at $2.55 per gallon (at an average cap of $78 per barrel WTI crude) for 2008.

In addition, Arpey added, American still expects to take delivery of 70 more-fuel-efficient Boeing 737-800 aircraft in 2009 and 2010 as it begins to replace its MD-80 fleet, "and we continue to evaluate whether to move at an even brisker pace." AMR also is considering an accelerated retirement schedule for its A300 fleet given the current environment, Arpey said.

AMR also continues to look for new revenue opportunities through fare increases as well as through the implementation of new or additional fees for certain services. In addition, the company also receives revenue benefits through marketing partnerships. Arpey noted that AMR recently signed a new multi-year contract with Citibank, its valued AAdvantage program partner, "and we expect to see some of the benefits of this new agreement immediately, with the full benefits being phased in by 2010."

AMR also said Wednesday that second quarter 2008 mainline unit revenue is expected to increase between 6.0 percent and 7.0 percent year over year, and that second quarter 2008 consolidated unit revenue is expected to increase between 5.9 percent and 6.9 percent versus year-ago results.

"Despite our best efforts, fares are not, however, keeping pace with the meteoric rise in fuel prices, but in spite of our continued concerns about the economy, our revenue results have held up reasonably well," Arpey said.

As part of its efforts to reduce costs and create a more sustainable supply-and-demand balance in the market, AMR on May 21 said it will reduce fourth quarter 2008 mainline domestic capacity by 11 percent to 12 percent and regional affiliate capacity by 10 percent to 11 percent versus fourth quarter 2007 levels.