

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES GROUP INC.

In addition, following certain corporate events that occur prior to the maturity date or upon AAG's issuance of a notice of redemption, AAG will increase the conversion rate for a holder who elects to convert its Convertible Notes in connection with such corporate event or during the related redemption period in certain circumstances by a specified number of shares of AAG common stock as described in the Convertible Notes Indenture.

AAG will not have the right to redeem the Convertible Notes prior to July 5, 2023. On or after July 5, 2023 and on or before the 20th scheduled trading day immediately before the maturity date, AAG may redeem the Convertible Notes, in whole or in part, if the last reported sale price of AAG common stock has been at least 130% of the conversion price then in effect on (1) each of at least 20 trading days (whether or not consecutive) during the 30 consecutive trading days ending on, and including, the trading day immediately before the date AAG sends the related redemption notice; and (2) the trading day immediately before the date AAG sends such notice. In the case of any optional redemption, AAG will redeem the Convertible Notes at a redemption price equal to 100% of the principal amount of such Convertible Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

If AAG undergoes a fundamental change described in the Convertible Notes Indenture prior to the maturity date of the Convertible Notes, except as described in the Convertible Notes Indenture, holders of the Convertible Notes may require AAG to repurchase for cash all or part of their Convertible Notes at a repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

The Convertible Notes Indenture provides for customary terms and covenants, including that upon certain events of default, either the Convertible Notes Trustee or the holders of not less than 25% in aggregate principal amount of the Convertible Notes then outstanding may declare the unpaid principal amount of the Convertible Notes and accrued and unpaid interest, if any, thereon immediately due and payable. In the case of certain events of bankruptcy, insolvency or reorganization, the principal amount of the Convertible Notes together with accrued and unpaid interest thereon, if any, will automatically become and be immediately due and payable.

As the Convertible Notes can be settled in cash upon conversion, for accounting purposes, the Convertible Notes were bifurcated into a debt component that was recorded at fair value and an equity component. The following table details the debt and equity components recognized related to the Convertible Notes as of December 31, 2020 (in millions):

	December 31, 2020
Principal amount of 6.50% convertible senior notes	\$ 1,000
Unamortized debt discount	(417)
Net carrying amount of 6.50% convertible senior notes	583
Additional paid-in capital	415

The effective interest rate on the liability component approximates 20%. We recognized \$61 million of interest expense in 2020 including \$28 million of non-cash amortization of the debt discount and \$33 million of contractual coupon interest. The remaining period over which the unamortized debt discount will be recognized as non-cash interest expense is five years as follows: \$63 million in 2021, \$77 million in 2022, \$95 million in 2023, \$116 million in 2024 and \$66 million in 2025. As previously discussed in Note 1(c), as of January 1, 2021, we early adopted the New Convertible Debt Standard. Accordingly, our unamortized debt discount as of January 1, 2021 was reduced by \$389 million and the adjusted non-cash interest expense to be recognized over the next five years is as follows: \$5 million in 2021, \$6 million in 2022, \$6 million in 2023, \$7 million in 2024 and \$4 million in 2025.

At December 31, 2020, the if-converted value of the Convertible Notes did not exceed the principal amount.

(i) Unsecured Senior Notes

5.000% Senior Notes

In May 2019, AAG issued \$750 million aggregate principal amount of 5.000% senior notes due 2022 (the 5.000% Senior Notes). The 5.000% Senior Notes bear interest at a rate of 5.000% per annum, payable semi-annually in arrears on June 1 and December 1 of each year, which began on December 1, 2019. The 5.000% Senior Notes mature in June 2022.