

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES, INC.

The Treasury Loan Warrants do not have any voting rights and are freely transferrable, with registration rights. Each Treasury Loan Warrant expires on the fifth anniversary of the date of issuance of such Treasury Loan Warrant. The Treasury Loan Warrants will be exercisable either through net share settlement or cash, at AAG's option. The Treasury Loan Warrants were issued solely as compensation to the U.S. Government related to entry into the Treasury Loan Agreement. No separate proceeds were received upon issuance of the Treasury Loan Warrants or will be received upon exercise thereof.

(c) Recent Accounting Pronouncement*ASU 2016-13: Measurement of Credit Losses on Financial Instruments*

This ASU requires the use of an expected loss model for certain types of financial instruments and requires consideration of a broader range of reasonable and supportable information to calculate credit loss estimates. For trade receivables, loans and held-to-maturity debt securities, an estimate of lifetime expected credit losses is required. For available-for-sale debt securities, an allowance for credit losses will be required rather than a reduction to the carrying value of the asset. American adopted this accounting standard prospectively as of January 1, 2020, and it did not have a material impact on American's consolidated financial statements.

(d) Short-term Investments

Short-term investments are classified as available-for-sale and stated at fair value. Realized gains and losses are recorded in nonoperating expense on American's consolidated statements of operations. Unrealized gains and losses are recorded in accumulated other comprehensive loss on American's consolidated balance sheets. For investments in an unrealized loss position, American determines whether a credit loss exists by considering information about the collectability of the instrument, current market conditions and reasonable and supportable forecasts of economic conditions. There have been no credit losses.

(e) Restricted Cash and Short-term Investments

American has restricted cash and short-term investments related primarily to money market funds to be used to finance a substantial portion of the cost of the renovation and expansion of Terminal 8 at JFK and collateral held to support workers' compensation obligations.

(f) Aircraft Fuel, Spare Parts and Supplies, Net

Aircraft fuel is recorded on a first-in, first-out basis. Spare parts and supplies are recorded at average costs less an allowance for obsolescence. These items are expensed when used.

(g) Operating Property and Equipment

Operating property and equipment is recorded at cost and depreciated or amortized to residual values over the asset's estimated useful life or the lease term, whichever is less, using the straight-line method. Residual values for aircraft, engines and related rotatable parts are generally 5% to 10% of original cost. Costs of major improvements that enhance the usefulness of the asset are capitalized and depreciated or amortized over the estimated useful life of the asset or the lease term, whichever is less. The estimated useful lives for the principal property and equipment classifications are as follows:

Principal Property and Equipment Classification	Estimated Useful Life
Aircraft, engines and related rotatable parts	20 - 30 years
Buildings and improvements	5 - 30 years
Furniture, fixtures and other equipment	3 - 10 years
Capitalized software	5 - 10 years

Total depreciation and amortization expense was \$2.3 billion, \$2.5 billion and \$2.4 billion for the years ended December 31, 2020, 2019 and 2018, respectively.

American assesses impairment of operating property and equipment when events and circumstances indicate that the assets may be impaired. An impairment of an asset or group of assets exists only when the sum of the estimated undiscounted cash flows expected to be generated directly by the assets are less than the carrying value of the assets. American groups assets principally by fleet-type when estimating future cash flows, which is generally the lowest level for