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 June 30, 2022

☐ **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.)
1 Skyview Drive, Fort Worth, Texas 76155	**(682) 278-9000**
(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.)
1 Skyview Drive, Fort Worth, Texas 76155	**(682) 278-9000**
(Address of principal executive offices, including zip code)	(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value per share	**AAL**	**The Nasdaq Global Select Market**
Preferred Stock Purchase Rights	—	(1)

(1) Attached to the Common Stock

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, a smaller reporting company, or an emerging growth company. See the 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 check mark 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 July 15, 2022, there were 649,845,927 shares of American Airlines Group Inc. common stock outstanding.

As of July 15, 2022, 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.
American Airlines, Inc.
Form 10-Q
Quarterly Period Ended June 30, 2022
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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.

Glossary of Terms

For the convenience of the reader, the definitions of certain capitalized industry and other terms used in this report have been consolidated into a glossary beginning on page 5.

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," "should," "would," "continue," "seek," "target," "guidance," "outlook," "if current trends continue," "optimistic," "forecast" and other similar words. Such statements include, but are not limited to, statements about our plans, objectives, expectations, intentions, estimates and strategies for the future, the continuing availability of borrowings under revolving lines of credit, 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. In particular, the consequences of the coronavirus (COVID-19) outbreak and subsequent volatility in demand for air travel due to economic conditions and the travel industry in general and our financial position and operating results in particular have been material, are changing rapidly, and cannot be predicted. 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. Any forward-looking statements speak only as of the date of this report or as of the dates indicated in the statements.

Summary of Risk Factors

Our business is subject to a number of risks and uncertainties 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. These risks are more fully described in Part II, Item 1A. Risk Factors. These risks include, among others, the following:

Risks Related to our Business

- The outbreak and global spread of COVID-19 and government-imposed measures to prevent or reduce its spread have resulted in significant volatility in demand for air travel, the impacts of which have and will continue to adversely impact our business, operating results, financial condition and liquidity.
- Downturns in economic conditions could adversely affect our business.
- We will need to obtain sufficient financing or other capital to operate successfully.
- 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 pension and other postretirement benefit funding obligations, which may adversely affect our liquidity, results of operations and financial condition.
- If our financial condition worsens, provisions in our credit card processing and other commercial agreements may adversely affect our liquidity.
- The loss of key personnel upon whom we depend to operate our business or the inability to attract and develop additional qualified personnel could adversely affect our business.
- 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.
- 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.
- 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.
- Any damage to our reputation or brand image could adversely affect our business or financial results.
- Changes to our business model that are designed to increase revenues may not be successful and may cause operational difficulties or decreased demand.
- 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 may be a party to litigation in the normal course of business or otherwise, which could affect our financial position and liquidity.
- Our ability to utilize our NOLs and other carryforwards may be limited.

- 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.

Risks Related to the Airline Industry

- The airline industry is intensely competitive and dynamic.
- The commercial relationships that we have with other companies, including any related equity investments, may not produce the returns or results we expect.
- Our business is very dependent on the price and availability of aircraft fuel and 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 consumer demand, our operating results and liquidity.
- 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.
- 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 may be adversely affected by conflicts overseas or terrorist attacks; the travel industry continues to face ongoing security concerns.
- We are subject to risks associated with climate change, including increased regulation of our CO_2 emissions, changing consumer preferences and the potential increased impacts of severe weather events on our operations and infrastructure.
- A shortage of pilots or other personnel could materially adversely affect our business.
- We depend on a limited number of suppliers for aircraft, aircraft engines and parts.
- 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.
- 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.
- Evolving data security and privacy requirements could increase our costs, and any significant data security or privacy 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.
- We rely on third-party distribution channels and must manage effectively the costs, rights and functionality of these channels.
- 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.

GLOSSARY OF TERMS

“2013 Credit Agreement” means the Amended and Restated Credit and Guaranty Agreement dated as of May 21, 2015, among American, AAG, the lenders from time to time party thereto, Deutsche Bank AG New York Branch, as administrative agent, and certain other parties thereto, as amended.

“2013 Revolving Facility” means the revolving credit facility provided for by the 2013 Credit Agreement.

“2013 Term Loan Facility” means the term loan facility provided for under the 2013 Credit Agreement.

“2014 Credit Agreement” means the Amended and Restated Credit and Guaranty Agreement, dated as of April 20, 2015, among American, AAG, the lenders from time to time party thereto, Citibank N.A., as administrative agent, and certain other parties thereto, as amended.

“2014 Revolving Facility” means the revolving credit facility provided for by the 2014 Credit Agreement.

“2014 Term Loan Facility” means the term loan facility provided for by the 2014 Credit Agreement.

“2021 Form 10-K” means AAG’s and American’s Annual Report on Form 10-K for the year ended December 31, 2021.

“2021-1 Aircraft” means the 26 aircraft financed or to be financed by American under the 2021-1 Aircraft EETCs.

“2021-1 Aircraft EETCs” means the two pass-through trusts created by American in November 2021 that have issued approximately $960 million aggregate face amount of Series 2021-1 Class A and Class B EETCs.

“2026 Notes” means the AAdvantage Issuers' 5.50% senior secured notes due 2026.

“2029 Notes” means the AAdvantage Issuers' 5.75% senior secured notes due 2029.

“AAdvantage” means the AAdvantage® frequent flyer program.

“AAdvantage Agreements” means the AAdvantage program agreements provided as collateral under the AAdvantage Financing.

“AAdvantage Financing” means the 2026 Notes, the 2029 Notes and the AAdvantage Term Loan Facility.

“AAdvantage Term Loan Facility” means the $3.5 billion term loan facility provided pursuant to the term loan credit and guaranty agreement, dated as of March 24, 2021, with Barclays Bank PLC, as administrative agent, Wilmington Trust, National Association, as collateral administrator, and the lenders party thereto.

“AAG”, “we”, “us”, “our” and similar terms means American Airlines Group Inc. and its consolidated subsidiaries.

“American” means American Airlines, Inc., a wholly-owned subsidiary of AAG.

“American Eagle” means our regional carriers, including our wholly-owned regional carriers Envoy, PSA and Piedmont, as well as third-party regional carriers including Mesa, Republic and SkyWest.

“AMR” or “AMR Corporation” means AMR Corporation and is used to reference AAG during the period of time prior to its emergence from Chapter 11 and the Merger.

“AOCI” means accumulated other comprehensive income (loss).

“April 2016 Credit Agreement” means the Credit and Guaranty Agreement, dated as of April 29, 2016, among American, AAG, the lenders from time to time party thereto, Barclays Bank PLC, as administrative agent, and certain other parties thereto, as amended.

“April 2016 Revolving Facility” means the revolving credit facility provided for by the April 2016 Credit Agreement.

“ARP” means the American Rescue Plan Act of 2021.

“ASM” means available seat mile and is a basic measure of production. One ASM represents one seat flown one mile.

“ATC system” means the U.S. National Airspace System.

"Bankruptcy Court" means the United States Bankruptcy Court for the Southern District of New York.

"Boeing" means The Boeing Company.

"Bylaws" means AAG's Amended and Restated Bylaws, as amended.

"CARES Act" means the Coronavirus Aid, Relief, and Economic Security Act.

"CASM" means total operating cost per available seat mile and is equal to total operating expenses divided by ASMs.

"CBAs" means collective bargaining agreements.

"CEO" means Chief Executive Officer.

"CFO" means Chief Financial Officer.

"China Southern Airlines" means China Southern Airlines Company Limited.

"CMA" means the United Kingdom Competition and Markets Authority.

"CO_2" means carbon dioxide.

"Code" means the Internal Revenue Code of 1986, as amended.

"Company" means AAG and its consolidated subsidiaries.

"Convertible Notes" means AAG's 6.50% convertible senior notes due 2025.

"Convertible Notes Indenture" means the indenture, dated as of June 25, 2020, between AAG and the Convertible Notes Trustee, as supplemented by the first supplemental indenture, dated as of June 25, 2020, among AAG, American and the Convertible Notes Trustee.

"Convertible Notes Trustee" means Wilmington Trust, National Association, as trustee with respect to the Convertible Notes.

"CORSIA" means the Carbon Offsetting and Reduction Scheme for International Aviation.

"COVID-19" refers to a respiratory illness first detected in 2019 and the ensuing global pandemic that remains ongoing as of the date of this report.

"DCA" means Ronald Reagan Washington National Airport.

"DC Court" means the Federal District Court for the District of Columbia.

"December 2016 Credit Agreement" means the Credit and Guaranty Agreement dated as of December 15, 2016, among American, AAG, the lenders from time to time party thereto, Citibank N.A., as administrative agent, and certain other parties thereto, as amended.

"December 2016 Credit Facilities" means, collectively, the December 2016 Term Loan Facility and the revolving credit facility that may be established under the December 2016 Credit Agreement.

"December 2016 Term Loan Facility" means the term loan facility provided for under the December 2016 Credit Agreement.

"DOJ" means the United States Department of Justice.

"DOT" means the United States Department of Transportation.

"DOT Agreement" means the agreement that had been reached between the DOT, American and JetBlue in January 2021.

"EC" means the European Commission.

"EEA" means European Economic Area.

“EETC” means enhanced equipment trust certificate.

“Envoy” means Envoy Air Inc.

“EPA” means the U.S. Environmental Protection Agency.

“EPS” means earnings (loss) per common share.

“ETS” means EU Emissions Trading System.

“EU” means European Union.

"EU-UK Trade and Cooperation Agreement" means the trade and cooperation agreement between the EU and United Kingdom.

“Exchange Act” means Securities Exchange Act of 1934, as amended.

“FAA” means Federal Aviation Administration.

“GAAP” means generally accepted accounting principles in the U.S.

“GDS” means global distribution system.

“GHG” means greenhouse gas.

“GOL” means GOL Linhas Aéreas Inteligentes S.A.

“holdback” means an amount of cash held by our credit card processors in certain circumstances (including, with respect to certain agreements, our failure to maintain certain levels of liquidity).

“IAM” means International Association of Machinists & Aerospace Workers.

“IAM Pension Fund” means the IAM National Pension Fund.

“ICAO” means International Civil Aviation Organization.

“IP Notes” means American’s $1.0 billion in initial principal amount of 10.75% senior secured IP notes.

“JetBlue” means JetBlue Airways Corporation.

“JFK” means John F. Kennedy International Airport.

“LAX” means Los Angeles International Airport.

“LGA/DCA Notes” means American’s $200 million in initial principal amount of 10.75% senior secured LGA/DCA notes.

“LGA” means LaGuardia Airport.

“LGW” or “London Gatwick” means London Gatwick Airport.

“LHR” or “London Heathrow” means London Heathrow Airport.

“LIBOR” means the London interbank offered rate for deposits of U.S. dollars.

“LTV” means loan to value ratio.

“Mainline” means the operations of American and excludes regional operations.

“Merger” means the merger of US Airways Group and AMR Corporation on December 9, 2013.

“Mesa” means Mesa Airlines, Inc.

"NEA" means Northeast Alliance arrangement between American and JetBlue.

“NMB” means National Mediation Board.

“NOLs” means net operating losses.

“ORD” means Chicago O’Hare International Airport.

“OSHA” means Occupational Health and Safety Administration.

“OTAs” means online travel agents.

“Passenger load factor” means the percentage of available seats that are filled with revenue passengers.

“PEB” means Presidential Emergency Board.

“PFAS” means per- and polyfluoroalkyl substances.

“Piedmont” means Piedmont Airlines, Inc.

“PRASM” means passenger revenue per available seat mile and is equal to passenger revenues divided by ASMs.

“PSA” means PSA Airlines, Inc.

“PSP1” means the payroll support program established under the CARES Act.

“PSP1 Agreement” means the Payroll Support Program Agreement entered into by the Subsidiaries with Treasury on April 20, 2020.

“PSP1 Promissory Note” means the promissory note issued to Treasury in connection with PSP1.

“PSP1 Warrant Agreement” means the agreement entered into between AAG and Treasury in connection with the PSP1 Agreement, pursuant to which AAG issued PSP1 Warrants to Treasury to purchase up to an aggregate of approximately 14.0 million shares of AAG common stock.

“PSP1 Warrants” means the warrants issued or to be issued to Treasury pursuant to the PSP1 Warrant Agreement.

“PSP2” means the payroll support program established under the PSP Extension Law.

“PSP2 Agreement” means the Payroll Support Program Extension Agreement entered into by the Subsidiaries with Treasury on January 15, 2021.

“PSP2 Promissory Note” means the promissory note issued to Treasury in connection with PSP2.

“PSP2 Warrant Agreement” means the agreement entered into between AAG and Treasury in connection with the PSP2 Agreement, pursuant to which AAG issued PSP2 Warrants to Treasury to purchase up to an aggregate of approximately 6.6 million shares of AAG common stock.

“PSP2 Warrants” means the warrants issued or to be issued to Treasury pursuant to the PSP2 Warrant Agreement.

“PSP3” means the payroll support program established under the ARP.

“PSP3 Agreement” means the Payroll Support Program Agreement entered into by the Subsidiaries with Treasury on April 23, 2021.

“PSP3 Promissory Note” means the promissory note issued to Treasury in connection with PSP3.

“PSP3 Warrant Agreement” means the agreement entered into between AAG and Treasury in connection with the PSP3 Agreement, pursuant to which AAG issued PSP3 Warrants to Treasury to purchase up to an aggregate of approximately 4.4 million shares of AAG common stock.

“PSP3 Warrants” means the warrants issued or to be issued to Treasury pursuant to the PSP3 Warrant Agreement.

“PSP Extension Law” means Subtitle A of Title IV of Division N of the Consolidated Appropriations Act, 2021.

“Rehabilitation Plan” means the rehabilitation plan adopted by the IAM Pension Fund on April 17, 2019.

“Republic” means Republic Airways Inc.

“RLA” means Railway Labor Act.

“ROU” means right-of-use.

“RPM” or “RPMs” means revenue passenger mile or miles and is a basic measure of sales volume. One RPM represents one passenger flown one mile.

“SAF” means sustainable aviation fuel.

“SAIB” means special airworthiness information bulletin.

“SEC” means Securities and Exchange Commission.

“Section 382” means Section 382 of the Internal Revenue Code.

“Securities Act” means Securities Act of 1933, as amended.

“SkyWest” means SkyWest Airlines, Inc.

“slots” means landing and take-off rights and authorizations, as required by certain airports.

“SOFR” means the Secured Overnight Financing Rate.

“Subsidiaries” means American, Envoy, PSA and Piedmont, each a wholly-owned subsidiary of AAG.

“Tax Benefits Preservation Plan” means the tax benefits preservation plan adopted by the Board of Directors of AAG in December 2021 in order to preserve the Company's ability to use its NOLs and certain other tax attributes to reduce potential future income tax obligations.

“TRASM” means the total revenue per available seat mile and is equal to the total revenues divided by total mainline and third-party regional carrier ASMs.

“Treasury” means the U.S. Department of the Treasury.

“Treasury Loan Agreement” means the Loan and Guarantee Agreement, dated as of September 25, 2020, between AAG, American and Treasury which provides for the Treasury Term Loan Facility.

“Treasury Loan Warrants” means the warrants issued to Treasury pursuant to the Treasury Loan Warrant Agreement.

“Treasury Term Loan Facility” means the term loan facility provided for under the Treasury Loan Agreement.

“US Airways Group” means US Airways Group, Inc. and its consolidated subsidiaries.

“USTR” means the Office of the U.S. Trade Representative.

“Vertical” means Vertical Aerospace Ltd.

“WTO” means World Trade Organization.

“Yield” means a measure of airline revenue derived by dividing passenger revenue by RPMs.

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 share and per share amounts)(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Operating revenues:				
Passenger	$ 12,223	$ 6,545	$ 20,041	$ 9,724
Cargo	328	326	692	641
Other	871	607	1,588	1,121
Total operating revenues	13,422	7,478	22,321	11,486
Operating expenses:				
Aircraft fuel and related taxes	4,020	1,611	6,522	2,644
Salaries, wages and benefits	3,235	2,862	6,389	5,593
Regional expenses	1,072	635	2,124	1,261
Maintenance, materials and repairs	647	459	1,264	835
Other rent and landing fees	694	686	1,372	1,256
Aircraft rent	345	356	698	706
Selling expenses	504	277	836	427
Depreciation and amortization	504	481	995	959
Special items, net	(5)	(1,288)	152	(2,996)
Other	1,389	958	2,675	1,675
Total operating expenses	12,405	7,037	23,027	12,360
Operating income (loss)	1,017	441	(706)	(874)
Nonoperating income (expense):				
Interest income	29	5	37	8
Interest expense, net	(468)	(486)	(932)	(856)
Other income, net	25	49	118	158
Total nonoperating expense, net	(414)	(432)	(777)	(690)
Income (loss) before income taxes	603	9	(1,483)	(1,564)
Income tax provision (benefit)	127	(10)	(324)	(333)
Net income (loss)	$ 476	$ 19	$ (1,159)	$ (1,231)
Earnings (loss) per common share:				
Basic	$ 0.73	$ 0.03	$ (1.78)	$ (1.92)
Diluted	$ 0.68	$ 0.03	$ (1.78)	$ (1.92)
Weighted average shares outstanding (in thousands):				
Basic	650,346	644,123	649,925	639,366
Diluted	718,532	656,372	649,925	639,366

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net income (loss)	$ 476	$ 19	$ (1,159)	$ (1,231)
Other comprehensive income (loss), net of tax:				
Pension, retiree medical and other postretirement benefits	28	39	56	106
Investments	(2)	—	(4)	—
Total other comprehensive income, net of tax	26	39	52	106
Total comprehensive income (loss)	$ 502	$ 58	$ (1,107)	$ (1,125)

See accompanying notes to condensed consolidated financial statements.

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

	June 30, 2022 (Unaudited)	December 31, 2021
ASSETS		
Current assets		
Cash	$ 401	$ 273
Short-term investments	12,121	12,158
Restricted cash and short-term investments	997	990
Accounts receivable, net	1,835	1,505
Aircraft fuel, spare parts and supplies, net	2,273	1,795
Prepaid expenses and other	898	615
Total current assets	18,525	17,336
Operating property and equipment		
Flight equipment	38,754	37,856
Ground property and equipment	9,595	9,335
Equipment purchase deposits	617	517
Total property and equipment, at cost	48,966	47,708
Less accumulated depreciation and amortization	(18,972)	(18,171)
Total property and equipment, net	29,994	29,537
Operating lease right-of-use assets	7,510	7,850
Other assets		
Goodwill	4,091	4,091
Intangibles, net of accumulated amortization of $805 and $786, respectively	2,079	1,988
Deferred tax asset	3,858	3,556
Other assets	1,906	2,109
Total other assets	11,934	11,744
Total assets	$ 67,963	$ 66,467
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Current maturities of long-term debt and finance leases	$ 2,106	$ 2,489
Accounts payable	2,733	1,772
Accrued salaries and wages	1,505	1,489
Air traffic liability	8,969	6,087
Loyalty program liability	3,065	2,896
Operating lease liabilities	1,483	1,507
Other accrued liabilities	2,909	2,766
Total current liabilities	22,770	19,006
Noncurrent liabilities		
Long-term debt and finance leases, net of current maturities	34,963	35,571
Pension and postretirement benefits	4,755	5,053
Loyalty program liability	6,189	6,239
Operating lease liabilities	6,313	6,610
Other liabilities	1,395	1,328
Total noncurrent liabilities	53,615	54,801
Commitments and contingencies		
Stockholders' equity (deficit)		
Common stock, $0.01 par value; 1,750,000,000 shares authorized, 649,779,361 shares issued and outstanding at June 30, 2022; 647,727,595 shares issued and outstanding at December 31, 2021	6	6
Additional paid-in capital	7,259	7,234
Accumulated other comprehensive loss	(5,890)	(5,942)
Retained deficit	(9,797)	(8,638)
Total stockholders' deficit	(8,422)	(7,340)
Total liabilities and stockholders' equity (deficit)	$ 67,963	$ 66,467

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Net cash provided by operating activities	$ 2,924	$ 3,644
Cash flows from investing activities:		
Capital expenditures, net of aircraft purchase deposit returns	(1,405)	118
Airport construction projects, net of reimbursements	(156)	(77)
Proceeds from sale of property and equipment	19	161
Proceeds from sale-leaseback transactions	—	163
Sales of short-term investments	10,135	2,837
Purchases of short-term investments	(10,083)	(13,840)
Increase in restricted short-term investments	(10)	(404)
Purchase of equity investment	(200)	—
Other investing activities	—	6
Net cash used in investing activities	(1,700)	(11,036)
Cash flows from financing activities:		
Payments on long-term debt and finance leases	(1,659)	(5,040)
Proceeds from issuance of long-term debt	574	12,096
Shares withheld for taxes pursuant to employee stock plans	(16)	(13)
Proceeds from issuance of equity	—	460
Deferred financing costs	—	(166)
Other financing activities	6	121
Net cash provided by (used in) financing activities	(1,095)	7,458
Net increase in cash and restricted cash	129	66
Cash and restricted cash at beginning of period	408	399
Cash and restricted cash at end of period (1)	$ 537	$ 465
Non-cash transactions:		
Right-of-use (ROU) assets acquired through operating leases	$ 460	$ 706
Property and equipment acquired through finance leases	59	61
Supplemental information:		
Interest paid, net	870	687
Income taxes paid	2	1

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

	2022	2021
Cash	$ 401	$ 325
Restricted cash included in restricted cash and short-term investments	136	140
Total cash and restricted cash	$ 537	$ 465

See accompanying notes to condensed consolidated financial statements.

AMERICAN AIRLINES GROUP INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
(In millions, except share amounts)(Unaudited)

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Deficit	Total
Balance at December 31, 2021	$ 6	$ 7,234	$ (5,942)	$ (8,638)	$ (7,340)
Net loss	—	—	—	(1,635)	(1,635)
Other comprehensive income, net	—	—	26	—	26
Issuance of 1,770,173 shares of AAG common stock pursuant to employee stock plans net of shares withheld for cash taxes	—	(14)	—	—	(14)
Share-based compensation expense	—	23	—	—	23
Balance at March 31, 2022	6	7,243	(5,916)	(10,273)	(8,940)
Net income	—	—	—	476	476
Other comprehensive income, net	—	—	26	—	26
Issuance of 281,593 shares of AAG common stock pursuant to employee stock plans net of shares withheld for cash taxes	—	(2)	—	—	(2)
Share-based compensation expense	—	18	—	—	18
Balance at June 30, 2022	$ 6	$ 7,259	$ (5,890)	$ (9,797)	$ (8,422)

AMERICAN AIRLINES GROUP INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
(In millions, except share amounts)(Unaudited)

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Deficit	Total
Balance at December 31, 2020	$ 6	$ 6,894	$ (7,103)	$ (6,664)	$ (6,867)
Net loss	—	—	—	(1,250)	(1,250)
Other comprehensive income, net	—	—	67	—	67
Impact of adoption of Accounting Standards Update 2020-06 related to convertible instruments	—	(320)	—	19	(301)
Issuance of 18,194,573 shares of AAG common stock pursuant to an at-the-market offering, net of offering costs	—	316	—	—	316
Issuance of PSP2 Warrants	—	65	—	—	65
Issuance of 1,700,380 shares of AAG common stock pursuant to employee stock plans net of shares withheld for cash taxes	—	(13)	—	—	(13)
Share-based compensation expense	—	38	—	—	38
Balance at March 31, 2021	6	6,980	(7,036)	(7,895)	(7,945)
Net income	—	—	—	19	19
Other comprehensive income, net	—	—	39	—	39
Issuance of 5,956,191 shares of AAG common stock pursuant to an at-the-market offering, net of offering costs	—	144	—	—	144
Issuance of PSP2 and PSP3 Warrants	—	56	—	—	56
Issuance of 115,833 shares of AAG common stock pursuant to employee stock plans net of shares withheld for cash taxes	—	—	—	—	—
Share-based compensation expense	—	20	—	—	20
Balance at June 30, 2021	$ 6	$ 7,200	$ (6,997)	$ (7,876)	$ (7,667)

See accompanying notes to condensed consolidated financial statements.

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

1. Basis of Presentation

(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, 2021. 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, the loyalty program, deferred tax assets, as well as pension and retiree medical and other postretirement benefits.

(b) Impact of Coronavirus (COVID-19)

COVID-19 has been declared a global health pandemic by the World Health Organization. COVID-19 has surfaced in nearly all regions of the world, which has driven the implementation of significant, government-imposed measures to prevent or reduce its spread. Ongoing global vaccination efforts and the corresponding lifting of government restrictions in and between many markets resulted in a significant and rapid recovery in demand for air travel. The continued impact of the COVID-19 pandemic, including any increases in infection rates, new variants and renewed governmental action to slow the spread of COVID-19 cannot be estimated.

Our capacity (as measured by available seat miles) continues to be reduced compared to pre-COVID-19 pandemic levels, with total capacity in the second quarter of 2022 down 8.5% as compared to the second quarter of 2019. Domestic capacity in the second quarter of 2022 was down 6.6% while international capacity was down 12.1% as compared to the second quarter of 2019.

While demand for domestic and short-haul international markets has largely recovered to 2019 levels, uncertainty remains regarding the timing of a full recovery. We will continue to match our forward capacity with observed booking trends for future travel and make further adjustments to our capacity as needed.

2. Special Items, Net

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Fleet impairment (1)	$ —	$ —	$ 149	$ —
PSP Financial Assistance (2)	—	(1,288)	—	(3,170)
Severance expenses (3)	—	—	—	168
Mark-to-market adjustments on bankruptcy obligations, net	—	—	—	6
Other operating special items, net	(5)	—	3	—
Mainline operating special items, net	(5)	(1,288)	152	(2,996)
PSP Financial Assistance (2)	—	(167)	—	(410)
Fleet impairment (1)	—	—	—	27
Severance expenses (3)	—	—	—	2
Regional operating special items, net	—	(167)	—	(381)
Operating special items, net	(5)	(1,455)	152	(3,377)
Mark-to-market adjustments on equity and other investments, net (4)	89	37	90	(13)
Debt refinancing, extinguishment and other, net	—	—	2	26
Nonoperating special items, net	89	37	92	13
Income tax special items, net	(9)	—	(9)	—

(1) Fleet impairment for the six months ended June 30, 2022 included a non-cash impairment charge to write down the carrying value of our retired Airbus A330 fleet to the estimated fair value due to current market conditions for certain used aircraft. We retired our Airbus A330 fleet in 2020 as a result of the decline in demand for air travel due to the COVID-19 pandemic.

Fleet impairment for the six months ended June 30, 2021 included a non-cash impairment charge to write down regional aircraft resulting from the retirement of the remaining Embraer 140 fleet earlier than planned.

(2) The PSP Financial Assistance represents recognition of a portion of the financial assistance received from the U.S. Department of Treasury (Treasury) pursuant to the payroll support program established under the PSP Extension Law (PSP2) and the American Rescue Plan Act of 2021 (ARP) (PSP3).

(3) Severance expenses include salary and medical costs primarily associated with certain team members who opted into voluntary early retirement programs offered as a result of reductions to our operation due to the COVID-19 pandemic. Cash payments related to our voluntary early retirement programs for the three and six months ended June 30, 2022 were approximately $50 million and $140 million, respectively, and approximately $120 million and $290 million for the three and six months ended June 30, 2021, respectively.

(4) Mark-to-market adjustments on equity and other investments, net principally included net unrealized gains and losses associated with our equity investments in GOL Linhas Aéreas Inteligentes S.A. (GOL), Vertical Aerospace Ltd. (Vertical) and China Southern Airlines Company Limited (China Southern Airlines).

3. Earnings (Loss) Per Common Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Basic EPS:				
Net income (loss)	$ 476	$ 19	$ (1,159)	$ (1,231)
Weighted average common shares outstanding (in thousands)	650,346	644,123	649,925	639,366
Basic EPS	$ 0.73	$ 0.03	$ (1.78)	$ (1.92)
Diluted EPS:				
Net income (loss)	$ 476	$ 19	$ (1,159)	$ (1,231)
Interest expense on 6.50% convertible senior notes	11	—	—	—
Net income (loss) for purposes of computing diluted EPS	$ 487	$ 19	$ (1,159)	$ (1,231)
Share computation for diluted EPS (in thousands):				
Basic weighted average common shares outstanding	650,346	644,123	649,925	639,366
Dilutive effect of stock awards	1,477	1,944	—	—
Dilutive effect of warrants	4,981	10,305	—	—
Assumed conversion of 6.50% convertible senior notes	61,728	—	—	—
Diluted weighted average common shares outstanding	718,532	656,372	649,925	639,366
Diluted EPS	$ 0.68	$ 0.03	$ (1.78)	$ (1.92)

Securities which were excluded from the calculation of diluted EPS because inclusion of such shares would be antidilutive, are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
6.50% convertible senior notes	—	61,728	61,728	61,728
Restricted stock unit awards	4,521	1,182	4,965	3,191
PSP1 Warrants (1)	—	—	3,610	5,632
Treasury Loan Warrants (2)	—	—	1,127	1,755
PSP2 Warrants (3)	—	—	456	1,242
PSP3 Warrants (4)	—	—	—	34

(1) Pursuant to the payroll support program established under the CARES Act (PSP1), AAG issued to Treasury warrants (PSP1 Warrants) to purchase up to an aggregate of approximately 14.0 million shares of AAG common stock for an exercise price of $12.51 per share, subject to adjustment.

(2) Pursuant to the Loan and Guarantee Agreement with Treasury (the Treasury Loan Agreement), AAG issued to Treasury warrants (Treasury Loan Warrants) to purchase up to an aggregate of approximately 4.4 million shares of AAG common stock for an exercise price of $12.51 per share, subject to adjustment.

(3) Pursuant to PSP2, AAG issued to Treasury warrants (PSP2 Warrants) to purchase up to an aggregate of approximately 6.6 million shares of AAG common stock for an exercise price of $15.66 per share, subject to adjustment.

(4) Pursuant to PSP3, AAG issued to Treasury warrants (PSP3 Warrants) to purchase up to an aggregate of approximately 4.4 million shares of AAG common stock for an exercise price of $21.75 per share, subject to adjustment.

4. Revenue Recognition

Revenue

The following are the significant categories comprising our operating revenues (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Passenger revenue:				
Passenger travel	$ 11,400	$ 5,995	$ 18,613	$ 8,888
Loyalty revenue - travel (1)	823	550	1,428	836
Total passenger revenue	12,223	6,545	20,041	9,724
Cargo	328	326	692	641
Other:				
Loyalty revenue - marketing services (2)	740	529	1,336	986
Other revenue	131	78	252	135
Total other revenue	871	607	1,588	1,121
Total operating revenues	$ 13,422	$ 7,478	$ 22,321	$ 11,486

(1) Loyalty revenue included in passenger revenue is principally comprised of mileage credit redemptions, which were earned from travel or co-branded credit card and other partners.

(2) During the three months ended June 30, 2022 and 2021, cash payments from co-branded credit card and other partners were $1.0 billion and $684 million, respectively. During the six months ended June 30, 2022 and 2021, cash payments from co-branded credit card and other partners were $2.4 billion and $1.7 billion, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Domestic	$ 9,120	$ 5,444	$ 15,180	$ 8,099
Latin America	1,534	936	2,761	1,417
Atlantic	1,481	125	1,947	147
Pacific	88	40	153	61
Total passenger revenue	$ 12,223	$ 6,545	$ 20,041	$ 9,724

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.

	June 30, 2022	December 31, 2021
	(In millions)	
Loyalty program liability	$ 9,254	$ 9,135
Air traffic liability	8,969	6,087
Total	$ 18,223	$ 15,222

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, 2021	$	9,135
Deferral of revenue		1,596
Recognition of revenue (1)		(1,477)
Balance at June 30, 2022 (2)	$	9,254

(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 generally do not expire as long as that AAdvantage member has any type of qualifying activity at least every 24 months or if the AAdvantage member is the primary holder of a co-branded credit card. As of June 30, 2022, our current loyalty program liability was $3.1 billion and represents our current estimate of revenue expected to be recognized in the next 12 months based on historical as well as projected trends, with the balance reflected in long-term loyalty program liability expected to be recognized as revenue in periods thereafter. Given the inherent uncertainty of the current operating environment due to the continued impact of the COVID-19 pandemic, we will continue to monitor redemption patterns and may adjust our estimates in the future.

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 generally one year. Accordingly, any revenue associated with tickets sold for future travel will be recognized within 12 months. For the six months ended June 30, 2022, $3.6 billion of revenue was recognized in passenger revenue that was included in our air traffic liability at December 31, 2021. In response to the COVID-19 pandemic, we extended the contract duration for certain tickets to September 30, 2022, principally those tickets which were issued in 2020 and 2021. Additionally, we extended the contract duration to December 31, 2022 for tickets to certain international destinations. We also have eliminated change fees for most domestic and international tickets providing more flexibility for customers to change travel plans. Given these changes and the uncertainty surrounding the future demand for air travel, our estimates of revenue that will be recognized from the air traffic liability for future flown or unused tickets as well as our estimates of refunds may be subject to variability and differ from historical experience.

5. Debt

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

	June 30, 2022	December 31, 2021
Secured		
2013 Term Loan Facility, variable interest rate of 3.37%, installments through 2025	$ 1,752	$ 1,770
2014 Term Loan Facility, variable interest rate of 3.40%, installments through 2027	1,196	1,208
December 2016 Term Loan Facility, variable interest rate of 2.84%, installments through 2023	1,188	1,188
11.75% senior secured notes, interest only payments until due in July 2025	2,500	2,500
10.75% senior secured IP notes, interest only payments until due in February 2026	1,000	1,000
10.75% senior secured LGA/DCA notes, interest only payments until due in February 2026	200	200
5.50% senior secured notes, installments beginning in July 2023 until due in April 2026 (1)	3,500	3,500
5.75% senior secured notes, installments beginning in July 2026 until due in April 2029 (1)	3,000	3,000
AAdvantage Term Loan Facility, variable interest rate of 5.81%, installments beginning in July 2023 through April 2028 (1)	3,500	3,500
Enhanced equipment trust certificates (EETCs), fixed interest rates ranging from 2.88% to 7.13%, averaging 3.78%, maturing from 2022 to 2034	9,379	9,357
Equipment loans and other notes payable, fixed and variable interest rates ranging from 2.29% to 4.82%, averaging 3.07%, maturing from 2022 to 2032	3,185	3,433
Special facility revenue bonds, fixed interest rates ranging from 2.25% to 5.38%, maturing from 2026 to 2036	1,129	1,129
	31,529	31,785
Unsecured		
PSP1 Promissory Note, interest only payments until due in April 2030	1,757	1,765
PSP2 Promissory Note, interest only payments until due in January 2031	1,030	1,035
PSP3 Promissory Note, interest only payments until due in April 2031	959	946
6.50% convertible senior notes, interest only payments until due in July 2025	1,000	1,000
3.75% senior notes, interest only payments until due in March 2025	500	500
5.000% senior notes	—	750
	5,246	5,996
Total long-term debt	36,775	37,781
Less: Total unamortized debt discount, premium and issuance costs	421	458
Less: Current maturities	1,933	2,315
Long-term debt, net of current maturities	$ 34,421	$ 35,008

(1) Collectively referred to as the AAdvantage Financing.

As of June 30, 2022, the maximum availability under our revolving credit and other facilities is as follows (in millions):

2013 Revolving Facility	$ 750
2014 Revolving Facility	1,643
April 2016 Revolving Facility	450
Short-term Revolving and Other Facilities	220
Total	$ 3,063

American has an undrawn $150 million short-term revolving credit facility, which was set to expire at the beginning of January 2022 but which has been extended through the beginning of January 2023. American also currently has approximately $70 million of available borrowing base under a cargo receivables facility that was entered into in December 2020 and is set to expire in December 2022. The December 2016 Credit Facilities provide for a revolving credit facility that may be established thereunder in the future.

Secured financings, including revolving credit and other facilities, are collateralized by assets, consisting primarily of aircraft, engines, simulators, aircraft spare parts, airport gate leasehold rights, route authorities, airport slots, certain receivables, certain intellectual property and certain loyalty program assets.

6.50% Convertible Senior Notes

At June 30, 2022, the if-converted value of the 6.50% convertible senior notes due 2025 (the Convertible Notes) did not exceed the principal amount. The last reported sale price per share of our common stock (as defined in the indenture governing our Convertible Notes, the Convertible Notes Indenture) did not exceed 130% of the conversion price of the Convertible Notes for at least 20 of the 30 consecutive trading days ending on June 30, 2022. Accordingly, pursuant to the terms of the Convertible Notes Indenture, the holders of the Convertible Notes cannot convert at their option at any time during the quarter ending September 30, 2022. Each $1,000 principal amount of Convertible Notes is convertible at a rate of 61.7284 shares of our common stock, subject to adjustment as provided in the Convertible Notes Indenture. We may settle conversions by paying or delivering, as applicable, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election.

2022 Financing Activities

2021-1 Aircraft EETCs

In November 2021, American created two pass-through trusts which issued approximately $960 million aggregate face amount of Series 2021-1 Class A and Class B EETCs (the 2021-1 Aircraft EETCs) in connection with the financing of 26 aircraft previously delivered or originally scheduled to be delivered to American through September 2022 (the 2021-1 Aircraft). In 2021, approximately $94 million of the proceeds had been used to purchase equipment notes issued by American in connection with the financing of five aircraft under the 2021-1 Aircraft EETCs, all of which was used to repay existing indebtedness. During the six months ended June 30, 2022, approximately $574 million of proceeds had been used to purchase equipment notes issued by American in connection with the financing of 14 aircraft under the 2021-1 Aircraft EETCs. Interest and principal payments on equipment notes issued in connection with the 2021-1 Aircraft EETCs are payable semi-annually in January and July of each year, with interest payments scheduled to begin in July 2022 and with principal payments scheduled to begin in January 2023. The remaining proceeds of approximately $292 million as of June 30, 2022 were being held in escrow with a depositary for the benefit of the holders of the 2021-1 Aircraft EETCs until such time as American issues additional equipment notes with respect to the remaining 2021-1 Aircraft to the pass-through trusts, which will purchase such additional equipment notes with the escrowed funds. These escrowed funds are not guaranteed by American and are not reported as debt on its condensed consolidated balance sheets because the proceeds held by the depositary for the benefit of the holders of the 2021-1 Aircraft EETCs are not American's assets.

Certain information regarding the 2021-1 Aircraft EETC equipment notes, as of June 30, 2022, is set forth in the table below.

	2021-1 Aircraft EETCs	
	Series A	Series B
Aggregate principal issued	$758 million	$202 million
Remaining escrowed proceeds	$231 million	$61 million
Fixed interest rate per annum	2.875%	3.95%
Maturity date	July 2034	July 2030

Other Financing Activities

During the six months ended June 30, 2022, we repurchased $349 million of unsecured notes on the open market.

6. Income Taxes

At December 31, 2021, we had approximately $17.2 billion of gross federal net operating losses (NOLs) and $3.0 billion of other carryforwards available to reduce future federal taxable income, of which $6.9 billion will expire beginning in 2024 if unused and $13.3 billion can be carried forward indefinitely. We also had approximately $6.0 billion of NOL carryforwards to reduce future state taxable income at December 31, 2021, which will expire in taxable years 2021 through 2041 if unused.

Our ability to use our NOLs and other carryforwards depends on the amount of taxable income generated in future periods. We provide a valuation allowance for our deferred tax assets, which include our NOLs, when it is more likely than not that some portion, or all of our deferred tax assets, will not be realized. We consider all available positive and negative evidence and make certain assumptions in evaluating the realizability of our deferred tax assets. Many factors are considered that impact our assessment of future profitability, including conditions which are beyond our control, such as the health of the economy, the availability and price volatility of aircraft fuel and travel demand. We presently have a $34 million valuation allowance on certain net deferred tax assets related to state NOL carryforwards. There can be no assurance that an additional valuation allowance on our net deferred tax assets will not be required. Such valuation allowance could be material.

During the three and six months ended June 30, 2022, we recorded an income tax provision of $127 million and an income tax benefit of $324 million, respectively.

7. Fair Value Measurements and Other Investments

Assets Measured at Fair Value on a Recurring Basis

We utilize the market approach to measure the fair value of 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, restricted cash and restricted 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 six months ended June 30, 2022.

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

	Fair Value Measurements as of June 30, 2022			
	Total	Level 1	Level 2	Level 3
Short-term investments [1], [2]:				
Money market funds	$ 214	$ 214	$ —	$ —
Corporate obligations	5,859	—	5,859	—
Bank notes/certificates of deposit/time deposits	4,633	—	4,633	—
Repurchase agreements	1,415	—	1,415	—
	12,121	214	11,907	—
Restricted cash and short-term investments [1], [3]	997	582	415	—
Long-term investments [4]	231	231	—	—
Total	$ 13,349	$ 1,027	$ 12,322	$ —

(1) All short-term investments are classified as available-for-sale and stated at fair value. Unrealized gains and losses are recorded in accumulated other comprehensive loss at each reporting period. There were no credit losses.

(2) Our short-term investments mature in one year or less.

(3) Restricted cash and short-term investments primarily include collateral held to support workers' compensation obligations, collateral associated with the payment of interest for the AAdvantage Financing and money market funds to be used to finance a substantial portion of the cost of the renovation and expansion of Terminal 8 at John F. Kennedy International Airport.

(4) Long-term investments include our equity investments in China Southern Airlines, GOL and Vertical. These investments are reflected 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 except for $3.7 billion as of June 30, 2022 and December 31, 2021, which would have been classified as Level 3 in the fair value hierarchy. The fair value of the Convertible Notes, which would have been classified as Level 2, was $1.0 billion and $1.4 billion as of June 30, 2022 and December 31, 2021, respectively.

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

	June 30, 2022		December 31, 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current maturities	$ 36,354	$ 33,472	$ 37,323	$ 38,567

Other Investments

An important part of our strategy to expand our network has been to initiate or expand our commercial relationships with other airlines, such as by entering into global alliances, joint business and codeshare relationships, and, in certain instances, by making an equity investment in another airline or other companies.

GOL

In April 2022, we completed our definitive investment agreement with GOL and invested $200 million in 22.2 million of newly issued preferred shares, representing a 5.3% economic interest in GOL. The total consideration of $200 million has been allocated as follows based on relative fair values: $81 million to the preferred shares and $119 million to the indefinite-lived intangible asset derived from the related commercial agreements. The ownership interest is accounted for at fair value based on GOL's stock price and mark-to-market adjustments are recorded to nonoperating other income, net on the condensed consolidated statements of operations.

8. 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 June 30,	**2022**	**2021**	**2022**	**2021**
Service cost	$ 1	$ 1	$ 3	$ 3
Interest cost	139	131	7	8
Expected return on assets	(285)	(271)	(3)	(3)
Amortization of:				
Prior service cost (benefit)	7	7	(3)	(3)
Unrecognized net loss (gain)	38	52	(6)	(6)
Net periodic benefit income	$ (100)	$ (80)	$ (2)	$ (1)

	Pension Benefits		Retiree Medical and Other Postretirement Benefits	
Six Months Ended June 30,	**2022**	**2021**	**2022**	**2021**
Service cost	$ 2	$ 2	$ 7	$ 5
Interest cost	277	262	15	14
Expected return on assets	(569)	(543)	(6)	(6)
Special termination benefits	—	—	—	139
Amortization of:				
Prior service cost (benefit)	14	14	(7)	(7)
Unrecognized net loss (gain)	77	105	(12)	(11)
Net periodic benefit cost (income)	$ (199)	$ (160)	$ (3)	$ 134

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

The service cost component of net periodic benefit cost (income) is included in operating expenses, the cost for the special termination benefits is included in special items, net and the other components of net periodic benefit cost (income) are included in nonoperating other income, net in the condensed consolidated statements of operations.

During the first quarter of 2021, we remeasured our retiree medical and other postretirement benefits to account for enhanced healthcare benefits provided to eligible team members who opted into voluntary early retirement programs offered as a result of reductions to our operation due to the COVID-19 pandemic. For the six months ended June 30, 2021, we recognized a $139 million special charge for these enhanced healthcare benefits and increased our postretirement benefits obligation by $139 million.

On March 11, 2021, the ARP was enacted, which included funding relief provisions benefiting single employer qualified retirement benefit pension plans such as those sponsored by us. Based on the ARP provisions applicable to our pension plans, we will have no additional funding requirements until 2023.

9. 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 Loss on Investments	Income Tax Benefit (Provision) [(1)]	Total
Balance at December 31, 2021	$ (4,736)	$ (2)	$ (1,204)	$ (5,942)
Other comprehensive income (loss) before reclassifications	—	(5)	1	(4)
Amounts reclassified from AOCI	72	—	(16) [(2)]	56
Net current-period other comprehensive income (loss)	72	(5)	(15)	52
Balance at June 30, 2022	$ (4,664)	$ (7)	$ (1,219)	$ (5,890)

(1) Relates principally to pension, retiree medical and other postretirement benefits obligations that will not be recognized in net income (loss) 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 (benefit) on the condensed consolidated statements of operations.

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

	Amounts reclassified from AOCI				
	Three Months Ended June 30,		Six Months Ended June 30,		
AOCI Components	2022	2021	2022	2021	Affected line items on the condensed consolidated statements of operations
Amortization of pension, retiree medical and other postretirement benefits:					
Prior service cost	$ 3	$ 3	$ 6	$ 6	Nonoperating other income, net
Actuarial loss	25	36	50	73	Nonoperating other income, net
Total reclassifications for the period, net of tax	$ 28	$ 39	$ 56	$ 79	

10. Regional Expenses

Our regional carriers provide scheduled air transportation under the brand name “American Eagle.” The American Eagle carriers include our wholly-owned regional carriers as well as third-party regional carriers. Substantially all of our regional carrier arrangements are in the form of capacity purchase agreements. Expenses associated with American Eagle operations are classified as regional expenses on the condensed consolidated statements of operations.

Regional expenses for the three months ended June 30, 2022 and 2021 include $80 million and $77 million of depreciation and amortization, respectively, and $1 million and $2 million of aircraft rent, respectively. Regional expenses for the six months ended June 30, 2022 and 2021 include $160 million and $159 million of depreciation and amortization, respectively, and $3 million and $4 million of aircraft rent, respectively.

During the three months ended June 30, 2022 and 2021, we recognized $160 million and $91 million, respectively, of expense under our capacity purchase agreement with Republic Airways Inc. (Republic). During the six months ended June 30, 2022 and 2021, we recognized $310 million and $218 million, respectively, of expense under our capacity purchase agreement with Republic. We hold a 25% equity interest in Republic Airways Holdings Inc., the parent company of Republic.

11. Legal Proceedings

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, were named as defendants in approximately 100 putative class action lawsuits alleging unlawful agreements with respect to air passenger capacity. The U.S. lawsuits were consolidated in the Federal District Court for the District of Columbia (the DC Court). On June 15, 2018, we reached a settlement agreement with the plaintiffs in the amount of $45 million to resolve all class claims in the U.S. lawsuits. That settlement was approved by the DC Court on May 13, 2019, however three parties who objected to the settlement have appealed that decision to the United States Court of Appeals for the District of Columbia. We believe these appeals are without merit and intend to vigorously defend against them.

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 (Bankruptcy Court). The complaint named as defendants US Airways Group, US Airways, Inc., AMR Corporation and American, alleged that the effect of the merger of US Airways Group and AMR Corporation (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 Bankruptcy 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 and the parties submitted proposed findings of fact and conclusions of law and made closing arguments in April 2019. On January 29, 2021, the Bankruptcy Court published its decision finding in our favor. On March 25, 2022, the U.S. District Court for the Southern District of New York entered judgment affirming the Bankruptcy Court's decision. Plaintiffs have appealed that decision to the United States Court of Appeals for the Second Circuit, and the plaintiffs' opening brief is due August 2, 2022. We believe this lawsuit is without merit and intend to continue to vigorously defend against it, including against any further appeals by plaintiffs.

Government Antitrust Action Related to the Northeast Alliance. On September 21, 2021, the United States Department of Justice (DOJ), joined by Attorneys General from six states and the District of Columbia, filed an antitrust complaint against American and JetBlue Airways Corporation (JetBlue) alleging that American and JetBlue violated U.S. antitrust laws in connection with the previously disclosed Northeast Alliance arrangement (NEA). We believe the complaint is without merit and intend to defend against it vigorously.

Also on September 21, 2021, the United States Department of Transportation (DOT) published a Clarification Notice relating to the agreement that had been reached between the DOT, American, and JetBlue in January 2021, at the conclusion of the DOT’s review of the NEA (DOT Agreement). The DOT Clarification Notice stated, among other things, that the DOT Agreement remains in force during the pendency of the DOJ action against the NEA and, while the DOT retains independent statutory authority to prohibit unfair methods of competition in air transportation, the DOT intends to defer to DOJ to resolve the antitrust concerns that DOJ has identified with respect to the NEA. The DOT simultaneously published a Notice Staying Proceeding in relation to a complaint by Spirit Airlines, Inc. regarding the NEA, pending resolution of the DOJ action described above.

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.

ITEM 1B. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN AIRLINES, INC.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Operating revenues:				
Passenger	$ 12,223	$ 6,545	$ 20,041	$ 9,724
Cargo	328	326	692	641
Other	870	607	1,584	1,120
Total operating revenues	13,421	7,478	22,317	11,485
Operating expenses:				
Aircraft fuel and related taxes	4,020	1,611	6,522	2,644
Salaries, wages and benefits	3,233	2,860	6,385	5,590
Regional expenses	1,058	639	2,081	1,264
Maintenance, materials and repairs	647	459	1,264	835
Other rent and landing fees	694	686	1,372	1,256
Aircraft rent	345	356	698	706
Selling expenses	504	277	836	427
Depreciation and amortization	501	481	992	959
Special items, net	(5)	(1,288)	152	(2,996)
Other	1,390	958	2,676	1,676
Total operating expenses	12,387	7,039	22,978	12,361
Operating income (loss)	1,034	439	(661)	(876)
Nonoperating income (expense):				
Interest income	41	9	52	18
Interest expense, net	(437)	(447)	(861)	(780)
Other income, net	23	49	117	158
Total nonoperating expense, net	(373)	(389)	(692)	(604)
Income (loss) before income taxes	661	50	(1,353)	(1,480)
Income tax provision (benefit)	140	(1)	(296)	(315)
Net income (loss)	$ 521	$ 51	$ (1,057)	$ (1,165)

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net income (loss)	$ 521	$ 51	$ (1,057)	$ (1,165)
Other comprehensive income (loss), net of tax:				
Pension, retiree medical and other postretirement benefits	28	39	56	105
Investments	(2)	—	(4)	—
Total other comprehensive income, net of tax	26	39	52	105
Total comprehensive income (loss)	$ 547	$ 90	$ (1,005)	$ (1,060)

See accompanying notes to condensed consolidated financial statements.

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

	June 30, 2022 (Unaudited)	December 31, 2021
ASSETS		
Current assets		
Cash	$ 373	$ 265
Short-term investments	12,118	12,155
Restricted cash and short-term investments	997	990
Accounts receivable, net	1,812	1,484
Receivables from related parties, net	6,403	5,547
Aircraft fuel, spare parts and supplies, net	2,160	1,692
Prepaid expenses and other	860	579
Total current assets	24,723	22,712
Operating property and equipment		
Flight equipment	38,413	37,520
Ground property and equipment	9,180	8,966
Equipment purchase deposits	617	517
Total property and equipment, at cost	48,210	47,003
Less accumulated depreciation and amortization	(18,540)	(17,770)
Total property and equipment, net	29,670	29,233
Operating lease right-of-use assets	7,443	7,810
Other assets		
Goodwill	4,091	4,091
Intangibles, net of accumulated amortization of $805 and $786, respectively	2,079	1,988
Deferred tax asset	3,682	3,408
Other assets	1,697	1,903
Total other assets	11,549	11,390
Total assets	$ 73,385	$ 71,145
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Current maturities of long-term debt and finance leases	$ 2,100	$ 1,742
Accounts payable	2,615	1,630
Accrued salaries and wages	1,352	1,385
Air traffic liability	8,969	6,087
Loyalty program liability	3,065	2,896
Operating lease liabilities	1,468	1,496
Other accrued liabilities	2,781	2,628
Total current liabilities	22,350	17,864
Noncurrent liabilities		
Long-term debt and finance leases, net of current maturities	29,727	30,352
Pension and postretirement benefits	4,722	5,020
Loyalty program liability	6,189	6,239
Operating lease liabilities	6,259	6,578
Other liabilities	1,276	1,266
Total noncurrent liabilities	48,173	49,455
Commitments and contingencies		
Stockholder's equity		
Common stock, $1.00 par value; 1,000 shares authorized, issued and outstanding	—	—
Additional paid-in capital	17,193	17,152
Accumulated other comprehensive loss	(5,989)	(6,041)
Retained deficit	(8,342)	(7,285)
Total stockholder's equity	2,862	3,826
Total liabilities and stockholder's equity	$ 73,385	$ 71,145

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Net cash provided by operating activities	$ 2,100	$ 6,134
Cash flows from investing activities:		
Capital expenditures, net of aircraft purchase deposit returns	(1,377)	133
Airport construction projects, net of reimbursements	(156)	(77)
Proceeds from sale of property and equipment	19	161
Proceeds from sale-leaseback transactions	—	163
Sales of short-term investments	10,135	2,837
Purchases of short-term investments	(10,083)	(13,827)
Increase in restricted short-term investments	(10)	(404)
Purchase of equity investment	(200)	—
Other investing activities	—	6
Net cash used in investing activities	(1,672)	(11,008)
Cash flows from financing activities:		
Payments on long-term debt and finance leases	(901)	(5,016)
Proceeds from issuance of long-term debt	574	10,115
Deferred financing costs	—	(165)
Other financing activities	8	—
Net cash provided by (used in) financing activities	(319)	4,934
Net increase in cash and restricted cash	109	60
Cash and restricted cash at beginning of period	400	385
Cash and restricted cash at end of period [1]	$ 509	$ 445
Non-cash transactions:		
Right-of-use (ROU) assets acquired through operating leases	$ 427	$ 704
Property and equipment acquired through finance leases	59	61
Supplemental information:		
Interest paid, net	795	615
Income taxes paid	2	1

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

	2022	2021
Cash	$ 373	$ 305
Restricted cash included in restricted cash and short-term investments	136	140
Total cash and restricted cash	$ 509	$ 445

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 Deficit	Total
Balance at December 31, 2021	$ —	$ 17,152	$ (6,041)	$ (7,285)	$ 3,826
Net loss	—	—	—	(1,578)	(1,578)
Other comprehensive income, net	—	—	26	—	26
Share-based compensation expense	—	23	—	—	23
Balance at March 31, 2022	—	17,175	(6,015)	(8,863)	2,297
Net income	—	—	—	521	521
Other comprehensive income, net	—	—	26	—	26
Share-based compensation expense	—	18	—	—	18
Balance at June 30, 2022	$ —	$ 17,193	$ (5,989)	$ (8,342)	$ 2,862

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Deficit	Total
Balance at December 31, 2020	$ —	$ 17,050	$ (7,194)	$ (5,508)	$ 4,348
Net loss	—	—	—	(1,215)	(1,215)
Other comprehensive income, net	—	—	66	—	66
Share-based compensation expense	—	38	—	—	38
Balance at March 31, 2021	—	17,088	(7,128)	(6,723)	3,237
Net income	—	—	—	51	51
Other comprehensive income, net	—	—	39	—	39
Share-based compensation expense	—	20	—	—	20
Balance at June 30, 2021	$ —	$ 17,108	$ (7,089)	$ (6,672)	$ 3,347

See accompanying notes to condensed consolidated financial statements.

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

1. Basis of Presentation

(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, 2021. 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, the loyalty program, deferred tax assets, as well as pension and retiree medical and other postretirement benefits.

(b) Impact of Coronavirus (COVID-19)

COVID-19 has been declared a global health pandemic by the World Health Organization. COVID-19 has surfaced in nearly all regions of the world, which has driven the implementation of significant, government-imposed measures to prevent or reduce its spread. Ongoing global vaccination efforts and the corresponding lifting of government restrictions in and between many markets resulted in a significant and rapid recovery in demand for air travel. The continued impact of the COVID-19 pandemic, including any increases in infection rates, new variants and renewed governmental action to slow the spread of COVID-19 cannot be estimated.

American's capacity (as measured by available seat miles) continues to be reduced compared to pre-COVID-19 pandemic levels, with total capacity in the second quarter of 2022 down 8.5% as compared to the second quarter of 2019. Domestic capacity in the second quarter of 2022 was down 6.6% while international capacity was down 12.1% as compared to the second quarter of 2019.

While demand for domestic and short-haul international markets has largely recovered to 2019 levels, uncertainty remains regarding the timing of a full recovery. American will continue to match its forward capacity with observed booking trends for future travel and make further adjustments to American's capacity as needed.

2. Special Items, Net

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Fleet impairment (1)	$ —	$ —	$ 149	$ —
PSP Financial Assistance (2)	—	(1,288)	—	(3,170)
Severance expenses (3)	—	—	—	168
Mark-to-market adjustments on bankruptcy obligations, net	—	—	—	6
Other operating special items, net	(5)	—	3	—
Mainline operating special items, net	(5)	(1,288)	152	(2,996)
PSP Financial Assistance (2)	—	(167)	—	(410)
Fleet impairment (1)	—	—	—	27
Regional operating special items, net	—	(167)	—	(383)
Operating special items, net	(5)	(1,455)	152	(3,379)
Mark-to-market adjustments on equity and other investments, net (4)	89	37	90	(13)
Debt refinancing, extinguishment and other, net	—	—	—	26
Nonoperating special items, net	89	37	90	13
Income tax special items, net	(9)	—	(9)	—

(1) Fleet impairment for the six months ended June 30, 2022 included a non-cash impairment charge to write down the carrying value of American's retired Airbus A330 fleet to the estimated fair value due to current market conditions for certain used aircraft. American retired its Airbus A330 fleet in 2020 as a result of the decline in demand for air travel due to the COVID-19 pandemic.

Fleet impairment for the six months ended June 30, 2021 included a non-cash impairment charge to write down regional aircraft resulting from the retirement of the remaining Embraer 140 fleet earlier than planned.

(2) The PSP Financial Assistance represents recognition of a portion of the financial assistance received from the U.S. Department of Treasury pursuant to the payroll support program established under the PSP Extension Law (PSP2) and the American Rescue Plan Act of 2021 (ARP) (PSP3).

(3) Severance expenses include salary and medical costs primarily associated with certain team members who opted into voluntary early retirement programs offered as a result of reductions to American's operation due to the COVID-19 pandemic. Cash payments related to American's voluntary early retirement programs for the three and six months ended June 30, 2022 were approximately $50 million and $140 million, respectively, and approximately $120 million and $290 million for the three and six months ended June 30, 2021, respectively.

(4) Mark-to-market adjustments on equity and other investments, net principally included net unrealized gains and losses associated with American's equity investments in GOL Linhas Aéreas Inteligentes S.A. (GOL), Vertical Aerospace Ltd. (Vertical) and China Southern Airlines Company Limited (China Southern Airlines).

3. Revenue Recognition

Revenue

The following are the significant categories comprising American's operating revenues (in millions):

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Passenger revenue:				
Passenger travel	$ 11,400	$ 5,995	$ 18,613	$ 8,888
Loyalty revenue - travel (1)	823	550	1,428	836
Total passenger revenue	12,223	6,545	20,041	9,724
Cargo	328	326	692	641
Other:				
Loyalty revenue - marketing services (2)	740	529	1,336	986
Other revenue	130	78	248	134
Total other revenue	870	607	1,584	1,120
Total operating revenues	$ 13,421	$ 7,478	$ 22,317	$ 11,485

(1) Loyalty revenue included in passenger revenue is principally comprised of mileage credit redemptions, which were earned from travel or co-branded credit card and other partners.

(2) During the three months ended June 30, 2022 and 2021, cash payments from co-branded credit card and other partners were $1.0 billion and $684 million, respectively. During the six months ended June 30, 2022 and 2021, cash payments from co-branded credit card and other partners were $2.4 billion and $1.7 billion, respectively.

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

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Domestic	$ 9,120	$ 5,444	$ 15,180	$ 8,099
Latin America	1,534	936	2,761	1,417
Atlantic	1,481	125	1,947	147
Pacific	88	40	153	61
Total passenger revenue	$ 12,223	$ 6,545	$ 20,041	$ 9,724

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.

	June 30, 2022	December 31, 2021
	(In millions)	
Loyalty program liability	$ 9,254	$ 9,135
Air traffic liability	8,969	6,087
Total	$ 18,223	$ 15,222

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, 2021	$	9,135
Deferral of revenue		1,596
Recognition of revenue [1]		(1,477)
Balance at June 30, 2022 [2]	$	9,254

(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 generally do not expire as long as that AAdvantage member has any type of qualifying activity at least every 24 months or if the AAdvantage member is the primary holder of a co-branded credit card. As of June 30, 2022, American's current loyalty program liability was $3.1 billion and represents American's current estimate of revenue expected to be recognized in the next 12 months based on historical as well as projected trends, with the balance reflected in long-term loyalty program liability expected to be recognized as revenue in periods thereafter. Given the inherent uncertainty of the current operating environment due to the continued impact of the COVID-19 pandemic, American will continue to monitor redemption patterns and may adjust its estimates in the future.

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 generally one year. Accordingly, any revenue associated with tickets sold for future travel will be recognized within 12 months. For the six months ended June 30, 2022, $3.6 billion of revenue was recognized in passenger revenue that was included in American's air traffic liability at December 31, 2021. In response to the COVID-19 pandemic, American extended the contract duration for certain tickets to September 30, 2022, principally those tickets which were issued in 2020 and 2021. Additionally, American extended the contract duration to December 31, 2022 for tickets to certain international destinations. American also has eliminated change fees for most domestic and international tickets providing more flexibility for customers to change travel plans. Given these changes and the uncertainty surrounding the future demand for air travel, American's estimates of revenue that will be recognized from the air traffic liability for future flown or unused tickets as well as its estimates of refunds may be subject to variability and differ from historical experience.

4. Debt

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

	June 30, 2022	December 31, 2021
Secured		
2013 Term Loan Facility, variable interest rate of 3.37%, installments through 2025	$ 1,752	$ 1,770
2014 Term Loan Facility, variable interest rate of 3.40%, installments through 2027	1,196	1,208
December 2016 Term Loan Facility, variable interest rate of 2.84%, installments through 2023	1,188	1,188
11.75% senior secured notes, interest only payments until due in July 2025	2,500	2,500
10.75% senior secured IP notes, interest only payments until due in February 2026	1,000	1,000
10.75% senior secured LGA/DCA notes, interest only payments until due in February 2026	200	200
5.50% senior secured notes, installments beginning in July 2023 until due in April 2026 (1)	3,500	3,500
5.75% senior secured notes, installments beginning in July 2026 until due in April 2029 (1)	3,000	3,000
AAdvantage Term Loan Facility, variable interest rate of 5.81%, installments beginning in July 2023 through April 2028 (1)	3,500	3,500
Enhanced equipment trust certificates (EETCs), fixed interest rates ranging from 2.88% to 7.13%, averaging 3.78%, maturing from 2022 to 2034	9,379	9,357
Equipment loans and other notes payable, fixed and variable interest rates ranging from 2.29% to 4.82%, averaging 3.07%, maturing from 2022 to 2032	3,185	3,433
Special facility revenue bonds, fixed interest rates ranging from 2.25% to 5.38%, maturing from 2026 to 2036	1,129	1,129
Total long-term debt	31,529	31,785
Less: Total unamortized debt discount, premium and issuance costs	396	428
Less: Current maturities	1,933	1,568
Long-term debt, net of current maturities	$ 29,200	$ 29,789

(1) Collectively referred to as the AAdvantage Financing.

As of June 30, 2022, the maximum availability under American's revolving credit and other facilities is as follows (in millions):

2013 Revolving Facility	$ 750
2014 Revolving Facility	1,643
April 2016 Revolving Facility	450
Short-term Revolving and Other Facilities	220
Total	$ 3,063

American has an undrawn $150 million short-term revolving credit facility, which was set to expire at the beginning of January 2022 but which has been extended through the beginning of January 2023. American also currently has approximately $70 million of available borrowing base under a cargo receivables facility that was entered into in December 2020 and is set to expire in December 2022. The December 2016 Credit Facilities provide for a revolving credit facility that may be established thereunder in the future.

Secured financings, including revolving credit and other facilities, are collateralized by assets, consisting primarily of aircraft, engines, simulators, aircraft spare parts, airport gate leasehold rights, route authorities, airport slots, certain receivables, certain intellectual property and certain loyalty program assets.

2022 Financing Activities

2021-1 Aircraft EETCs

In November 2021, American created two pass-through trusts which issued approximately $960 million aggregate face amount of Series 2021-1 Class A and Class B EETCs (the 2021-1 Aircraft EETCs) in connection with the financing of 26 aircraft previously delivered or originally scheduled to be delivered to American through September 2022 (the 2021-1 Aircraft). In 2021, approximately $94 million of the proceeds had been used to purchase equipment notes issued by American in connection with the financing of five aircraft under the 2021-1 Aircraft EETCs, all of which was used to repay existing indebtedness. During the six months ended June 30, 2022, approximately $574 million of proceeds had been used to purchase equipment notes issued by American in connection with the financing of 14 aircraft under the 2021-1 Aircraft EETCs. Interest and principal payments on equipment notes issued in connection with the 2021-1 Aircraft EETCs are payable semi-annually in January and July of each year, with interest payments scheduled to begin in July 2022 and with principal payments scheduled to begin in January 2023. The remaining proceeds of approximately $292 million as of June 30, 2022 were being held in escrow with a depositary for the benefit of the holders of the 2021-1 Aircraft EETCs until such time as American issues additional equipment notes with respect to the remaining 2021-1 Aircraft to the pass-through trusts, which will purchase such additional equipment notes with the escrowed funds. These escrowed funds are not guaranteed by American and are not reported as debt on its condensed consolidated balance sheets because the proceeds held by the depositary for the benefit of the holders of the 2021-1 Aircraft EETCs are not American's assets.

Certain information regarding the 2021-1 Aircraft EETC equipment notes, as of June 30, 2022, is set forth in the table below.

	2021-1 Aircraft EETCs	
	Series A	**Series B**
Aggregate principal issued	$758 million	$202 million
Remaining escrowed proceeds	$231 million	$61 million
Fixed interest rate per annum	2.875%	3.95%
Maturity date	July 2034	July 2030

5. Income Taxes

At December 31, 2021, American had approximately $17.1 billion of gross federal net operating losses (NOLs) and $2.4 billion of other carryforwards available to reduce future federal taxable income, of which $7.3 billion will expire beginning in 2024 if unused and $12.2 billion can be carried forward indefinitely. American is a member of AAG's consolidated federal and certain state income tax returns. American also had approximately $ 6.0 billion of NOL carryforwards to reduce future state taxable income at December 31, 2021, which will expire in taxable years 2021 through 2041 if unused.

American's ability to use its NOLs and other carryforwards depends on the amount of taxable income generated in future periods. American provides a valuation allowance for its deferred tax assets, which include the NOLs, when it is more likely than not that some portion, or all of its deferred tax assets, will not be realized. American considers all available positive and negative evidence and makes certain assumptions in evaluating the realizability of its deferred tax assets. Many factors are considered that impact American's assessment of future profitability, including conditions which are beyond its control, such as the health of the economy, the availability and price volatility of aircraft fuel and travel demand. American presently has a $24 million valuation allowance on certain net deferred tax assets related to state NOL carryforwards. There can be no assurance that an additional valuation allowance on American's net deferred tax assets will not be required. Such valuation allowance could be material.

During the three and six months ended June 30, 2022, American recorded an income tax provision of $140 million and an income tax benefit of $296 million, respectively.

6. Fair Value Measurements and Other Investments

Assets Measured at Fair Value on a Recurring Basis

American utilizes the market approach to measure the fair value of 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, restricted cash and restricted 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 six months ended June 30, 2022.

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

	Fair Value Measurements as of June 30, 2022			
	Total	Level 1	Level 2	Level 3
Short-term investments [1], [2]:				
Money market funds	$ 212	$ 212	$ —	$ —
Corporate obligations	5,859	—	5,859	—
Bank notes/certificates of deposit/time deposits	4,632	—	4,632	—
Repurchase agreements	1,415	—	1,415	—
	12,118	212	11,906	—
Restricted cash and short-term investments [1], [3]	997	582	415	—
Long-term investments [4]	231	231	—	—
Total	$ 13,346	$ 1,025	$ 12,321	$ —

(1) All short-term investments are classified as available-for-sale and stated at fair value. Unrealized gains and losses are recorded in accumulated other comprehensive loss at each reporting period. There were no credit losses.

(2) American's short-term investments mature in one year or less.

(3) Restricted cash and short-term investments primarily include collateral held to support workers' compensation obligations, collateral associated with the payment of interest for the AAdvantage Financing and money market funds to be used to finance a substantial portion of the cost of the renovation and expansion of Terminal 8 at John F. Kennedy International Airport.

(4) Long-term investments include American's equity investments in China Southern Airlines, GOL and Vertical. These investments are reflected 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.

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

	June 30, 2022		December 31, 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current maturities	$ 31,133	$ 29,544	$ 31,357	$ 32,999

Other Investments

An important part of American's strategy to expand its network has been to initiate or expand its commercial relationships with other airlines, such as by entering into global alliances, joint business and codeshare relationships, and, in certain instances, by making an equity investment in another airline or other companies.

GOL

In April 2022, American completed its definitive investment agreement with GOL and invested $200 million in 22.2 million of newly issued preferred shares, representing a 5.3% economic interest in GOL. The total consideration of $200 million has been allocated as follows based on relative fair values: $81 million to the preferred shares and $119 million to the indefinite-lived intangible asset derived from the related commercial agreements. The ownership interest is accounted for at fair value based on GOL's stock price and mark-to-market adjustments are recorded to nonoperating other income, net on the condensed consolidated statements of operations.

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 June 30,	**2022**	**2021**	**2022**	**2021**
Service cost	$ 1	$ 1	$ 3	$ 3
Interest cost	138	130	7	8
Expected return on assets	(283)	(270)	(3)	(3)
Amortization of:				
Prior service cost (benefit)	7	7	(3)	(3)
Unrecognized net loss (gain)	38	52	(6)	(6)
Net periodic benefit income	$ (99)	$ (80)	$ (2)	$ (1)

	Pension Benefits		Retiree Medical and Other Postretirement Benefits	
Six Months Ended June 30,	**2022**	**2021**	**2022**	**2021**
Service cost	$ 2	$ 2	$ 7	$ 5
Interest cost	275	261	15	14
Expected return on assets	(567)	(540)	(6)	(6)
Special termination benefits	—	—	—	139
Amortization of:				
Prior service cost (benefit)	14	14	(7)	(7)
Unrecognized net loss (gain)	77	104	(12)	(11)
Net periodic benefit cost (income)	$ (199)	$ (159)	$ (3)	$ 134

Effective November 1, 2012, substantially all of American's defined benefit pension plans were frozen.

The service cost component of net periodic benefit cost (income) is included in operating expenses, the cost for the special termination benefits is included in special items, net and the other components of net periodic benefit cost (income) are included in nonoperating other income, net in the condensed consolidated statements of operations.

During the first quarter of 2021, American remeasured its retiree medical and other postretirement benefits to account for enhanced healthcare benefits provided to eligible team members who opted into voluntary early retirement programs offered as a result of reductions to its operation due to the COVID-19 pandemic. For the six months ended June 30, 2021, American recognized a $139 million special charge for these enhanced healthcare benefits and increased its postretirement benefits obligation by $139 million.

On March 11, 2021, the ARP was enacted, which included funding relief provisions benefiting single employer qualified retirement benefit pension plans such as those sponsored by American. Based on the ARP provisions applicable to its pension plans, American will have no additional funding requirements until 2023.

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 Loss on Investments	Income Tax Benefit (Provision) (1)	Total
Balance at December 31, 2021	$ (4,724)	$ (2)	$ (1,315)	$ (6,041)
Other comprehensive income (loss) before reclassifications	—	(5)	1	(4)
Amounts reclassified from AOCI	72	—	(16) (2)	56
Net current-period other comprehensive income (loss)	72	(5)	(15)	52
Balance at June 30, 2022	$ (4,652)	$ (7)	$ (1,330)	$ (5,989)

(1) Relates principally to pension, retiree medical and other postretirement benefits obligations that will not be recognized in net income (loss) 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 (benefit) on the condensed consolidated statements of operations.

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

	Amounts reclassified from AOCI				
	Three Months Ended June 30,		Six Months Ended June 30,		
AOCI Components	2022	2021	2022	2021	Affected line items on the condensed consolidated statements of operations
Amortization of pension, retiree medical and other postretirement benefits:					
Prior service cost	$ 3	$ 3	$ 6	$ 6	Nonoperating other income, net
Actuarial loss	25	36	50	72	Nonoperating other income, net
Total reclassifications for the period, net of tax	$ 28	$ 39	$ 56	$ 78	

9. Regional Expenses

American's regional carriers provide scheduled air transportation under the brand name “American Eagle.” The American Eagle carriers include AAG's wholly-owned regional carriers as well as third-party regional carriers. Substantially all of American's regional carrier arrangements are in the form of capacity purchase agreements. Expenses associated with American Eagle operations are classified as regional expenses on the condensed consolidated statements of operations.

Regional expenses for the three months ended June 30, 2022 and 2021 include $67 million and $64 million of depreciation and amortization, respectively, and $1 million and $2 million of aircraft rent, respectively. Regional expenses for the six months ended June 30, 2022 and 2021 include $134 million and $132 million of depreciation and amortization, respectively, and $3 million and $4 million of aircraft rent, respectively.

During the three months ended June 30, 2022 and 2021, American recognized $160 million and $91 million, respectively, of expense under its capacity purchase agreement with Republic Airways Inc. (Republic). During the six months ended June 30, 2022 and 2021, American recognized $310 million and $218 million, respectively, of expense under its capacity purchase agreement with 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):

	June 30, 2022	December 31, 2021
AAG [(1)]	$ 8,493	$ 7,613
AAG's wholly-owned subsidiaries [(2)]	(2,090)	(2,066)
Total	$ 6,403	$ 5,547

(1) The increase in American's net related party receivable from AAG is primarily due to American providing the cash funding for AAG's financing transactions.

(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

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, were named as defendants in approximately 100 putative class action lawsuits alleging unlawful agreements with respect to air passenger capacity. The U.S. lawsuits were consolidated in the Federal District Court for the District of Columbia (the DC Court). On June 15, 2018, American reached a settlement agreement with the plaintiffs in the amount of $45 million to resolve all class claims in the U.S. lawsuits. That settlement was approved by the DC Court on May 13, 2019, however three parties who objected to the settlement have appealed that decision to the United States Court of Appeals for the District of Columbia. American believes these appeals are without merit and intends to vigorously defend against them.

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 (Bankruptcy Court). The complaint named as defendants US Airways Group, US Airways, Inc., AMR Corporation and American, alleged that the effect of the merger of US Airways Group and AMR Corporation (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 Bankruptcy 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 and the parties submitted proposed findings of fact and conclusions of law and made closing arguments in April 2019. On January 29, 2021, the Bankruptcy Court published its decision finding in American's favor. On March 25, 2022, the U.S. District Court for the Southern District of New York entered judgment affirming the Bankruptcy Court's decision. Plaintiffs have appealed that decision to the United States Court of Appeals for the Second Circuit, and the plaintiffs' opening brief is due August 2, 2022. American believes this lawsuit is without merit and intends to continue to vigorously defend against it, including against any further appeals by plaintiffs.

Government Antitrust Action Related to the Northeast Alliance. On September 21, 2021, the United States Department of Justice (DOJ), joined by Attorneys General from six states and the District of Columbia, filed an antitrust complaint against American and JetBlue Airways Corporation (JetBlue) alleging that American and JetBlue violated U.S. antitrust laws in connection with the previously disclosed Northeast Alliance arrangement (NEA). American believes this complaint is without merit and intends to defend against it vigorously.

Also on September 21, 2021, the United States Department of Transportation (DOT) published a Clarification Notice relating to the agreement that had been reached between the DOT, American, and JetBlue in January 2021, at the conclusion of the DOT's review of the NEA (DOT Agreement). The DOT Clarification Notice stated, among other things, that the DOT Agreement remains in force during the pendency of the DOJ action against the NEA and, while the DOT retains independent statutory authority to prohibit unfair methods of competition in air transportation, the DOT intends to defer to DOJ to resolve the antitrust concerns that DOJ has identified with respect to the NEA. The DOT simultaneously published a Notice Staying Proceeding in relation to a complaint by Spirit Airlines, Inc. regarding the NEA, pending resolution of the DOJ action described above.

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.

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, 2021 (the 2021 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 2021 Form 10-K.

Financial Overview

Impact of Coronavirus (COVID-19)

COVID-19 has been declared a global health pandemic by the World Health Organization. COVID-19 has surfaced in nearly all regions of the world, which has driven the implementation of significant, government-imposed measures to prevent or reduce its spread. Ongoing global vaccination efforts and the corresponding lifting of government restrictions in and between many markets resulted in a significant and rapid recovery in demand for air travel. The continued impact of the COVID-19 pandemic, including any increases in infection rates, new variants and renewed governmental action to slow the spread of COVID-19 cannot be estimated.

Our capacity (as measured by available seat miles) continues to be reduced compared to pre-COVID-19 pandemic levels, with total capacity in the second quarter of 2022 down 8.5% as compared to the second quarter of 2019. Domestic capacity in the second quarter of 2022 was down 6.6% while international capacity was down 12.1% as compared to the second quarter of 2019.

While demand for domestic and short-haul international markets has largely recovered to 2019 levels, uncertainty remains regarding the timing of a full recovery. We will continue to match our forward capacity with observed booking trends for future travel and make further adjustments to our capacity as needed.

Liquidity

As of June 30, 2022, we had $15.6 billion in total available liquidity, consisting of $12.5 billion in unrestricted cash and short-term investments, $2.8 billion in undrawn capacity under revolving credit facilities and a total of $220 million in undrawn short-term revolving and other facilities.

During the first six months of 2022, we completed the following financing transactions (see Note 5 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A for further information):

- received approximately $574 million in proceeds from enhanced equipment trust certificates (EETCs); and
- repurchased $349 million of unsecured notes on the open market.

A significant portion of our debt financing agreements 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/or contain covenants requiring us to meet certain loan to value, collateral coverage and/or peak debt service coverage ratios.

Given our current assumptions about the future impact of the COVID-19 pandemic on travel demand, which could be materially different due to the inherent uncertainties of the current operating environment, we expect to meet our cash obligations as well as remain in compliance with the debt covenants in our existing financing agreements for the next 12 months based on our current level of unrestricted cash and short-term investments, our anticipated access to liquidity (including via proceeds from financings) and projected cash flows from operations.

AAG's Second Quarter 2022 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.

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Increase	Percent Increase [2]
	(In millions, except percentage changes)			
Passenger revenue	$ 12,223	$ 6,545	$ 5,678	86.8
Cargo revenue	328	326	2	0.5
Other operating revenue	871	607	264	43.5
Total operating revenues	13,422	7,478	5,944	79.5
Aircraft fuel and related taxes	4,020	1,611	2,409	nm [3]
Salaries, wages and benefits	3,235	2,862	373	13.0
Total operating expenses	12,405	7,037	5,368	76.3
Operating income	1,017	441	576	nm
Pre-tax income	603	9	594	nm
Income tax provision (benefit)	127	(10)	137	nm
Net income	476	19	457	nm
Pre-tax income – GAAP	$ 603	$ 9	$ 594	nm
Adjusted for: pre-tax net special items [1]	84	(1,418)	1,502	nm
Pre-tax income (loss) excluding net special items	$ 687	$ (1,409)	$ 2,096	nm

(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 for details on the components of net special items.

(2) Fluctuations may not be meaningful due to the volatility caused by the COVID-19 pandemic.

(3) Not meaningful or greater than 100% change.

Pre-Tax Income and Net Income

Pre-tax income and net income were $603 million and $476 million, respectively, in the second quarter of 2022. This compares to second quarter 2021 pre-tax income and net income of $9 million and $19 million, respectively. The quarter-over-quarter increase in our pre-tax income on a GAAP basis was due to higher passenger revenue driven by a significant recovery in demand for air travel, offset in part by increased aircraft fuel and related taxes, primarily as a result of an increase in the average price per gallon of aircraft fuel and a 21.3% increase in capacity as compared to the second quarter of 2021. The second quarter of 2021 also includes the recognition of $1.4 billion of net pre-tax special credits principally related to PSP Financial Assistance. See Note 2 to AAG's Condensed Consolidated Financial Statement in Part I, Item 1A for further information on net special items.

Excluding the effects of pre-tax net special items, pre-tax income was $687 million in the second quarter of 2022 and pre-tax loss was $1.4 billion in the second quarter of 2021. The quarter-over-quarter improvement in our pre-tax income excluding pre-tax net special items was primarily due to higher passenger revenue driven by a significant recovery in demand for air travel, offset in part by increased aircraft fuel and related taxes, as described above.

Revenue

In the second quarter of 2022, we reported total operating revenues of $13.4 billion, an increase of $5.9 billion, or 79.5%, as compared to the second quarter of 2021. Passenger revenue was $12.2 billion in the second quarter of 2022, an increase of $5.7 billion, or 86.8%, as compared to the second quarter of 2021. The increase in passenger revenue in the second quarter of 2022 was due to a 36.9% increase in revenue passenger miles (RPMs), driven by a significant recovery in demand for air travel, resulting in an 86.9% load factor in the second quarter of 2022, and a 36.4% increase in passenger yield.

Other operating revenue increased $264 million, or 43.5%, as compared to the second quarter of 2021, driven primarily by higher revenue associated with our loyalty program. During the three months ended June 30, 2022 and 2021, cash payments from co-branded credit card and other partners were $1.0 billion and $684 million, respectively.

Our total revenue per available seat mile (TRASM) was 20.29 cents in the second quarter of 2022, a 48.0% increase as compared to 13.71 cents in the second quarter of 2021.

Fuel

Aircraft fuel expense was $4.0 billion in the second quarter of 2022, which was $2.4 billion higher as compared to the second quarter of 2021. This increase was primarily driven by an increase in the average price per gallon of aircraft fuel including related taxes to $4.03 in the second quarter of 2022 from $1.91 in the second quarter of 2021 and an 18.1% increase in gallons of fuel consumed principally due to increased capacity.

As of June 30, 2022, we did not have any fuel hedging contracts outstanding to hedge our fuel consumption. 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. 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.

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: general economic conditions and the price of fuel. In particular, the onset of the COVID-19 pandemic resulted in a very rapid deterioration in general economic conditions, and the subsequent rapid economic expansion resulted in significant inflationary pressures, including on the cost of fuel.

Our 2022 second quarter total operating cost per available seat mile (CASM) was 18.75 cents, an increase of 45.3%, from 12.90 cents in the second quarter of 2021. This increase in CASM was primarily driven by higher aircraft fuel and related taxes in the second quarter of 2022, as described above, and the recognition of $1.5 billion of net special credits in the second quarter of 2021 related to PSP Financial Assistance.

Our 2022 second quarter CASM excluding net special items and fuel was 12.68 cents, an increase of 0.5%, from 12.61 cents in the second quarter of 2021.

For a reconciliation of CASM to CASM excluding net special items and fuel, see below *"Reconciliation of GAAP to Non-GAAP Financial Measures."*

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 accounting principles generally accepted in the U.S. (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 (loss) (GAAP measure) to pre-tax income (loss) excluding net 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 net special items may vary from period-to-period in nature and amount, the adjustment to exclude net special items allows management an additional tool to understand our core operating performance.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(In millions)			
Reconciliation of Pre-Tax Income (Loss) Excluding Net Special Items:				
Pre-tax income (loss) – GAAP	$ 603	$ 9	$ (1,483)	$ (1,564)
Pre-tax net special items [(1)]:				
Operating special items, net	(5)	(1,455)	152	(3,377)
Nonoperating special items, net	89	37	92	13
Total pre-tax net special items	84	(1,418)	244	(3,364)
Pre-tax income (loss) excluding net special items	$ 687	$ (1,409)	$ (1,239)	$ (4,928)

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

Additionally, the table below presents the reconciliation of total operating costs (GAAP measure) to total operating costs excluding net special items and fuel (non-GAAP measure) and CASM to CASM excluding net special items and fuel. Management uses total operating costs excluding net special items and fuel and CASM excluding net 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 fuel and net 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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Reconciliation of CASM Excluding Net Special Items and Fuel:				
(In millions)				
Total operating expenses – GAAP	$ 12,405	$ 7,037	$ 23,027	$ 12,360
Operating net special items [1]:				
Mainline operating special items, net	5	1,288	(152)	2,996
Regional operating special items, net	—	167	—	381
Aircraft fuel and related taxes	(4,020)	(1,611)	(6,522)	(2,644)
Total operating expenses, excluding net special items and fuel	$ 8,390	$ 6,881	$ 16,353	$ 13,093
Total Available Seat Miles (ASM)	66,163	54,555	125,697	92,319
(In cents)				
CASM	18.75	12.90	18.32	13.39
Operating net special items per ASM [1]:				
Mainline operating special items, net	0.01	2.36	(0.12)	3.25
Regional operating special items, net	—	0.31	—	0.41
Aircraft fuel and related taxes per ASM	(6.08)	(2.95)	(5.19)	(2.86)
CASM, excluding net special items and fuel	12.68	12.61	13.01	14.18

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

AAG's Results of Operations

Operating Statistics

The table below sets forth selected operating data for the three and six months ended June 30, 2022 and 2021. Amounts may not recalculate due to rounding.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	2021	Increase	2022	2021	Increase
Revenue passenger miles (millions) [(a)]	57,516	42,022	36.9%	101,806	64,486	57.9%
Available seat miles (millions) [(b)]	66,163	54,555	21.3%	125,697	92,319	36.2%
Passenger load factor (percent) [(c)]	86.9	77.0	9.9pts	81.0	69.9	11.1pts
Yield (cents) [(d)]	21.25	15.57	36.4%	19.69	15.08	30.5%
Passenger revenue per available seat mile (cents) [(e)]	18.47	12.00	54.0%	15.94	10.53	51.4%
Total revenue per available seat mile (cents) [(f)]	20.29	13.71	48.0%	17.76	12.44	42.7%
Fuel consumption (gallons in millions)	997	844	18.1%	1,891	1,452	30.2%
Average aircraft fuel price including related taxes (dollars per gallon)	4.03	1.91	nm	3.45	1.82	89.4%
Total operating cost per available seat mile (cents) [(g)]	18.75	12.90	45.3%	18.32	13.39	36.8%
Aircraft at end of period [(h)]	1,471	1,413	4.1%	1,471	1,413	4.1%
Full-time equivalent employees at end of period	129,200	117,400	10.1%	129,200	117,400	10.1%

(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) Total operating cost per available seat mile (CASM) – Total operating expenses divided by ASMs.

(h) Includes aircraft owned and leased by American as well as aircraft operated by third-party regional carriers under capacity purchase agreements. Excludes 20 mainline aircraft and 19 regional aircraft that are in temporary storage at June 30, 2022 as follows: 20 Boeing 737-800, 15 Embraer 145 and four Embraer 170.

Three Months Ended June 30, 2022 Compared to Three Months Ended June 30, 2021

Operating Revenues

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Increase	Percent Increase
	(In millions, except percentage changes)			
Passenger	$ 12,223	$ 6,545	$ 5,678	86.8
Cargo	328	326	2	0.5
Other	871	607	264	43.5
Total operating revenues	$ 13,422	$ 7,478	$ 5,944	79.5

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

	Three Months Ended June 30, 2022	Increase vs. Three Months Ended June 30, 2021: RPMs	ASMs	Load Factor	Passenger Yield	PRASM
	(In millions)					
Passenger revenue	$ 12,223	36.9%	21.3%	9.9pts	36.4%	54.0%

Passenger revenue increased $5.7 billion, or 86.8%, in the second quarter of 2022 from the second quarter of 2021 primarily due to a 36.9% increase in RPMs, driven by a significant recovery in demand for air travel, resulting in an 86.9% load factor in the second quarter of 2022, and a 36.4% increase in passenger yield.

Other operating revenue increased $264 million, or 43.5%, as compared to the second quarter of 2021, driven primarily by higher revenue associated with our loyalty program.

Total operating revenues in the second quarter of 2022 increased $5.9 billion, or 79.5%, from the second quarter of 2021 driven principally by the increase in passenger revenue as described above. Our TRASM increased 48.0% to 20.29 cents in the second quarter of 2022 from 13.71 cents in the second quarter of 2021.

Operating Expenses

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Aircraft fuel and related taxes	$ 4,020	$ 1,611	$ 2,409	nm
Salaries, wages and benefits	3,235	2,862	373	13.0
Regional expenses	1,072	635	437	68.5
Maintenance, materials and repairs	647	459	188	40.9
Other rent and landing fees	694	686	8	1.2
Aircraft rent	345	356	(11)	(2.9)
Selling expenses	504	277	227	82.2
Depreciation and amortization	504	481	23	4.8
Mainline operating special items, net	(5)	(1,288)	1,283	(99.6)
Other	1,389	958	431	45.0
Total operating expenses	$ 12,405	$ 7,037	$ 5,368	76.3

Total operating expenses increased $5.4 billion, or 76.3%, in the second quarter of 2022 from the second quarter of 2021 driven by higher aircraft fuel and related taxes and other expenses, primarily as a result of an increase in the average price per gallon of aircraft fuel and increased capacity, as well as an increase in net operating special items related to the $1.5 billion of PSP Financial Assistance recognized as a net special credit in the second quarter of 2021. See further discussion of operating special items, net below.

Aircraft fuel and related taxes increased $2.4 billion in the second quarter of 2022 from the second quarter of 2021 primarily due to an increase in the average price per gallon of aircraft fuel including related taxes to $4.03 in the second quarter of 2022 from $1.91 in the second quarter of 2021 and an 18.1% increase in gallons of fuel consumed principally due to increased capacity.

Salaries, wages and benefits increased $373 million, or 13.0%, in the second quarter of 2022 from the second quarter of 2021 primarily due to a 12.1% increase in mainline full-time equivalent employees subsequent to the second quarter of 2021.

Regional expenses increased $437 million, or 68.5%, in the second quarter of 2022 from the second quarter of 2021 primarily due to pay rate increases and retention bonuses offered at our wholly-owned regional carriers as well as contractual rate increases with our third-party regional carriers. The second quarter of 2021 also includes the recognition of $167 million of PSP Financial Assistance as a regional operating special credit.

Maintenance, materials and repairs increased $188 million, or 40.9%, in the second quarter of 2022 from the second quarter of 2021 primarily due to increased capacity and an increase in the volume of engine overhauls performed under time and material contracts where expense is incurred and recognized as maintenance is performed.

Selling expenses increased $227 million, or 82.2%, in the second quarter of 2022 from the second quarter of 2021 due to higher credit card fees, commission expense and booking fees driven by the overall increase in revenues.

Other operating expenses increased $431 million, or 45.0%, in the second quarter of 2022 from the second quarter of 2021 primarily as a result of increased capacity and expenses associated with improving our product offerings, customer experience and operational reliability.

Operating Special Items, Net

	Three Months Ended June 30,	
	2022	2021
	(In millions)	
PSP Financial Assistance [1]	$ —	$ (1,288)
Other operating special items, net	(5)	—
Mainline operating special items, net	(5)	(1,288)
PSP Financial Assistance [1]	—	(167)
Regional operating special items, net	—	(167)
Operating special items, net	$ (5)	$ (1,455)

(1) The PSP Financial Assistance represents recognition of a portion of the financial assistance received from the U.S. Department of Treasury (Treasury) pursuant to the payroll support program established under the PSP Extension Law (PSP2) and the American Rescue Plan Act of 2021 (ARP) (PSP3).

Nonoperating Results

	Three Months Ended June 30,		Increase (Decrease)	Percent Increase (Decrease)
	2022	2021		
	(In millions, except percentage changes)			
Interest income	$ 29	$ 5	$ 24	nm
Interest expense, net	(468)	(486)	18	(3.7)
Other income, net	25	49	(24)	(50.4)
Total nonoperating expense, net	$ (414)	$ (432)	$ 18	(4.0)

Interest income increased in the second quarter of 2022 compared to the second quarter of 2021 primarily as a result of higher returns on our short-term investments.

In the second quarter of 2022, other nonoperating income, net primarily included $106 million of non-service related pension and other postretirement benefit plan income, offset in part by $89 million of net special charges principally for mark-to-market net unrealized losses associated with our equity investments in Vertical Aerospace Ltd. (Vertical), GOL Linhas Aéreas Inteligentes S.A. (GOL) and China Southern Airlines Company Limited (China Southern Airlines).

In the second quarter of 2021, other nonoperating income, net included $85 million of non-service related pension and other postretirement benefit plan income, offset in part by $37 million of net special charges principally for mark-to-market net unrealized losses associated with our equity investment in China Southern Airlines.

Income Taxes

In the second quarter of 2022, we recorded an income tax provision of $127 million. Substantially all of our income or loss before income taxes is attributable to the United States.

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

Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021

Operating Revenues

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021	Increase	Percent Increase
	(In millions, except percentage changes)			
Passenger	$ 20,041	$ 9,724	$ 10,317	nm
Cargo	692	641	51	7.8
Other	1,588	1,121	467	41.7
Total operating revenues	$ 22,321	$ 11,486	$ 10,835	94.3

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

	Six Months Ended June 30, 2022	Increase vs. Six Months Ended June 30, 2021				
		RPMs	ASMs	Load Factor	Passenger Yield	PRASM
	(In millions)					
Passenger revenue	$ 20,041	57.9%	36.2%	11.1pts	30.5%	51.4%

Passenger revenue increased $10.3 billion in the first six months of 2022 from the first six months of 2021 primarily due to a 57.9% increase in RPMs, driven by a significant recovery in demand for air travel, resulting in an 81.0% load factor in the first six months of 2022, and a 30.5% increase in passenger yield.

Cargo revenue increased $51 million, or 7.8%, in the first six months of 2022 from the first six months of 2021 primarily due to a 13.1% increase in cargo yield, offset in part by a 4.7% decrease in cargo ton miles driven by the reduced operation of cargo-only flights.

Other operating revenue increased $467 million, or 41.7%, in the first six months of 2022 from the first six months of 2021, driven primarily by higher revenue associated with our loyalty program.

Total operating revenues in the first six months of 2022 increased $10.8 billion, or 94.3%, from the first six months of 2021 driven principally by the increase in passenger revenue as described above. Our TRASM increased 42.7% to 17.76 cents in the first six months of 2022 from 12.44 cents in the first six months of 2021.

Operating Expenses

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Aircraft fuel and related taxes	$ 6,522	$ 2,644	$ 3,878	nm
Salaries, wages and benefits	6,389	5,593	796	14.2
Regional expenses	2,124	1,261	863	68.4
Maintenance, materials and repairs	1,264	835	429	51.3
Other rent and landing fees	1,372	1,256	116	9.2
Aircraft rent	698	706	(8)	(1.1)
Selling expenses	836	427	409	95.8
Depreciation and amortization	995	959	36	3.8
Mainline operating special items, net	152	(2,996)	3,148	nm
Other	2,675	1,675	1,000	59.8
Total operating expenses	$ 23,027	$ 12,360	$ 10,667	86.3

Total operating expenses increased $10.7 billion, or 86.3%, in the first six months of 2022 from the first six months of 2021 driven by higher aircraft fuel and related taxes and other expenses, primarily as a result of an increase in the average price per gallon of aircraft fuel and increased capacity, as well as an increase in net operating special items principally related to the $3.6 billion of PSP Financial Assistance recognized as a net special credit in the first six months of 2021. See further discussion of operating special items, net below.

Aircraft fuel and related taxes increased $3.9 billion in the first six months of 2022 from the first six months of 2021 primarily due to an 89.4% increase in the average price per gallon of aircraft fuel including related taxes to $3.45 in the first six months of 2022 from $1.82 in the first six months of 2021 and a 30.2% increase in gallons of fuel consumed principally due to increased capacity.

Salaries, wages and benefits increased $796 million, or 14.2%, in the first six months of 2022 from the first six months of 2021 primarily due to a 12.1% increase in mainline full-time equivalent employees subsequent to the second quarter of 2021.

Regional expenses increased $863 million, or 68.4%, in the first six months of 2022 from the first six months of 2021 primarily due to increased capacity, pay rate increases and retention bonuses offered at our wholly-owned regional carriers, as well as contractual rate increases with our third-party regional carriers. The first six months of 2021 also includes the recognition of $410 million of PSP Financial Assistance as a regional operating special credit.

Maintenance, materials and repairs increased $429 million, or 51.3%, in the first six months of 2022 from the first six months of 2021 primarily due to increased capacity and an increase in the volume of engine overhauls performed under time and material contracts where expense is incurred and recognized as maintenance is performed.

Other rent and landing fees increased $116 million, or 9.2%, in the first six months of 2022 from the first six months of 2021 primarily due to an increase in landing fees as a result of increased departures.

Selling expenses increased $409 million, or 95.8%, in the first six months of 2022 from the first six months of 2021 due to higher credit card fees, commission expense and booking fees driven by the overall increase in revenues.

Other operating expenses increased $1.0 billion, or 59.8%, in the first six months of 2022 from the first six months of 2021 primarily as a result of increased capacity and expenses associated with improving our product offerings, customer experience and operational reliability.

Operating Special Items, Net

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
	(In millions)	
Fleet impairment [1]	$ 149	$ —
PSP Financial Assistance [2]	—	(3,170)
Severance expenses [3]	—	168
Mark-to-market adjustments on bankruptcy obligations, net	—	6
Other operating special items, net	3	—
Mainline operating special items, net	152	(2,996)
PSP Financial Assistance [2]	—	(410)
Fleet impairment [1]	—	27
Severance expenses [3]	—	2
Regional operating special items, net	—	(381)
Operating special items, net	$ 152	$ (3,377)

(1) Fleet impairment for the six months ended June 30, 2022 included a non-cash impairment charge to write down the carrying value of our retired Airbus A330 fleet to the estimated fair value due to current market conditions for certain used aircraft. We retired our Airbus A330 fleet in 2020 as a result of the decline in demand for air travel due to the COVID-19 pandemic.

Fleet impairment for the six months ended June 30, 2021 included a non-cash impairment charge to write down regional aircraft resulting from the retirement of the remaining Embraer 140 fleet earlier than planned.

(2) The PSP Financial Assistance represents recognition of a portion of the financial assistance received from Treasury pursuant to the payroll support program established under PSP2 and PSP3.

(3) Severance expenses include salary and medical costs primarily associated with certain team members who opted into voluntary early retirement programs offered as a result of reductions to our operation due to the COVID-19 pandemic. Cash payments related to our voluntary early retirement programs for the six months ended June 30, 2022 and 2021 were approximately $140 million and $290 million, respectively.

Nonoperating Results

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Interest income	$ 37	$ 8	$ 29	nm
Interest expense, net	(932)	(856)	(76)	8.8
Other income, net	118	158	(40)	(25.7)
Total nonoperating expense, net	$ (777)	$ (690)	$ (87)	12.6

Interest income increased in the first six months of 2022 compared to the first six months of 2021 primarily as a result of higher returns on our short-term investments.

Interest expense, net increased in the first six months of 2022 compared to the first six months of 2021 primarily due to the impact of the AAdvantage Financing issued at the end of the first quarter of 2021, which improved our liquidity position in response to the COVID-19 pandemic.

In the first six months of 2022, other nonoperating income, net primarily included $211 million of non-service related pension and other postretirement benefit plan income, offset in part by $92 million of net special charges principally for mark-to-market net unrealized losses associated with our equity investments in GOL, Vertical and China Southern Airlines.

In the first six months of 2021, other nonoperating income, net included $172 million of non-service related pension and other postretirement benefit plan income and $13 million of net special charges principally for non-cash charges associated with debt refinancings and extinguishments, offset in part by mark-to-market net unrealized gains associated with our equity investment in China Southern Airlines and other instruments.

Income Taxes

In the first six months of 2022, we recorded an income tax benefit of $324 million. Substantially all of our income or loss before income taxes is attributable to the United States.

See Note 6 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 June 30, 2022 Compared to Three Months Ended June 30, 2021

Operating Revenues

	Three Months Ended June 30,			
	2022	2021	Increase	Percent Increase
	(In millions, except percentage changes)			
Passenger	$ 12,223	$ 6,545	$ 5,678	86.8
Cargo	328	326	2	0.5
Other	870	607	263	43.4
Total operating revenues	$ 13,421	$ 7,478	$ 5,943	79.5

Passenger revenue increased $5.7 billion, or 86.8%, in the second quarter of 2022 from the second quarter of 2021 primarily due to an increase in RPMs, driven by a significant recovery in demand for air travel, resulting in an increased load factor in the second quarter of 2022, and an increase in passenger yield.

Other operating revenue increased $263 million, or 43.4%, as compared to the second quarter of 2021, driven primarily by higher revenue associated with American's loyalty program.

Total operating revenues in the second quarter of 2022 increased $5.9 billion, or 79.5%, from the second quarter of 2021 driven principally by the increase in passenger revenue as described above.

Operating Expenses

	Three Months Ended June 30, 2022	2021	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Aircraft fuel and related taxes	$ 4,020	$ 1,611	$ 2,409	nm
Salaries, wages and benefits	3,233	2,860	373	13.0
Regional expenses	1,058	639	419	65.3
Maintenance, materials and repairs	647	459	188	40.9
Other rent and landing fees	694	686	8	1.2
Aircraft rent	345	356	(11)	(2.9)
Selling expenses	504	277	227	82.2
Depreciation and amortization	501	481	20	4.3
Mainline operating special items, net	(5)	(1,288)	1,283	(99.6)
Other	1,390	958	432	45.0
Total operating expenses	$ 12,387	$ 7,039	$ 5,348	76.0

Total operating expenses increased $5.3 billion, or 76.0%, in the second quarter of 2022 from the second quarter of 2021 driven by higher aircraft fuel and related taxes and other expenses, primarily as a result of an increase in the average price per gallon of aircraft fuel and increased capacity, as well as an increase in net operating special items related to the $1.5 billion of PSP Financial Assistance recognized as a net special credit in the second quarter of 2021. See further discussion of operating special items, net below.

Aircraft fuel and related taxes increased $2.4 billion in the second quarter of 2022 from the second quarter of 2021 primarily due to an increase in the average price per gallon of aircraft fuel including related taxes to $4.03 in the second quarter of 2022 from $1.91 in the second quarter of 2021 and an 18.1% increase in gallons of fuel consumed principally due to increased capacity.

Salaries, wages and benefits increased $373 million, or 13.0%, in the second quarter of 2022 from the second quarter of 2021 primarily due to a 12.1% increase in mainline full-time equivalent employees subsequent to the second quarter of 2021.

Regional expenses increased $419 million, or 65.3%, in the second quarter of 2022 from the second quarter of 2021 primarily due to contractual rate increases with American's third-party regional carriers. The second quarter of 2021 also includes the recognition of $167 million of PSP Financial Assistance as a regional operating special credit.

Maintenance, materials and repairs increased $188 million, or 40.9%, in the second quarter of 2022 from the second quarter of 2021 primarily due to increased capacity and an increase in the volume of engine overhauls performed under time and material contracts where expense is incurred and recognized as maintenance is performed.

Selling expenses increased $227 million, or 82.2%, in the second quarter of 2022 from the second quarter of 2021 due to higher credit card fees, commission expense and booking fees driven by the overall increase in revenues.

Other operating expenses increased $432 million, or 45.0%, in the second quarter of 2022 from the second quarter of 2021 primarily as a result of increased capacity and expenses associated with improving American's product offerings, customer experience and operational reliability.

Operating Special Items, Net

	Three Months Ended June 30, 2022	2021
	(In millions)	
PSP Financial Assistance [1]	$ —	$ (1,288)
Other operating special items, net	(5)	—
Mainline operating special items, net	(5)	(1,288)
PSP Financial Assistance [1]	—	(167)
Regional operating special items, net	—	(167)
Operating special items, net	$ (5)	$ (1,455)

(1) The PSP Financial Assistance represents recognition of a portion of the financial assistance received from Treasury pursuant to the payroll support program established under PSP2 and PSP3.

Nonoperating Results

	Three Months Ended June 30, 2022	2021	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Interest income	$ 41	$ 9	$ 32	nm
Interest expense, net	(437)	(447)	10	(2.2)
Other income, net	23	49	(26)	(51.5)
Total nonoperating expense, net	$ (373)	$ (389)	$ 16	(4.2)

Interest income increased in the second quarter of 2022 compared to the second quarter of 2021 primarily as a result of higher returns on American's short-term investments.

In the second quarter of 2022, other nonoperating income, net primarily included $105 million of non-service related pension and other postretirement benefit plan income, offset in part by $89 million of net special charges principally for mark-to-market net unrealized losses associated with American's equity investments in Vertical, GOL and China Southern Airlines.

In the second quarter of 2021, other nonoperating income, net included $85 million of non-service related pension and other postretirement benefit plan income, offset in part by $37 million of net special charges principally for mark-to-market net unrealized losses associated with American's equity investment in China Southern Airlines.

Income Taxes

American is a member of AAG's consolidated federal and certain state income tax returns.

In the second quarter of 2022, American recorded an income tax provision of $140 million. Substantially all of American's income or loss before income taxes is attributable to the United States.

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

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Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021

Operating Revenues

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021	Increase	Percent Increase
	(In millions, except percentage changes)			
Passenger	$ 20,041	$ 9,724	$ 10,317	nm
Cargo	692	641	51	7.8
Other	1,584	1,120	464	41.4
Total operating revenues	$ 22,317	$ 11,485	$ 10,832	94.3

Passenger revenue increased $10.3 billion in the first six months of 2022 from the first six months of 2021 primarily due to an increase in RPMs, driven by a significant recovery in demand for air travel, resulting in an increased load factor in the first six months of 2022, and an increase in passenger yield.

Cargo revenue increased $51 million, or 7.8%, in the first six months of 2022 from the first six months of 2021 primarily due to an increase in cargo yield, offset in part by a decrease in cargo ton miles driven by the reduced operation of cargo-only flights.

Other operating revenue increased $464 million, or 41.4%, in the first six months of 2022 from the first six months of 2021, driven primarily by higher revenue associated with American's loyalty program.

Total operating revenues in the first six months of 2022 increased $10.8 billion, or 94.3%, from the first six months of 2021 driven principally by the increase in passenger revenue as described above.

Operating Expenses

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Aircraft fuel and related taxes	$ 6,522	$ 2,644	$ 3,878	nm
Salaries, wages and benefits	6,385	5,590	795	14.2
Regional expenses	2,081	1,264	817	64.6
Maintenance, materials and repairs	1,264	835	429	51.3
Other rent and landing fees	1,372	1,256	116	9.2
Aircraft rent	698	706	(8)	(1.1)
Selling expenses	836	427	409	95.8
Depreciation and amortization	992	959	33	3.5
Mainline operating special items, net	152	(2,996)	3,148	nm
Other	2,676	1,676	1,000	59.7
Total operating expenses	$ 22,978	$ 12,361	$ 10,617	85.9

Total operating expenses increased $10.6 billion, or 85.9%, in the first six months of 2022 from the first six months of 2021, driven by higher aircraft fuel and related taxes and other expenses, primarily as a result of an increase in the average price per gallon of aircraft fuel and increased capacity, as well as an increase in net operating special items principally related to the $3.6 billion of PSP Financial Assistance recognized as a net special credit in the first six months of 2021. See further discussion of operating special items, net below.

Aircraft fuel and related taxes increased $3.9 billion in the first six months of 2022 from the first six months of 2021 primarily due to an 89.4% increase in the average price per gallon of aircraft fuel including related taxes to $3.45 in the first six months of 2022 from $1.82 in the first six months of 2021 and a 30.2% increase in gallons of fuel consumed principally due to increased capacity.

Salaries, wages and benefits increased $795 million, or 14.2%, in the first six months of 2022 from the first six months of 2021 primarily due to a 12.1% increase in mainline full-time equivalent employees subsequent to the second quarter of 2021.

Regional expenses increased $817 million, or 64.6%, in the first six months of 2022 from the first six months of 2021 primarily due to increased capacity and contractual rate increases with American's third-party regional carriers. The first six months of 2021 also includes the recognition of $410 million of PSP Financial Assistance as a regional operating special credit.

Maintenance, materials and repairs increased $429 million, or 51.3%, in the first six months of 2022 from the first six months of 2021 primarily due to increased capacity and an increase in the volume of engine overhauls performed under time and material contracts where expense is incurred and recognized as maintenance is performed.

Other rent and landing fees increased $116 million, or 9.2%, in the first six months of 2022 from the first six months of 2021 primarily due to an increase in landing fees as a result of increased departures.

Selling expenses increased $409 million, or 95.8%, in the first six months of 2022 from the first six months of 2021 due to higher credit card fees, commission expense and booking fees driven by the overall increase in revenues.

Other operating expenses increased $1.0 billion, or 59.7%, in the first six months of 2022 from the first six months of 2021 primarily as a result of increased capacity and expenses associated with improving American's product offerings, customer experience and operational reliability.

Operating Special Items, Net

	Six Months Ended June 30,	
	2022	2021
	(In millions)	
Fleet impairment (1)	$ 149	$ —
PSP Financial Assistance (2)	—	(3,170)
Severance expenses (3)	—	168
Mark-to-market adjustments on bankruptcy obligations, net	—	6
Other operating special items, net	3	—
Mainline operating special items, net	152	(2,996)
PSP Financial Assistance (2)	—	(410)
Fleet impairment (1)	—	27
Regional operating special items, net	—	(383)
Operating special items, net	$ 152	$ (3,379)

(1) Fleet impairment for the six months ended June 30, 2022 included a non-cash impairment charge to write down the carrying value of American's retired Airbus A330 fleet to the estimated fair value due to current market conditions for certain used aircraft. American retired its Airbus A330 fleet in 2020 as a result of the decline in demand for air travel due to the COVID-19 pandemic.

Fleet impairment for the six months ended June 30, 2021 included a non-cash impairment charge to write down regional aircraft resulting from the retirement of the remaining Embraer 140 fleet earlier than planned.

(2) The PSP Financial Assistance represents recognition of a portion of the financial assistance received from Treasury pursuant to the payroll support program established under PSP2 and PSP3.

(3) Severance expenses include salary and medical costs primarily associated with certain team members who opted into voluntary early retirement programs offered as a result of reductions to American's operation due to the COVID-19 pandemic. Cash payments related to American's voluntary early retirement programs for the six months ended June 30, 2022 and 2021 were approximately $140 million and $290 million, respectively.

Nonoperating Results

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Interest income	$ 52	$ 18	$ 34	nm
Interest expense, net	(861)	(780)	(81)	10.4
Other income, net	117	158	(41)	(25.0)
Total nonoperating expense, net	$ (692)	$ (604)	$ (88)	14.3

Interest income increased in the first six months of 2022 compared to the first six months of 2021 primarily as a result of higher returns on American's short-term investments.

Interest expense, net increased in the first six months of 2022 compared to the first six months of 2021 primarily due to the impact of the AAdvantage Financing issued at the end of the first quarter of 2021, which improved American's liquidity position in response to the COVID-19 pandemic.

In the first six months of 2022, other nonoperating income, net primarily included $211 million of non-service related pension and other postretirement benefit plan income, offset in part by $90 million of net special charges principally for mark-to-market net unrealized losses associated with American's equity investments in GOL, Vertical and China Southern Airlines.

In the first six months of 2021, other nonoperating income, net included $171 million of non-service related pension and other postretirement benefit plan income and $13 million of net special charges principally for non-cash charges associated with debt refinancings and extinguishments, offset in part by mark-to-market net unrealized gains associated with American's equity investment in China Southern Airlines and other instruments.

Income Taxes

American is a member of AAG's consolidated federal and certain state income tax returns.

In the first six months of 2022, American recorded an income tax benefit of $296 million. Substantially all of American’s income or loss before income taxes is attributable to the United States.

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

At June 30, 2022, AAG had $15.6 billion in total available liquidity and $997 million in restricted cash and short-term investments. Additional detail regarding our available liquidity is provided in the table below (in millions):

	AAG June 30, 2022	AAG December 31, 2021	American June 30, 2022	American December 31, 2021
Cash	$ 401	$ 273	$ 373	$ 265
Short-term investments	12,121	12,158	12,118	12,155
Undrawn facilities	3,063	3,411	3,063	3,411
Total available liquidity	$ 15,585	$ 15,842	$ 15,554	$ 15,831

Given the actions we have taken in response to the COVID-19 pandemic and our assumptions about its future impact on travel demand, which could be materially different due to the inherent uncertainties of the current operating environment, we expect to meet our cash obligations as well as remain in compliance with the debt covenants in our existing financing agreements for the next 12 months based on our current level of unrestricted cash and short-term investments, our anticipated access to liquidity (including via proceeds from financings) and projected cash flows from operations.

In the ordinary course of our business, we or our affiliates may, at any time and from time to time, seek to prepay, retire or repurchase our outstanding debt through cash purchases and/or exchanges for equity or debt, in open-market purchases, privately negotiated transactions or otherwise. Such repurchases, prepayments, retirements or exchanges, if any, will be conducted on such terms and at such prices as we may determine, and will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. For further information regarding our debt repurchases during the first six months of 2022, see Note 5 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A.

Certain Covenants

Certain of our debt financing agreements (including our secured notes, term loans, revolving credit facilities and spare engine EETCs) contain loan to value (LTV), collateral coverage or peak debt service coverage ratio covenants and certain agreements require us to appraise the related collateral annually or semiannually. Pursuant to such agreements, if the applicable LTV, collateral coverage or peak debt service coverage ratio exceeds or falls below a specified threshold, as the case may be, we will be required, as applicable, to pledge additional qualifying collateral (which in some cases may include cash or investment securities), withhold additional cash in certain accounts, or pay down such financing, in whole or in part, or the interest rate for the relevant financing will be increased. As of the most recent applicable measurement dates, we were in compliance with each of the foregoing LTV, collateral coverage and peak debt service coverage tests. Additionally, a significant portion of our debt financing agreements 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 our AAdvantage Financing contains a peak debt service coverage ratio, pursuant to which failure to comply with a certain threshold may result in early repayment, in whole or in part, of the AAdvantage Financing. For further information regarding our debt covenants, see Note 5 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.

Sources and Uses of Cash

AAG

Operating Activities

Our net cash provided by operating activities was $2.9 billion and $3.6 billion for the first six months of 2022 and 2021, respectively, a $720 million period-over-period decrease. In the first six months of 2021, we received cash proceeds of approximately $4.7 billion associated with the PSP Financial Assistance. Excluding the PSP Financial Assistance, our operating cash flows increased $4.0 billion compared to the first six months of 2021 primarily due to higher profitability. In addition, during the first six months of 2022, we had approximately $140 million in cash payments associated with our voluntary early retirement programs. Excluding the enhanced healthcare benefits provided to eligible team members, we estimate cash payments under these programs to be approximately $50 million in the remainder of 2022 and approximately $20 million in 2023.

Investing Activities

Our net cash used in investing activities was $1.7 billion and $11.0 billion for the first six months of 2022 and 2021, respectively.

Our principal investing activities in the first six months of 2022 included $1.4 billion of capital expenditures, which principally related to the purchase of 14 Airbus A321neo aircraft and 10 spare engines. We also made a $200 million equity investment in GOL. Additionally, we incurred $156 million related to airport construction projects, net of reimbursements, principally in connection with the renovation and expansion of Terminal 8 at John F. Kennedy International Airport (JFK) and the modernization of Terminals 4 and 5 at Los Angeles International Airport (LAX). These cash outflows were offset in part by $52 million in net sales of short-term investments.

Our principal investing activities in the first six months of 2021 included $11.0 billion in net purchases of short-term investments as well as a $404 million increase in restricted short-term investments primarily related to collateral for the AAdvantage Financing. Additionally, we incurred $77 million related to airport construction projects, net of reimbursements, principally in connection with the renovation and expansion of Terminal 8 at JFK and the modernization of Terminals 4 and 5 at LAX. These cash outflows were offset in part by $163 million of proceeds primarily from aircraft sale-leaseback transactions and $161 million of proceeds from the sale of property and equipment. Additionally, aircraft purchase deposit returns of $772 million exceeded our capital expenditures for the first six months of 2021, which expenditures were principally related to the harmonization of interior configurations across our mainline fleet and the purchase of two Airbus A321neo aircraft.

Financing Activities

Our net cash used in financing activities was $1.1 billion for the first six months of 2022 as compared to net cash provided by financing activities of $7.5 billion for the first six months of 2021.

Our principal financing activities in the first six months of 2022 included $1.7 billion in repayments of debt and finance lease obligations, consisting of $1.3 billion of scheduled debt repayments including the repayment of $401 million in connection with the maturity of our 5.000% unsecured notes, and the repurchase of $349 million of unsecured notes on the open market. These cash outflows were offset in part by $574 million of long-term debt proceeds from the issuance of equipment notes related to the 2021-1 Aircraft EETCs.

Our principal financing activities in the first six months of 2021 included $12.1 billion in proceeds from the issuance of debt, including approximately $10.0 billion associated with the AAdvantage Financing, $1.0 billion in aggregate principal amount under the PSP2 Promissory Note, $946 million in aggregate principal amount under the PSP3 Promissory Note and the $150 million issuance of special facility revenue bonds related to JFK. We also had $460 million in net proceeds from the issuance of equity pursuant to an at-the-market offering. These cash inflows were offset in part by $5.0 billion in debt repayments, including prepayments totaling $2.8 billion for our revolving credit facilities and $550 million of outstanding loans under the Treasury Loan Agreement, and $1.6 billion in scheduled debt repayments. In addition, we had $166 million of deferred financing cost cash outflows.

American

Operating Activities

American’s net cash provided by operating activities was $2.1 billion and $6.1 billion for the first six months of 2022 and 2021, respectively, a $4.0 billion period-over-period decrease. American had a $2.9 billion net decrease in intercompany cash receipts principally from AAG's financing transactions. Additionally, in the first six months of 2021, American received cash proceeds of approximately $4.2 billion associated with PSP Financial Assistance. Excluding the PSP Financial Assistance and decrease in AAG's financing transactions, American's operating cash flows increased $3.1 billion compared to the first six months of 2021 primarily due to higher profitability. Also, during the first six months of 2022, American had approximately $140 million in cash payments associated with its voluntary early retirement programs. Excluding the enhanced healthcare benefits provided to eligible team members, American estimates cash payments under these programs to be approximately $50 million in the remainder of 2022 and approximately $20 million in 2023.

Investing Activities

American’s net cash used in investing activities was $1.7 billion and $11.0 billion for the first six months of 2022 and 2021, respectively.

American’s principal investing activities in the first six months of 2022 included $1.4 billion of capital expenditures, which principally related to the purchase of 14 Airbus A321neo aircraft and 10 spare engines. American also made a $200 million equity investment in GOL. Additionally, American incurred $156 million related to airport construction projects, net of reimbursements, principally in connection with the renovation and expansion of Terminal 8 at JFK and the modernization of Terminals 4 and 5 at LAX. These cash outflows were offset in part by $52 million in net sales of short-term investments.

American’s principal investing activities in the first six months of 2021 included $11.0 billion in net purchases of short-term investments as well as a $404 million increase in restricted short-term investments primarily related to collateral for the AAdvantage Financing. Additionally, American incurred $77 million related to airport construction projects, net of reimbursements, principally in connection with the renovation and expansion of Terminal 8 at JFK and the modernization of Terminals 4 and 5 at LAX. These cash outflows were offset in part by $163 million of proceeds primarily from aircraft sale-leaseback transactions and $161 million of proceeds from the sale of property and equipment. Additionally, aircraft purchase deposit returns of $772 million exceeded American's capital expenditures for the first six months of 2021, which expenditures were principally related to the harmonization of interior configurations across its mainline fleet and the purchase of two Airbus A321neo aircraft.

Financing Activities

American’s net cash used in financing activities was $319 million for the first six months of 2022 as compared to net cash provided by financing activities of $4.9 billion for the first six months of 2021.

American's principal financing activities in the first six months of 2022 included $901 million in repayments of debt and finance lease obligations, offset in part by $574 million of long-term debt proceeds from the issuance of equipment notes related to the 2021-1 Aircraft EETCs.

American's principal financing activities in the first six months of 2021 included $10.1 billion in proceeds from the issuance of debt, including approximately $10.0 billion associated with the AAdvantage Financing and the $150 million issuance of special facility revenue bonds related to JFK. These cash inflows were offset in part by $5.0 billion in debt repayments, including prepayments totaling $2.8 billion for American's revolving credit facilities and $550 million of outstanding loans under the Treasury Loan Agreement, and $1.6 billion in scheduled debt repayments. In addition, American had $165 million of deferred financing cost cash outflows.

Commitments

Significant Indebtedness

As of June 30, 2022, AAG had $36.8 billion in long-term debt, including current maturities of $1.9 billion. As of June 30, 2022, American had $31.5 billion in long-term debt, including current maturities of $1.9 billion. All material changes in our significant indebtedness since our 2021 Form 10-K are discussed in Note 5 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 June 30, 2022, we had definitive purchase agreements for the acquisition of the following aircraft [(1)]:

	Remainder of 2022	2023	2024	2025	2026	2027 and Thereafter	Total
Airbus							
A320neo Family	12	—	14	25	15	—	66
Boeing							
737 MAX Family [(2)]	—	27	21	20	20	—	88
787 Family	9	4	12	9	4	5	43
Embraer							
175	3	—	—	—	—	—	3
Total	24	31	47	54	39	5	200

(1) Delivery schedule represents our best estimate as of the date of this report. Actual delivery dates are subject to change, which could be material, based on various potential factors including production delays by the manufacturer and regulatory concerns, such as those that have recently prevented The Boeing Company (Boeing) from timely delivering 787 Family aircraft.

(2) The table above and the *"Contractual Obligations"* table below reflect our exercise of purchase options for four Airbus A320neo Family aircraft in July 2022 and assume our exercise of seven purchase options for 737 MAX Family aircraft that we previously announced our intention to exercise over the course of 2022.

We also have agreements for 56 spare engines to be delivered in 2022 and beyond.

We currently have financing commitments in place for all aircraft on order and scheduled to be delivered in 2022 except for five Airbus A320neo Family aircraft and three Embraer 175 aircraft. Our ability to draw on the financing commitments we have in place is subject to (1) the satisfaction of various terms and conditions, including in some cases, on our acquisition of the aircraft by a certain date and (2) the performance by the counterparty providing such financing commitments of its obligations thereunder. We do not have financing commitments in place for any of the aircraft scheduled to be delivered in 2023 and beyond, except for four Boeing 787 Family aircraft scheduled to be delivered in 2023 and five Boeing 787 Family aircraft scheduled to be delivered in 2024.

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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 2021 Form 10-K.

Contractual Obligations

The following table provides details of our material cash requirements from known contractual obligations as of June 30, 2022 (in millions). Except to the extent set forth in the applicable accompanying footnotes, 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 2022	2023	2024	2025	2026	2027 and Thereafter	Total
American							
Long-term debt:							
Principal amount [(a), (c)]	$ 807	$ 4,202	$ 3,502	$ 7,784	$ 4,447	$ 10,786	$ 31,528
Interest obligations [(b), (c)]	854	1,822	1,501	1,249	673	867	6,966
Finance lease obligations	127	186	181	118	93	105	810
Aircraft and engine purchase commitments [(d)]	859	1,935	3,203	3,728	2,270	702	12,697
Operating lease commitments	993	1,957	1,646	1,294	1,024	5,083	11,997
Regional capacity purchase agreements [(e)]	801	1,831	1,867	1,710	1,093	2,159	9,461
Minimum pension obligations [(f)]	—	31	23	—	—	—	54
Retiree medical and other postretirement benefits	47	89	84	81	78	312	691
Other purchase obligations [(g)]	3,545	3,083	2,332	1,133	604	933	11,630
Total American Contractual Obligations	8,033	15,136	14,339	17,097	10,282	20,947	85,834
AAG Parent and Other AAG Subsidiaries							
Long-term debt:							
Principal amount [(a)]	—	—	—	1,500	—	3,746	5,246
Interest obligations [(b)]	61	122	121	138	139	699	1,280
Finance lease obligations	3	10	10	—	—	—	23
Operating lease commitments	11	19	14	10	8	34	96
Minimum pension obligations [(f)]	—	1	—	—	—	1	2
Total AAG Contractual Obligations	$ 8,108	$ 15,288	$ 14,484	$ 18,745	$ 10,429	$ 25,427	$ 92,481

(a) Amounts represent contractual amounts due. Excludes $396 million and $25 million of unamortized debt discount, premium and issuance costs as of June 30, 2022 for American and AAG Parent, respectively. For additional information, see Note 5 and Note 4 to AAG's and American's Condensed Consolidated Financial Statements in Part I, Items 1A and 1B, respectively.

(b) For variable-rate debt, future interest obligations are estimated using the current forward rates at June 30, 2022.

(c) Includes $9.4 billion of future principal payments and $1.5 billion of future interest payments as of June 30, 2022, related to EETCs associated with mortgage financings of certain aircraft and spare engines.

(d) See "*Aircraft and Engine Purchase Commitments*" in Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information about the firm commitment aircraft delivery schedule, in particular the footnotes to the table thereunder as to potential changes to such delivery schedule. Due to uncertainty surrounding the timing of delivery of certain aircraft, the amounts in the table represent our most current estimate; however, the actual delivery schedule may differ from the table above, potentially materially. Additionally, the amounts in the table exclude nine and four Boeing 787-8 aircraft to be delivered in 2022 and 2023, respectively, as well as five Boeing 787-9 aircraft to be delivered in 2024, in each case, for which we have obtained committed lease financing. This financing is reflected in the operating lease commitments line above.

(e) 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.

(f) Represents minimum pension contributions based on actuarially determined estimates as of December 31, 2021 and is based on estimated payments through 2031.

(g) Includes purchase commitments for aircraft fuel, flight equipment maintenance, construction projects and information technology support.

Capital Raising Activity and Other Possible Actions

In light of our significant cash needs, in particular during periods in which we incur operating losses (such as during the COVID-19 pandemic), as well as our significant financial commitments related to, among other things, the servicing and amortization of existing debt and equipment leasing arrangements and new flight equipment, we and our subsidiaries will regularly consider, and enter into negotiations related to, capital raising and liability management activity, which may include the entry into leasing transactions and future issuances of, and transactions designed to manage the timing and amount of, secured or unsecured debt obligations or additional equity securities in public or private offerings or otherwise. The cash available from operations (if any) and these sources, however, may not be sufficient to cover our cash 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 (in particular the ongoing impact of the COVID-19 pandemic), 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, 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 or similar liquidity requirements. As a result, we cannot use all of our available cash to fund operations, capital expenditures and cash obligations without violating these requirements. See Note 5 and Note 4 to AAG's and American's Condensed Consolidated Financial Statements in Part I, Items 1A and 1B, respectively.

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, lease and other 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.

Critical Accounting Policies and Estimates

For information regarding our critical accounting policies and estimates, see disclosures in the Consolidated Financial Statements and accompanying notes contained in our 2021 Form 10-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

AAG's 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 2021 Form 10-K except as updated below.

Aircraft Fuel

As of June 30, 2022, we did not have any fuel hedging contracts outstanding to hedge our fuel consumption. 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. 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. Based on our 2022 forecasted fuel consumption, we estimate that a one cent per gallon increase in the price of aircraft fuel would increase our 2022 annual fuel expense by approximately $40 million.

Foreign Currency

We are exposed to the effect of foreign exchange rate fluctuations on the U.S. dollar value of foreign currency-denominated transactions. Our largest exposure comes from the Euro, British pound sterling, various Latin American currencies, primarily the Brazilian real, Canadian dollar and Chinese yuan. 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 June 30, 2022 variable-rate debt and short-term investments balances, annual interest expense on variable rate debt would increase by approximately $106 million and annual interest income on short-term investments would increase by approximately $125 million.

On July 27, 2017, the U.K. Financial Conduct Authority (the authority that regulates LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of the London interbank offered rate (LIBOR) after 2021. The discontinuation date for submission and publication of rates for certain tenors of USD LIBOR (1-month, 3-month, 6-month, and 12-month) was subsequently extended by the ICE Benchmark Administration (the administrator of LIBOR) until June 30, 2023. It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2023. Similarly, it is not possible to predict whether LIBOR will continue to be viewed as an acceptable market benchmark, what rate or rates may become acceptable alternatives to LIBOR, or what effect these changes in views or alternatives may have on financial markets for LIBOR-linked financial instruments. While the U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, has chosen the secured overnight financing rate (SOFR) as the recommended risk-free reference rate for the U.S. (calculated based on repurchase agreements backed by treasury securities), we cannot currently predict the extent to which this index will gain widespread acceptance as a replacement for LIBOR. 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.

We may in the future pursue amendments to our LIBOR-based debt transactions to provide for a transition mechanism or other reference rate in anticipation of LIBOR's discontinuation, but we may not be able to reach agreement with our lenders on any such amendments. As of June 30, 2022, we had $10.6 billion of borrowings linked to LIBOR. The replacement of LIBOR with a comparable or successor rate could cause the amount of interest payable on our long-term debt to be different or higher than expected.

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 June 30, 2022 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 June 30, 2022 at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

For the quarter ended June 30, 2022, there have been no changes in AAG's or American's internal control over financial reporting that have materially affected, or are 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 June 30, 2022.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 11 to each of AAG and American's Condensed Consolidated Financial Statements in Part I, Item 1A and Part I, Item 1B, respectively, for information on legal proceedings.

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.

Risks Related to our Business

The outbreak and global spread of COVID-19 and government-imposed measures to prevent or reduce its spread have resulted in significant volatility in demand for air travel, the impacts of which have adversely impacted our business, operating results, financial condition and liquidity. The duration and severity of the COVID-19 pandemic, and similar public health threats that we may face in the future, could result in additional adverse effects on our business, operating results, financial condition and liquidity.

The COVID-19 outbreak, along with the measures governments and private organizations worldwide have implemented in an attempt to contain the spread of this pandemic, have resulted in significant volatility in demand for air travel, which has adversely affected our business, operations and financial condition to an unprecedented extent. Measures implemented during the pandemic—such as travel restrictions, including testing regimes, “stay at home” and quarantine orders, limitations on public gatherings, cancellation of public events and many others—initially resulted in a precipitous decline in demand for both domestic and international business and leisure travel. In response to this material deterioration in demand, we took a number of aggressive actions to ameliorate our business, operations and financial condition. We focused on reducing our capacity, making structural changes to our fleet, reducing costs including implementing voluntary leave and early retirement programs, preserving cash and improving our overall liquidity position. We reduced our system-wide capacity and, while we have increased capacity to match a subsequent recovery in demand for air travel, we will continue to monitor conditions and to proactively evaluate and adjust our schedule to match demand. Additionally, we retired certain mainline aircraft earlier than planned, including all of our Airbus A330, Boeing 757, Boeing 767 and Embraer 190 aircraft as well as certain regional aircraft, including all of our Embraer 140 and Bombardier CRJ200 aircraft, which we expect will allow us to be more efficient by reducing the number of sub-fleets we operate, and we have also placed a number of Boeing 737-800 aircraft into temporary storage. We moved quickly to attempt to better align our costs with our reduced schedule and implemented other cost-saving initiatives (including reductions in maintenance expense, marketing expense, event and training expense, airport facilities expense, salaries and benefits expense, and other volume-related expense reductions, including fuel). The duration and severity of the COVID-19 pandemic remain uncertain, and there can be no assurance that any of the mitigating actions we have taken will suffice to sustain our business and operations through this pandemic.

We have taken and may take additional actions to improve our financial position, including measures to improve liquidity, such as obtaining financial assistance under the CARES Act, the PSP Extension Law and the American Rescue Plan Act of 2021 (ARP). In 2020, we received approximately $6.0 billion in financial assistance from Treasury through PSP1 established under the CARES Act, and in 2021, we received approximately $3.5 billion in financial assistance from Treasury through PSP2 established under the PSP Extension Law and $3.3 billion in financial assistance from Treasury through PSP3 established under the ARP. In connection with the financial assistance we have received through PSP1, PSP2 and PSP3, we are required to comply with the relevant provisions of the CARES Act, the PSP Extension Law and the ARP, including the requirement that funds provided pursuant to PSP1, PSP2 and PSP3 be used exclusively for the continuation of payment of eligible employee wages, salaries and benefits; the requirement that certain levels of commercial air service be maintained; provisions prohibiting the repurchase of AAG common stock and the payment of common stock dividends through September 30, 2022; and restrictions on the payment of certain executive compensation until April 1, 2023. Additionally, under PSP1, PSP2 and PSP3, we and certain of our subsidiaries are subject to substantial and continuing reporting obligations. The substance and duration of these restrictions may materially affect our operations, and we may not be successful in managing these impacts.

We may pursue additional financing through, among other things, the issuance of additional unsecured and secured debt securities, equity securities and equity-linked securities and/or the entry into additional bilateral and syndicated secured and/or unsecured credit facilities. There can be no assurance as to the timing of any such financing transactions, which may be in the near term, or that we will be able to obtain such additional financing on favorable terms, or at all. Any such actions may be material in nature, could result in the incurrence and issuance of significant additional indebtedness or equity and could impose significant covenants and restrictions to which we are not currently subject.

The measures we have taken to reduce our expenditures and to improve our liquidity, and any other strategic actions that we may take in the future in response to the COVID-19 pandemic may not be effective in offsetting decreased demand, and we may not be permitted to take certain strategic actions that we believe are beneficial if such strategic actions are in contravention of the requirements under the CARES Act, the PSP Extension Law or the ARP, which could result in a material adverse effect on our business, operating results and financial condition.

The full extent of the ongoing impact of the COVID-19 pandemic on our longer-term operational and financial performance will depend on future developments, many of which are outside our control, including the effectiveness of the mitigation strategies discussed above; the duration and spread of COVID-19, including recurrence of the pandemic or the emergence of novel variants, and related travel advisories, restrictions and testing regimes; the supply of effective vaccines and success of efforts to deploy the vaccines; the impact of the COVID-19 pandemic on overall long-term demand for air travel; the impact on demand and capacity which could result from government mandates on air service (including, for instance, requirements for passengers to wear face coverings while traveling or have their temperature checked or have administered COVID-19 tests and other checks prior to or after entering an airport or boarding an airplane, or which would limit the number of seats that can be occupied on an aircraft to allow for social distancing or prohibit flights to certain locations); the impact of COVID-19 on our employees' ability to work because they are quarantined or sickened as a result of exposure to COVID-19 or if they are subject to additional governmental COVID-19 curfews or "stay at home" health orders or similar restrictions; the impact of federal vaccine mandates, including the willingness of our employees to comply with such mandates and potential conflict with actions by certain states that are in conflict with the federal mandate; the impact of the COVID-19 pandemic on the financial health and operations of our business partners and future governmental actions, all of which are highly uncertain and cannot be predicted. Despite recalling previously furloughed frontline team members and continuously hiring new employees, airlines have experienced, and may continue to experience, periodic staffing shortages which may result in flight cancellations and other operational disruptions. The emergence of novel variants, such as the fast-spreading omicron variant in late 2021, could result in a significant rise in global cases, which could lead to higher than normal employee absences. Continued volatility in demand for travel, coupled with the unpredictability of the ongoing pandemic, presents challenges in building and flying our schedule, in particular during peak travel periods. At this time, we are also not able to predict whether the COVID-19 pandemic will result in permanent changes to our customers' behavior, with such changes including but not limited to a permanent reduction in business travel as a result of increased usage of "virtual" and "teleconferencing" products and more broadly a general reluctance to travel by consumers, each of which could have a material impact on our business.

The COVID-19 pandemic has also caused significant disruption in global supply chains and staffing shortages, which have affected the availability and timely delivery and fulfillment of many goods, including certain of those that we purchase directly or which are required by third parties to perform contracted services for us. We rely on the operation of complex supply chains and a large number of third parties for the procurement and fulfillment of parts, components, consumable or disposable goods and other products and services essential to our business. Following a faster than expected return of demand for air travel as COVID-19 cases declined worldwide and governments lifted travel restrictions, suppliers and many of the airports we serve have experienced acute shortages of personnel, resulting in increased delays, cancellations and, in certain cases, restrictions on the number of flights to or from certain airports. We cannot guarantee that, as a result of ongoing or future supply chain disruptions or staffing shortages, we, our third-party partners, or the airports we serve will be able to timely source all of the products and services we require in the course of our business, or that we will be successful in procuring suitable alternatives.

We are also dependent upon effective COVID-19 vaccines, including an efficient distribution and sufficient supply, and significant uptake by the general public in order to normalize economic conditions and the airline industry and to realize our financial and growth plans and business strategy. The failure of a vaccine, including to the extent it is not effective against any new COVID-19 variants, significant unplanned adverse reactions to the vaccine, politicization of the vaccine or general public distrust of the vaccine could prolong the pandemic and have an adverse effect on our business, financial condition and results of operations. Additionally, in September 2021, the Biden Administration issued an executive order mandating a COVID-19 vaccination requirement for federal contractors. Due to a number of our agreements, American is classified as a government contractor. Consistent with this executive order and guidance from the Safer Federal Workforce Task Force responsible for implementing the order, we announced that the federal vaccine mandate would require all of American's U.S.-based team members and certain international crew members to be vaccinated or be exempt due to an accommodation for a medical disability or sincerely held religious belief. Lawsuits have been filed in multiple jurisdictions challenging the order, and the U.S. District Court for the Southern District of Georgia in one of these cases issued a nationwide stay of enforcement of the executive order. The cases are currently before several U.S. Courts of Appeal and may ultimately be decided by the U.S. Supreme Court. Given the uncertainty of its viability in the courts, the timing of implementation and availability of accommodations, we cannot predict the impact of this federal vaccination requirement on our business. Moreover, we may be subject to state and local vaccine mandates and other COVID-19-related requirements governing airports where we operate. While the Occupational Health and Safety Administration (OSHA) has withdrawn its overarching COVID-19 Emergency Temporary Standard, the U.S. Supreme Court has acknowledged that OSHA may potentially issue a revised COVID-19 standard targeted to high-risk occupations or workplaces, which could impact our regional carriers and other service providers.

The COVID-19 pandemic continues to evolve, and its ultimate impact remains highly uncertain and subject to change. Even once the pandemic subsides, demand for certain types of air travel may remain weak for a prolonged period due to, among other things, adverse changes in business travel patterns or perceived or actual economic factors such as declines in income levels and/or loss of wealth resulting from the impact of the COVID-19 pandemic. In addition, an outbreak of another disease or similar public health threat, or fear of such an event, that affects travel demand, travel behavior or travel restrictions could adversely impact our business, financial condition and operating results. Outbreaks of other diseases could also result in increased government restrictions and regulation, such as those actions described above or otherwise, which could adversely affect our operations.

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. In particular, the COVID-19 pandemic and associated decline in economic activity and increase in unemployment levels had a severe and prolonged effect on the global economy generally and, in turn, resulted in a prolonged period of depressed demand for air travel. In addition, a rapid economic expansion following the height of the pandemic resulted in significant inflationary pressures, which have increased our costs for aircraft fuel, wages and benefits and other goods and services we require to operate our business, as well as increasing the interest expense on our variable-rate indebtedness. Accordingly, we cannot predict the ultimate impact of the COVID-19 pandemic or its after-effects on our business, financial condition and results of operations. Additionally, the COVID-19 pandemic has necessitated changes in business practices which may persist. For example, businesses and other travelers may continue to forego air travel in favor of remote or flexible working policies and communication alternatives such as videoconferencing. In addition, to the extent businesses continue to permit air travel during the COVID-19 pandemic, they are more likely to require the purchase of less expensive tickets to reduce costs, thereby potentially impacting our average revenue per available seat mile. See also *"The outbreak and global spread of COVID-19 and government-imposed measures to prevent or reduce its spread have resulted in significant volatility in demand for air travel, the impacts of which have adversely impacted our business, operating results, financial condition and liquidity. The duration and severity of the COVID-19 pandemic, and similar public health threats that we may face in the future, could result in additional adverse effects on our business, operating results, financial condition and liquidity"* and *"The airline industry is intensely competitive and dynamic."*

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

Our business plan contemplates continued significant investments related to 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 June 30, 2022, our planned aggregate expenditures for aircraft purchase commitments and certain engines on a consolidated basis for the remainder of 2022 through 2026 would be approximately $12.0 billion. We may also require financing to refinance maturing obligations and to provide liquidity to fund other corporate requirements. Accordingly, we will need substantial liquidity, financing or other capital resources to finance such aircraft and engines and meet such other liquidity needs. If needed, it may be difficult for us to raise additional capital on acceptable terms, or at all, due to, among other factors: our substantial level of existing indebtedness, particularly following the additional liquidity transactions completed in response to the impact of the COVID-19 pandemic; our non-investment grade credit rating; unfavorable market conditions; the availability of assets to use as collateral for loans or other indebtedness, which has been reduced significantly as a result of certain financing transactions we have undertaken since the beginning of 2020 and may be further reduced; and the effect the COVID-19 pandemic has had on the global economy generally and the air transportation industry in particular. If we are unable to arrange any such required financing 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 fund such other corporate requirements or may seek to negotiate deferrals for such aircraft and engines with the applicable manufacturers or otherwise defer corporate obligations. 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 or to fund our committed expenditures. An inability to obtain necessary financing on acceptable terms would limit our ability to execute necessary capital projects and would have a material adverse impact on our business, results of operations and financial condition.

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 very significant 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;
- limit our ability to obtain additional funding for working capital, capital expenditures, acquisitions, investments 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 liquidity or 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;
- 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;
- 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 collateral coverage ratios and peak debt service coverage ratios; 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; and
  - if breached, result in an event of default under our indebtedness.

In addition, in response to the travel restrictions, decreased demand and other effects the COVID-19 pandemic has had and is expected to continue to have on our business, we have obtained a significant amount of additional financing from a variety of sources and given continued uncertainty we cannot guarantee that we will not need to obtain additional financing in the future. Such financing may include the issuance of additional unsecured or secured debt securities, equity securities and equity-linked securities as well as additional bilateral and syndicated secured and/or unsecured credit facilities, among other items. There can be no assurance as to the timing of any such financing transactions, which may be in the near term, or that we will be able to obtain such additional financing on favorable terms, or at all. Any such actions may be material in nature, could result in the incurrence and issuance of significant additional indebtedness or equity and could impose significant covenants and restrictions to which we are not currently subject. In particular, in connection with the financial assistance we have received through PSP1, PSP2 and PSP3, we are required to comply with the relevant provisions of the CARES Act, the PSP Extension Law and the ARP, including the requirement that funds provided pursuant to PSP1, PSP2 and PSP3 be used exclusively for the continuation of payment of eligible employee wages, salaries and benefits; provisions prohibiting the repurchase of AAG common stock and the payment of common stock dividends through September 30, 2022; and restrictions on the payment of certain executive compensation until April 1, 2023. Additionally, under PSP1, PSP2 and PSP3, we and certain of our subsidiaries are subject to substantial and continuing reporting obligations. Moreover, as a result of the recent financing activities we have undertaken in response to the COVID-19 pandemic, the number of financings with respect to which such covenants and provisions apply has increased, thereby subjecting us to more substantial risk of cross-default and cross-acceleration in the event of breach, and additional covenants and provisions could become binding on us as we continue to seek additional liquidity.

The obligations discussed above, including those imposed as a result of the CARES Act, the PSP Extension Law, the ARP and any additional financings we may be required to undertake as a result of the impact of the COVID-19 pandemic, could 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.

Further, a substantial portion of our long-term indebtedness bears interest at fluctuating interest rates, primarily based on 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 U.K. 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. The discontinuation date for submission and publication of rates for certain tenors of USD LIBOR (1-month, 3-month, 6-month, and 12-month) was subsequently extended by the ICE Benchmark Administration (the administrator of LIBOR) until June 30, 2023. It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2023. Similarly, it is not possible to predict whether LIBOR will continue to be viewed as an acceptable market benchmark, what rate or rates may become acceptable alternatives to LIBOR, or what effect these changes in views or alternatives may have on financial markets for LIBOR-linked financial instruments. While the U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, has chosen the SOFR as the recommended risk-free reference rate for the U.S. (calculated based on repurchase agreements backed by treasury securities), we cannot currently predict the extent to which this index will gain widespread acceptance as a replacement for LIBOR. 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."*

We may in the future pursue amendments to our LIBOR-based debt transactions to provide for a transition mechanism or other reference rate in anticipation of LIBOR's discontinuation, but we may not be able to reach agreement with our lenders on any such amendments. As of June 30, 2022, we had $10.6 billion of borrowings linked to LIBOR. The replacement of LIBOR with a comparable or successor rate could cause the amount of interest payable on our long-term debt to be different or higher than expected.

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 our pension funding obligations will depend on the performance of investments held in trust by the pension plans, interest rates for determining liabilities and actuarial experience. On March 11, 2021, the ARP was enacted, which included funding relief provisions benefiting single employer qualified retirement benefit pension plans such as those sponsored by American. Based on the ARP provisions applicable to our pension plans, we will have no additional funding requirements until 2023. We also have significant obligations for retiree medical and other postretirement benefits.

Additionally, we participate in the IAM National Pension Fund (the IAM Pension Fund). The funding status of the IAM Pension Fund is subject to the risk that other employers may not meet their obligations, which under certain circumstances could cause our obligations to increase. On March 29, 2019, the actuary for the IAM Pension Fund certified that the fund was in "endangered" status despite reporting a funded status of over 80%. Additionally, the IAM Pension Fund's Board voluntarily elected to enter into "critical" status on April 17, 2019. Upon entry into critical status, the IAM Pension Fund was required by law to adopt a rehabilitation plan aimed at restoring the financial health of the pension plan and did so on April 17, 2019 (the Rehabilitation Plan). Under the Rehabilitation Plan, American was subject to an immaterial contribution surcharge, which ceased to apply June 14, 2019 upon American's mandatory adoption of a contribution schedule under the Rehabilitation Plan. The contribution schedule requires 2.5% annual increases to its contribution rate. This contribution schedule will remain in effect through the earlier of December 31, 2031 or the date the IAM Pension Fund emerges from critical status. Furthermore, if we were to withdraw from the IAM Pension Fund, if the IAM Pension fund were to terminate, or if the IAM Pension Fund were to undergo a mass withdrawal, we could be subject to liability as imposed by law.

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, our failure to maintain certain levels of liquidity), to hold an amount of our cash (referred to as 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. Additionally, such credit card processing companies may require cash or other collateral reserves to be established. 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 or the triggering of a liquidity covenant. In light of the effect of the COVID-19 pandemic on demand for air travel and, in turn, capacity, we experienced a prolonged increase in demand from consumers for refunds on their tickets, and we cannot assure that we will not experience periods of elevated refund demand in the future. A material increase in requests for refunds and the ongoing impact of the COVID-19 pandemic on our longer-term financial performance may reduce our liquidity and cause us to be forced to post cash or other collateral with the credit card processing companies in respect of advance ticket sales. The imposition of holdback requirements, 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. For example, we maintain certain letters of credit, insurance- and surety-related agreements under which counterparties may require collateral, including cash collateral.

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

We believe that our future success will depend in large part on our ability to attract, develop and retain highly qualified management, technical and other personnel. Retaining and recruiting people with the appropriate skills is particularly challenging as the economy in general, and the airline industry in particular, continue to recover from the COVID-19 pandemic resulting in competition for the human resources necessary to operate our business successfully. We may not be successful in attracting, developing or retaining key personnel or other highly qualified personnel. Among other things, the CARES Act, the PSP Extension Law and the ARP impose significant restrictions on executive compensation, which will remain in place until April 1, 2023. Such restrictions, over time, will likely result in lower executive compensation in the airline industry than is prevailing in other industries, creating increasing retention challenges in the case of executives presented with alternative, non-airline opportunities. In addition, competition for skilled personnel has intensified and may continue to intensify if overall industry capacity continues to increase and/or we were to incur attrition at levels higher than we have historically. Any inability to attract, develop and retain significant numbers of qualified management and other personnel would have a material adverse effect on our business, results of operations and financial condition.

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:

- the effects of the ongoing COVID-19 pandemic;
- actual or potential changes in international, national, regional and local economic, business and financial conditions, including recession, inflation and higher interest rates;
- the occurrence of 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 U.S. National Airspace System (the ATC system);
- increases in costs of safety, security, and environmental measures;
- outbreaks of diseases that affect travel behavior; and
- weather and natural disasters, including increases in frequency, severity or duration of such disasters, and related costs caused by more severe weather due to climate change.

In addition to the effects of the ongoing COVID-19 pandemic, an outbreak of another contagious disease—such as has occurred in the past with 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. See also *"The outbreak and global spread of COVID-19 and government-imposed measures to prevent or reduce its spread have resulted in significant volatility in demand for air travel, the impacts of which have adversely impacted our business, operating results, financial condition and liquidity. The duration and severity of the COVID-19 pandemic, and similar public health threats that we may face in the future, could result in additional adverse effects on our business, operating results, financial condition and liquidity."* 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.

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). As of December 31, 2021, approximately 86% of our employees were represented for collective bargaining purposes by labor unions, and 45% were covered by CBAs that are currently amendable or that will become amendable within one year. For the dates that the CBAs with our major work groups become amendable under the RLA, see Part I, Item 1. Business – *"Our People—Labor Relations"* in our 2021 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 this "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 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 arbitral avenues could result in material additional costs that we did not anticipate. See also Part I, Item 1. Business – *"Our People—Labor Relations"* in our 2021 Form 10-K.

Currently, we believe our labor costs are generally 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 several important new labor agreements now and other agreements are scheduled to 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.

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 has in the past and may in the future 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 in particular pilots and mechanics, and other risk factors, such as an out-of-court or bankruptcy restructuring of any of our regional operators. Several 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 pilots, mechanics and other 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. In particular, the severe decline in demand for air travel resulting from the COVID-19 pandemic and related governmental restrictions on travel materially impacted demand for services provided by our regional carriers and, as a result, we temporarily significantly reduced our regional capacity. Further, as airlines attempt to restore capacity in line with increased demand for air travel following the height of the pandemic, these third-party operators have experienced difficulties in recruiting and retaining sufficient personnel to operate significantly increased schedules. We expect the disruption to services resulting from the COVID-19 pandemic and subsequent rapid return of demand to continue to adversely affect our regional operators, some of whom may experience significant financial stress, declare bankruptcy or otherwise cease to operate. We may also experience disruption to our regional operations or incur financial damages if we terminate the capacity purchase agreement with one or more of our current operators or 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. These third parties are also facing challenges retaining and recruiting people with the appropriate skills to meet our requirements as the economy in general, and the airline industry in particular, continue to recover from the COVID-19 pandemic. Any material problems with the adequacy, efficiency and timeliness of contract services, resulting from financial hardships, personnel shortages or otherwise, could have a material adverse effect on our business, results of operations and financial condition.

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, among other things, 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. In addition, we operate in a highly visible industry that has significant exposure to social media. Negative publicity, including as a result of misconduct by our customers, vendors or employees, can spread rapidly through social media. Should we not respond in a timely and appropriate manner to address negative publicity, our brand and reputation may be significantly harmed. 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.

Moreover, the outbreak and spread of COVID-19 have adversely impacted consumer perceptions of the health and safety of travel, and in particular airline travel, and these negative perceptions could continue even after the pandemic subsides. Actual or perceived risk of infection on our flights has had, and may continue to have, a material adverse effect on the public's perception of us, which has harmed, and may continue to harm, our reputation and business. We have taken various measures to reassure our team members and the traveling public of the safety of air travel, and we expect that we will continue to incur COVID-19 related costs as we sanitize aircraft, implement additional hygiene-related protocols and take other actions to limit the threat of infection among our employees and passengers. However, we cannot assure that these or any other actions we might take in response to the COVID-19 pandemic will be sufficient to restore the confidence of consumers in the safety of air travel. In addition, as a result of mask mandates and other mitigating measures that airports and carriers were required by law to implement to limit the spread of COVID-19, we experienced an increase in the incidence of aggressive customer behavior and physical confrontation on our flights, certain of which resulted in injuries to our personnel. If our employees feel unsafe or believe that we are not doing enough to prevent and prosecute these incidents, we could experience higher rates of employee absence and we may suffer reputational harm which could make it more difficult to attract and retain employees, and which could in turn negatively affect our business, financial condition and results of operations.

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.

We are at risk of adverse publicity stemming from any public incident involving our company, our people or our brand, particularly given the ease with which individuals can now capture and rapidly disseminate news via social media. Such an incident could involve the actual or alleged behavior of any of our employees, contractors or passengers. Further, if our personnel, one of our aircraft, a type of aircraft in our fleet, 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, catastrophe or regulatory enforcement action, 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, catastrophe or action. In the event that our insurance is inapplicable or inadequate, we may be forced to bear substantial losses from an incident or accident. In addition, any such incident, accident, catastrophe or action involving our personnel, one of our aircraft (or personnel and aircraft of our regional operators and our codeshare partners), or a type of aircraft in our fleet 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.

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 in the past 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, changing (whether it be increasing, decreasing or eliminating) 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 and entering into agreements with other airlines. For example, in 2020, we eliminated change fees for most domestic and international tickets, which has reduced our change fee revenue, a trend which is expected to continue as demand for air travel recovers, assuming this change remains in place. 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 or offsetting our costs. 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 result in adverse brand perceptions or reputational harm, and could 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.

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.

In addition, we have used certain of our branding and AAdvantage loyalty program intellectual property as collateral for various financings (including the AAdvantage Financing), which contain covenants that impose restrictions on the use of such intellectual property and, in the case of the AAdvantage Financing, on certain amendments or changes to our AAdvantage loyalty program. These covenants may have an adverse effect on our ability to use such intellectual property.

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 Note 11 to each of AAG and American's Condensed Consolidated Financial Statements in Part I, Item 1A and Part I, Item 1B, respectively.

Our ability to utilize our NOLs and other carryforwards may be limited.

Under the Internal Revenue Code of 1986, as amended (the Code), a corporation is generally allowed a deduction for net operating losses (NOLs) carried over from prior taxable years. As of December 31, 2021, we had approximately $17.2 billion of gross federal NOLs and $3.0 billion of other carryforwards available to reduce future federal taxable income, of which $6.9 billion will expire beginning in 2024 if unused and $13.3 billion can be carried forward indefinitely. We also had approximately $6.0 billion of NOL carryforwards to reduce future state taxable income at December 31, 2021, which will expire in taxable years 2021 through 2041 if unused. Our NOL carryforwards are subject to adjustment on audit by the Internal Revenue Service and the respective state taxing authorities. Additionally, due to the COVID-19 pandemic and other economic factors, the NOL carryforwards may expire before we can generate sufficient taxable income to use them.

Our ability to use our NOLs and other carryforwards will depend on the amount of taxable income generated in future periods. We presently have a $34 million valuation allowance on certain net deferred tax assets related to state NOL carryforwards. If our financial results continue to be adversely impacted by the COVID-19 pandemic, there can be no assurance that an additional valuation allowance on our net deferred tax assets will not be required. Such valuation allowance could be material.

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% during a rolling three-year period). In 2013, we experienced an ownership change in connection with our emergence from bankruptcy and US Airways Group experienced an ownership change in connection with the merger of US Airways Group and AMR Corporation (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 $5.4 billion of unlimited NOLs still remaining at December 31, 2021) 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. In addition, under the loan program of the CARES Act, the warrants (and common stock issuable upon exercise thereof) we issued to Treasury did not and will not result in an "ownership change" for purposes of Section 382. This exception does not apply for companies issuing warrants, stock options, common or preferred stock or other equity pursuant to PSP1, PSP2 and PSP3 and accordingly will not apply to the warrants issued by us under PSP1, PSP2 and PSP3. 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 bankruptcy may severely limit or effectively eliminate our ability to utilize our NOL carryforwards and other tax attributes. In connection with the expiration in December 2021 of certain transfer restrictions applicable to substantial shareholders contained in our Certificate of Incorporation, the Board of Directors of AAG adopted a tax benefits preservation plan (the Tax Benefits Preservation Plan) in order to preserve our ability to use our NOLs and certain other tax attributes to reduce potential future income tax obligations. The Tax Benefits Preservation Plan was subsequently ratified by our stockholders at the 2022 Annual Meeting of Stockholders of AAG. The Tax Benefits Preservation Plan is designed to reduce the likelihood that we experience an ownership change by deterring certain acquisitions of AAG common stock. There is no assurance, however, that the deterrent mechanism will be effective, and such acquisitions may still occur. In addition, the Tax Benefits Preservation Plan may adversely affect the marketability of AAG common stock by discouraging existing or potential investors from acquiring AAG common stock or additional shares of AAG common stock, because any non-exempt third party that acquires 4.9% or more of the then-outstanding shares of AAG common stock would suffer substantial dilution of its ownership interest in AAG.

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

The U.S. government may enact significant changes to the taxation of business entities including, among others, an increase in the corporate income tax rate, the imposition of minimum taxes or surtaxes on certain types of income, significant changes to the taxation of income derived from international operations, and an addition of further limitations on the deductibility of business interest. While certain draft legislation has been publicly released and is under development in Congress at this time, the likelihood of these changes being enacted or implemented is unclear. We are currently unable to predict whether such changes will occur. If such changes are enacted or implemented, we are currently unable to predict the ultimate impact on our business and therefore there can be no assurance our business will not be adversely affected.

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, including as a result of significant or prolonged declines in demand for air travel and corresponding reductions to capacity. We can provide no assurance that a material impairment loss of tangible or intangible assets will not occur in a future period; we have previously incurred significant impairment charges associated with our decision to retire certain aircraft as a result of the severe decline in demand for air travel due to the COVID-19 pandemic, and the risk of future material impairments remains significantly heightened as a result of the effects of the COVID-19 pandemic on our flight schedules and business as well as the associated impact on values of certain aircraft and flight equipment. Such impairment charges could have a material adverse effect on our business, results of operations and financial condition.

Risks Related to the Airline Industry

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 or alternatives to commuting or business travel including remote or flexible working policies and communication alternatives such as videoconferencing. 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, fees (including cancellation, change and baggage fees), 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 (such as occurred recently during the COVID-19 pandemic), as airlines under financial stress, or in bankruptcy, may institute pricing or fee structures intended to attract more customers to achieve near term survival at the expense of 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, are price sensitive and therefore tend not to be loyal to any one particular carrier. A number of these low-cost carriers have recently commenced operations, and several new entrants have announced their intention to start up new ultra-low-cost carriers. Many of these new and existing 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 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. While historically these carriers have provided competition in domestic markets, we have recently experienced new competition from low-cost carriers on international routes, including low-cost airlines executing international long-haul expansion strategies, a trend likely to continue with the delivery of planned, long-range narrowbody aircraft. 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 businesses, alliances, 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 exposure to others (for example, China). 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, including the duration of declines in demand for travel to specific regions as a result of the continuing outbreak of COVID-19 and the speed with which demand for travel to these regions returns.

Our international service exposes us to foreign economies and the potential for reduced demand when any foreign country we serve suffers adverse local economic conditions or if governments restrict commercial air service to or from any of these markets. For example, the COVID-19 pandemic resulted in a precipitous decline in demand for air travel, in particular international travel, in part as a result of the imposition by the U.S. and foreign governments of restrictions on travel from certain regions. In addition, open skies agreements, which are now in place with a substantial 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 with British Airways, Aer Lingus, Iberia and Finnair, a transpacific joint business with Japan Airlines and a joint business relating to Australia and New Zealand with Qantas, each of which has been granted antitrust immunity. The transatlantic joint business benefits from a grant of antitrust immunity from the United States Department of Transportation (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 were binding for 10 years. In October 2018, in anticipation of the exit of the United Kingdom from the European Union (EU), commonly referred to as Brexit, and the expiry of the EC commitments in July 2020, the United Kingdom Competition and Markets Authority (CMA) opened an investigation into the transatlantic joint business. We continue to fully cooperate with the CMA and, in September 2020, the CMA adopted interim measures that effectively extend the EC commitments for an additional three years until March 2024 in light of the uncertainty and other impacts resulting from the COVID-19 pandemic. In April 2022, the CMA adopted a second interim measures decision that effectively extends the EC commitments for a further two years until March 2026 in light of the uncertainty and other impacts resulting from the COVID-19 pandemic. The CMA plans to complete its investigation before the scheduled expiration of the interim measures in March 2026. 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 arrangements.

In 2021, we began implementing key aspects of our marketing relationship with JetBlue. This arrangement includes an alliance agreement with reciprocal codesharing on certain domestic and international routes from New York (JFK, LaGuardia Airport (LGA), and Newark Liberty International Airport) and Boston Logan International Airport, and provides for reciprocal loyalty program benefits. The arrangement does not include JetBlue's transatlantic flying. Pursuant to federal law, American and JetBlue submitted this proposed alliance arrangement to the DOT for review. After American, JetBlue and the DOT agreed to a series of commitments, the DOT terminated its review of the proposed alliance in January 2021. The commitments include growth commitments to ensure capacity expansion, slot divestitures at JFK and at Ronald Reagan Washington National Airport (DCA) near Washington, D.C. and antitrust compliance measures. Beyond the DOT Agreement, American and JetBlue will also refrain from certain kinds of coordination on certain city pair markets. Upon the DOT's termination of its review of the proposed alliance, American and JetBlue implemented the proposed alliance subject to these commitments. On September 21, 2021, the United States Department of Justice (DOJ), joined by Attorneys General from six states and the District of Columbia, filed an antitrust complaint against American and JetBlue alleging that American and JetBlue violated U.S. antitrust laws in connection with the Northeast Alliance arrangement (NEA). We believe the complaint is without merit and intend to defend against it vigorously.

Notwithstanding the DOT's termination of its reviews of the NEA and certain other alliances, the DOT maintains authority to conduct investigations under the scope of its existing statutes and regulations, including conduct related to this alliance. On September 21, 2021, the DOT published a Clarification Notice relating to the DOT Agreement. The DOT Clarification Notice stated, among other things, that the DOT Agreement remains in force during the pendency of the DOJ action against the NEA and, while the DOT retains independent statutory authority to prohibit unfair methods of competition in air transportation, the DOT intends to defer to DOJ to resolve the antitrust concerns that DOJ has identified with respect to the NEA. The DOT simultaneously published a Notice Staying Proceeding in relation to a complaint by Spirit Airlines, Inc. regarding the NEA, pending resolution of the DOJ action described above.

No assurances can be given as to any benefits that we may derive from any of the foregoing arrangements or any other arrangements that may ultimately be implemented, or whether regulators will, or if granted continue to, approve or impose material conditions on our business activities.

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

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. In addition, we have used certain assets from our AAdvantage loyalty program as collateral for the AAdvantage Financing, which contains covenants that impose restrictions on certain amendments or changes to certain of our AAdvantage Agreements and other aspects of the AAdvantage loyalty program. These competitive factors and covenants (to the extent applicable) may affect our ability to attract and retain customers, increase usage of our loyalty program and maximize the revenue generated by our loyalty program.

The commercial relationships that we have with other companies, including any related equity investments, may not produce the returns or results we expect.

An important part of our strategy to expand our network has been to initiate or expand our commercial relationships with other airlines, such as by entering into global alliance, joint business and codeshare relationships, including with Alaska Airlines Group, Inc. and Qatar Airways Company Q.C.S.C., and, in certain instances, including China Southern Airlines, GOL and our previously announced proposed investment in JetSMART, by making a significant equity investment in another airline in connection with initiating or expanding such a commercial relationship. We may explore additional investments in, and joint ventures and strategic alliances with, other carriers as part of our global business strategy. We face competition in forming and maintaining these commercial relationships since there are a limited number of potential arrangements and other airlines are looking to enter into similar relationships, and our inability to form or maintain these relationships or inability to form as many of these relationships as our competitors may have an adverse effect on our business. 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, and they may distract management focus from our operations or other strategic options. We may also be subject to consequences from any illegal conduct of joint business partners as well as to any political or regulatory change that negatively impacts or prohibits our arrangements with any such business partners. In addition, as a result of the global spread of COVID-19 and subsequent economic recovery, the industry experienced significant volatility in demand for air travel both internationally and domestically, which is expected to continue into the foreseeable future and could materially disrupt our partners' abilities to provide air service, the timely execution of our strategic operating plans, including the finalization, approval and implementation of new strategic relationships or the maintenance or expansion of existing relationships. If any carriers with which we partner or in which we hold an equity stake were to cease trading or be declared insolvent, we could lose the value of any such investment or experience significant operational disruption. These events could have a material adverse effect on our business, results of operations and financial condition.

We may also from time to time pursue commercial relationships with companies outside the airline industry, which relationships may include equity investments or other financial commitments. Any such relationship or related investment could involve unique risks, particularly where these relationships involve new industry participants, emerging technologies or industries with which we are unfamiliar.

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 consumer demand, 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 and thus is a significant factor in the price of airline tickets. Market prices for aircraft fuel have fluctuated substantially over the past several years and prices continue to be highly volatile, with market spot prices ranging from a low of approximately $0.37 per gallon to a high of approximately $4.40 per gallon during the period from January 1, 2019 to June 30, 2022. In particular, fuel prices rose substantially in 2021, and significant price increases have continued in 2022.

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.

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 and any related staffing or transportation equipment shortages, 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 or increased demands on 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 June 30, 2022, 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. See also the discussion in Part I, Item 3. Quantitative and Qualitative Disclosures About Market Risk – *"Aircraft Fuel."*

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 and state and local governments have passed laws and regulatory initiatives, and the DOT, the Federal Aviation Administration (FAA), the Transportation Security Administration and several of their respective international counterparts have issued regulations and a number of other directives, 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 and prolonged grounding of aircraft types altogether (including, for example, the March 2019 grounding of all Boeing 737 MAX Family aircraft, which remained in place for over a year and was not lifted in the United States until November 2020), or otherwise caused substantial disruption and resulted in material costs to us and lost revenues. The recent telecom industry roll-out of 5G technology, and concerns regarding its possible interference with aircraft navigation systems, also resulted in regulatory uncertainty and the potential for operational impacts, including possible suspension of service to certain airports or the operation of certain aircraft. See *"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."* 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. We anticipate that the FAA will soon issue a final rule implementing flight attendant duty and rest periods, which will impact our scheduling flexibility. 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, and rules promulgated by certain analogous agencies in other countries we serve, 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. In 2022, the DOT is expected to propose or implement a number of new regulations that will impact us, including disability rules for accessible lavatories and wheelchair assistance, refund requirements, display of ancillary fees during initial flights search, and refunds for checked bag fees in the event of certain delays in delivery.

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.

Similarly, there are a number of legislative and regulatory initiatives and reforms at the state and local levels. These initiatives include increasingly stringent laws to protect the environment, wage/hour requirements, mandatory paid sick or family leave, and healthcare mandates. These laws could affect our relationship with our workforce and the vendors that serve our airlines and cause our expenses to increase without an ability to pass through these costs. In recent years, the airline industry has experienced an increase in litigation over the application of state and local employment laws, particularly in California. Application of these laws may result in operational disruption, increased litigation risk and impact our negotiated labor agreements. For example, we are currently involved in legal proceedings brought by flight attendants and certain other work groups in California concerning alleged violations of the state's labor code including, among other things, violations of certain meal and rest break laws, and an adverse determination in any of these cases could adversely impact our operational flexibility and result in the imposition of damages and fines, which could potentially be significant. Additionally, in September 2021, the Biden Administration issued an executive order mandating a COVID-19 vaccination requirement for federal contractors. Due to a number of our agreements, American is classified as a government contractor. Consistent with this executive order and guidance from the Safer Federal Workforce Task Force responsible for implementing the order, we announced in that the federal vaccine mandate would require all of American's U.S.-based team members and certain international crew members to be vaccinated or be exempt due to an accommodation for a medical disability or sincerely held religious belief. Lawsuits have been filed in multiple jurisdictions challenging the order, and the U.S. District Court for the Southern District of Georgia in one of these cases issued a nationwide stay of enforcement of the executive order. The cases are currently before several U.S. Courts of Appeal and may ultimately be decided by the U.S. Supreme Court. Given the uncertainty of its viability in the courts, the timing of implementation and availability of accommodations, we cannot predict the impact of this federal vaccination requirement on our business. Moreover, we may be subject to state and local vaccine mandates and other COVID-19-related requirements governing airports where we operate. While OSHA has withdrawn its overarching COVID-19 Emergency Temporary Standard, the U.S. Supreme Court has acknowledged that OSHA may potentially issue a revised COVID-19 standard targeted to high-risk occupations or workplaces, which could impact our regional carriers and other service providers.

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, and the imposition of regulatory investigations or commencement of litigation related to any of the foregoing (including our arrangements with JetBlue);
- 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;
- the adoption of more restrictive locally-imposed noise restrictions; and

- restrictions on travel or special guidelines regarding aircraft occupancy or hygiene related to COVID-19, including the imposition of preflight testing regimes or vaccination confirmation requirements which have to date and may in the future have the effect of reducing demand for air travel in the markets where such requirements are imposed.

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 the increased costs or greater complexity associated with 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 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, including ourselves, 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, and past system disruptions have resulted in large-scale flight cancellations and delays.

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, including ourselves. Failure to update the ATC system and the substantial costs that may be imposed on airlines, including ourselves, 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 and the COVID-19 pandemic. These events have resulted in, among other things, reduced demand for air travel, an actual or perceived reduction in air traffic control 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 those that 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 130 trading partners, which agreements 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. 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, joint business agreements, and other alliance arrangements by and among other airlines could impair the value of our business and assets on the open skies routes.

On May 1, 2021 the EU and United Kingdom entered into a new trade and cooperation agreement (the EU-UK Trade and Cooperation Agreement) to govern certain aspects of their relationship following Brexit. We face risks associated with Brexit, 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. The EU-UK Trade and Cooperation Agreement includes provisions in relation to commercial air service that we expect to be sufficient to sustain our current services under the transatlantic joint business. However, the scope of traffic rights under the EU-UK Trade and Cooperation Agreement is less extensive than before Brexit and therefore the full impact of the EU-UK Trade and Cooperation Agreement is uncertain. As a result, the continuation of our current services, and those of our partners could be disrupted. This 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.

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. In particular, the outbreak and global spread of COVID-19 have severely impacted the demand for international travel and have resulted in the imposition of significant governmental restrictions on commercial air service to or from certain regions. We responded by temporarily suspending a significant portion of our long-haul international flights and delaying the introduction of certain new long-haul international routes. We can provide no assurance as to when such restrictions will be eased or lifted, when demand for international travel will return to pre-COVID-19 pandemic levels, if at all, or whether certain international destinations we previously served will be economical in the future.

More generally, our industry may be affected by any deterioration in global trade relations, including shifts in the trade policies of individual nations. For example, 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 or other trade barriers, travel limitations and other regulatory actions, have the effect of reducing global commercial activity, the result could be a material decrease in the demand for international air travel. Additionally, certain of the products and services that we purchase, including certain of our aircraft and related parts, are sourced from suppliers located outside the U.S., and the imposition of new tariffs, or any increase in existing tariffs, by the U.S. government in respect of the importation of such products could materially increase the amounts we pay for them. In particular, in October 2019, the Office of the U.S. Trade Representative (USTR), as part of an ongoing dispute with the EU before the World Trade Organization (WTO) concerning, among other things, aircraft subsidies, was authorized by an arbitration tribunal of the WTO to impose up to $7.5 billion per year in import tariffs on certain goods originating from the EU. The USTR subsequently imposed tariffs of up to 15% on certain imports from the EU, including on certain Airbus aircraft that we previously contracted to purchase and certain imported aircraft parts. In June 2021, the United States, the EU and the UK announced agreements to suspend the imposition of these tariffs, contingent upon each party remaining satisfied that subsidies do not arise. However, if and to the extent any of these tariffs are reimposed on us without any available means for us to mitigate or pass on the burden of these tariffs to Airbus, the effective cost of new Airbus aircraft required to implement our fleet plan would increase.

We face risks associated with Brexit, 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. The EU-UK Trade and Cooperation Agreement includes provisions in relation to commercial air service that we expect to be sufficient to sustain our current services under the transatlantic joint business. However, the scope of traffic rights under the EU-UK Trade and Cooperation Agreement is less extensive than before Brexit and therefore the full impact of the EU-UK Trade and Cooperation Agreement is uncertain. As a result, the continuation of our current services, and those of our partners could be disrupted. Moreover, Brexit 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. This could materially adversely affect our business, results of operations and financial condition.

Brexit has also led 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 October 2018, in anticipation of Brexit and the expiry of the EC commitments in July 2020, the CMA opened an investigation into the transatlantic joint business. We continue to fully cooperate with the CMA and, in September 2020, the CMA adopted interim measures that effectively extend the EC commitments for an additional three years until March 2024 in light of the uncertainty and other impacts resulting from the COVID-19 pandemic. In April 2022, the CMA adopted a second interim measures decision that effectively extends the EC commitments for a further two years until March 2026 in light of the uncertainty and other impacts resulting from the COVID-19 pandemic. The CMA plans to complete its investigation before the interim measures are scheduled to expire in March 2026. 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.

Additionally, 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.

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 are subject to risks associated with climate change, including increased regulation of our CO_2 emissions, changing consumer preferences and the potential increased impacts of severe weather events on our operations and infrastructure.

Efforts to transition to a low-carbon future have increased the focus by global, regional and national regulators on climate change and greenhouse gas (GHG) emissions, including carbon dioxide (CO_2) emissions. In particular, the International Civil Aviation Organization (ICAO) has adopted rules, including those pertaining to the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), which will require American to address the growth in CO_2 emissions of a significant majority of our international flights. For more information on CORSIA, see *"Aircraft Emissions and Climate Change Requirements"* under Item 1. Business – Domestic and Global Regulatory Landscape – Environmental Matters in our 2021 Form 10-K.

At this time, the costs of complying with our future obligations under CORSIA are uncertain, primarily because it is difficult to estimate the return of demand for international air travel during and in the recovery from the COVID-19 pandemic. There is also significant uncertainty with respect to the future supply and price of carbon offset credits and sustainable or lower carbon aircraft fuels that could allow us to reduce our emissions of CO_2. In addition, we will not directly control our CORSIA compliance costs through 2029 because those obligations are based on the growth in emissions of the global aviation sector and begin to incorporate a factor for individual airline operator emissions growth beginning in 2030. 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 surcharges or otherwise increase revenues or decrease other operating costs sufficiently to offset our costs of meeting obligations under CORSIA.

In the event that CORSIA does not come into force as expected, American and other airlines could become subject to an unpredictable and inconsistent array of national or regional emissions restrictions, creating a patchwork of complex regulatory requirements that could affect global competitors differently without offering meaningful aviation environmental improvements. For example, in June 2022, the European Parliament and European Council adopted their respective positions on a set of measures to reform the EU Emissions Trading System (ETS) as part of the EU's "Fit for 55" program, an initiative published by the EC in July 2021. To the extent that the EC's initial proposals are adopted, these measures would expand the scope of the EU ETS to include emissions from all flights departing from an airport located in the European Economic Area (EEA); currently the EU ETS applies only to emissions from intra-EEA flights. These proposals, if enacted in the form proposed by the EC, may lead to increased expense related to the emissions of our flights departing from EEA airports. Concerns over climate change are likely to result in continued attempts by municipal, state, regional, and federal agencies to adopt requirements or change business environments related to aviation that, if successful, may result in increased costs to the airline industry and us. In addition, several countries and U.S. states have adopted or are considering adopting programs, including new taxes, to regulate domestic GHG emissions. Finally, certain airports have adopted, and others could in the future adopt, GHG emission or climate-related goals that could impact our operations or require us to make changes or investments in our infrastructure.

In January 2021, the U.S. Environmental Protection Agency (EPA) adopted GHG emission standards for new aircraft engines, which are aligned with the 2017 ICAO aircraft engine GHG emission standards. Like the ICAO standards, the final EPA standards for new aircraft engines would not apply retroactively to engines already on in-service aircraft. These final standards have been challenged by several states and environmental groups, and the Biden Administration has issued an executive order requiring a review of these final standards. On November 15, 2021, the EPA announced that it will not rewrite the existing aircraft engine GHG emissions standards but will press for ambitious new aircraft GHG emission standards at international negotiations organized by the ICAO in late 2022. The development of new aircraft GHG emissions standards cannot be predicted at this time.

The EC has proposed the creation of a sustainable aviation fuel (SAF) blending mandate for aviation fuel suppliers set at 2% beginning in 2025 and rising to 63% by 2050, among other requirements. Individual EU member states have been developing their own requirements including, for example, a 1% SAF mandate in France that came into force on January 1, 2022. Whether these regulations will be finalized and the potential effects on our business are uncertain at this time.

All such climate change-related regulatory activity and developments may adversely affect our business and financial results by requiring us to reduce our emissions before cost-effective emissions reduction technologies are available, for example through requirements to make capital investments to purchase specific types of equipment or technologies, purchase carbon offset credits, or otherwise incur additional costs related to our emissions. Such activity may also impact us indirectly by increasing our operating costs, including fuel costs.

Growing recognition among consumers of the dangers of climate change may mean some customers choose to fly less frequently or fly on an airline they perceive as operating in a manner that is more sustainable to the climate. Business customers may choose to use alternatives to travel, such as virtual meetings and workspaces. Greater development of high-speed rail in markets now served by short-haul flights could provide passengers with lower-carbon alternatives to flying with us. Our collateral to secure loans, in the form of aircraft, spare parts and airport slots, could lose value as customer demand shifts and economies move to low-carbon alternatives, which may increase our financing cost.

Finally, the potential acute and chronic physical effects of climate change, such as increased frequency and severity of storms, floods, fires, sea-level rise, excessive heat, longer-term changes in weather patterns and other climate-related events, could affect our operations, infrastructure and financial results. Operational impacts, such as the canceling of flights, could result in loss of revenue. We could incur significant costs to improve the climate resiliency of our infrastructure and otherwise prepare for, respond to, and mitigate such physical effects of climate change. We are not able to predict accurately the materiality of any potential losses or costs associated with the physical effects of climate change.

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

We are subject to a number of increasingly stringent federal, state, local and foreign laws, regulations and ordinances relating to the protection of human health and the environment and noise reduction, including those relating to emissions to the air, discharges to land and surface and subsurface waters, safe drinking water, and the management of hazardous substances, oils and waste materials. This universe of substances is evolving to encompass many substances not previously regulated. Compliance with environmental laws and regulations can require significant expenditures, and violations can lead to significant fines and penalties, as well as civil liability.

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 retroactive, strict, joint and several, meaning that we could be liable for the costs of cleaning up environmental contamination regardless of when it occurred, 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.

Governmental authorities in the U.S. and abroad are increasingly focused on potential contamination resulting from the use of so-called “forever chemicals,” most notably per- and polyfluoroalkyl, substances (PFAS). Products containing PFAS have been used in manufacturing, industrial, and consumer applications over many decades, including those related to aviation. We may incur costs in connection with obligations to transition away from the usage of PFAS-containing products, to dispose of PFAS-containing waste or to remediate any PFAS contamination.

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, even in certain cases where 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, and 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. The FAA is also currently evaluating possible changes to how aircraft noise is measured, and the resulting standards that are based on them. Ultimately, these changes could have an impact on, or limit, our operations, or make it more difficult for the FAA to modernize and increase the efficiency of airspace and airports we utilize.

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, increased training requirements and other factors have caused a shortage of pilots that could materially adversely affect our business.

Large numbers of pilots in the industry accepted early retirement during the COVID-19 pandemic or 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 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. Further, in the course of the domestic airline industry rapidly restoring capacity during the recovery from the COVID-19 pandemic, the significant training requirements to return large numbers of pilots to active flying have been time consuming and disruptive.

These and other factors have contributed to a significant shortage of qualified, entry-level pilots, shortages of experienced pilots trained and ready for duty, 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 and other 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 and significant proposed increases in mainline pilot compensation. We believe that this industry-wide pilot shortage is becoming an increasing problem for airlines in the United States. Our regional airline subsidiaries and other 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 compensation expense and 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.

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, as of the end of 2021, all of our mainline aircraft were manufactured by either Airbus or Boeing and all of our regional aircraft were manufactured by either Bombardier or Embraer. Further, our supplier base continues to consolidate as evidenced by the acquisition of Rockwell Collins by United Technologies and the transactions involving Airbus and Bombardier and Mitsubishi and Bombardier. 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 certify or operate our aircraft, even temporarily. For instance, in March 2019, the FAA ordered the grounding of all Boeing 737 MAX Family aircraft, which remained in place for over a year and was not lifted in the United States until November 2020, and in April 2021, we removed from operations, pending ongoing inspection and investigation, a subset of our Boeing 737 MAX Family aircraft after receipt of notice from Boeing of a potential electrical power system issue relating to those aircraft. More recently, Boeing has been unable to deliver 787 aircraft that we have on order due to regulatory concerns raised by the FAA, as a result of which we have been forced, on more than one occasion, to significantly reduce our previously scheduled long-haul flying and suspend or delay our service to certain long-haul markets. The limited number of these suppliers may also result in reduced competition and potentially higher prices than if the supplier base was less concentrated.

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 negative impacts 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, or reductions to our schedule, thereby reducing revenues. If new aircraft orders are not filled on a timely basis, we could face higher financing and 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, safety and reliability, we could face higher financing and operating costs than planned and our business, results of operations and financial condition could be adversely impacted. For instance, in March 2019, the FAA grounded all Boeing 737 MAX Family aircraft, including the 24 aircraft in our fleet at the time of the grounding, and which caused us to be unable to take delivery of the Boeing 737 MAX Family aircraft we had on order from Boeing. More recently, Boeing has been unable to deliver 787 aircraft that we have on order due to regulatory concerns raised by the FAA, as a result of which we have been forced, on more than one occasion, to significantly reduce our previously scheduled long-haul flying and suspend or delay our service to certain long-haul markets. Repeated or prolonged delays in the production, delivery or induction of our new aircraft could require us to scale back our growth plans, reduce frequencies or forgo service entirely to certain markets, which could adversely affect our business, financial condition and results of operations.

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 aircraft employ a number of sophisticated radio and satellite-based navigation and safety technologies, and we are subject to risks associated with the introduction or expansion of technologies that could interfere with the safe operation of these flight systems. For example, telecommunications companies are expanding and increasing the commercial and consumer applications of 5G cellular communication networks, and regulators, manufacturers and operators have expressed concerns that certain 5G applications could interfere with certain flight systems. On December 23, 2021, the FAA issued a special airworthiness information bulletin (SAIB), in which it indicated that further testing and assessment is needed regarding the effects of 5G on certain aircraft equipped with radar altimeters, which measure the aircraft's altitude and guide pilots during landings. If it were determined that 5G signals posed an interference risk to these altimeters or other systems, the FAA indicated in its SAIB that it could restrict flight operations in areas where such interference could occur. On January 18, 2022, major U.S. telecommunications companies agreed to delay the implementation of 5G near airports until July 5, 2022 while working with the FAA to develop long-term mitigations to support safe aviation operations. While the telecommunications industry agreed to delay the activation of 5G transmitters in close proximity to airports, it did move forward with the activation of a vast majority of 5G transmitters away from airports, and we expect that companies will continue expanding their 5G networks over the next several years. As a result, the FAA has taken precautionary steps to mitigate any remaining interference risks, which have resulted in minimal impacts to our operations, particularly in low-visibility conditions at certain airports and with our regional carriers. While we are working closely with the FAA and other aviation industry participants to develop a long-term strategy that permits the full implementation of the 5G spectrum without disruption to safe aviation operations, any new restrictions imposed to mitigate interference risks would require us to adjust our operating procedures and could impact our ability to operate certain aircraft or to serve certain markets. On June 17, 2022, the FAA announced that major U.S. telecommunications companies have agreed to continue to keep 5G mitigations beyond July 5, 2022, but simultaneously announced their expectation that the U.S. mainline commercial fleet to have radio altimeter retrofits or other enhancements in place by July 2023. We have signaled to the FAA our commitment to update our aircraft as soon as possible.

Our technologies and automated systems are not 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. When service interruptions occur as a result of any of the aforementioned events, we address them in accordance with applicable laws, rules and regulations. However, 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.

Evolving data security and privacy requirements could increase our costs, and any significant data security or privacy 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 personal information relating to our customers, employees, business partners and others. However, like any global enterprise operating in today's digital business environment, we have experienced cybersecurity incidents and data breaches. The threat of cybersecurity incidents continues to increase as the frequency, intensity and sophistication of attacks and intrusions increase around the world. We and our business partners have been the target of cybersecurity attacks and data breaches in the past and expect that we will continue to be in the future. We react and respond to these cybersecurity attacks in accordance with the applicable legal requirements, our own approved cybersecurity protocols, as well as our commercial partners' standards, but we cannot ensure that our responses will be sufficient to prevent or mitigate the potential adverse impacts of these incidents, which may be material.

There has been heightened legislative and regulatory focus on data privacy and cybersecurity in the U.S., the EU and elsewhere, particularly with respect to critical infrastructure providers, including those in the transportation sector. As a result, we must comply with a proliferating and fast-evolving set of legal requirements in this area, including substantive data privacy and 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 General Data Protection Regulation, commonly referred to as GDPR, came into effect, which imposes a host of 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 involving us or one of our AAdvantage partners or other business partners have in the past and may in the future 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 information or our intellectual property; the loss of functionality of critical systems through ransomware, denial of service or other attacks; a deterioration in our relationships with business partners and other third parties; and business delays, service or system disruptions, damage to equipment and injury to persons or property. For example, in March 2021, a sub-set of AAdvantage members as well as members of several other major airline loyalty programs received a notification about a security incident involving a limited amount of loyalty data held by a service provider. 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 cannot and have not been able to prevent all data security breaches or misuse of data. Similarly, we depend on the ability of our key commercial partners, including AAdvantage partners, other business partners, 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, including a failure to meet relevant payment security standards, breach or other significant cybersecurity incident affecting one of our partners could result in potentially material negative consequences for us. In addition, we use third-party service providers to help us deliver services to customers. These service providers may store personal information, credit card information and/or other confidential information. Such information may be the target of unauthorized access or subject to security breaches as a result of third-party action, employee error, malfeasance or otherwise. Any of these could (a) result in the loss of information, litigation, indemnity obligations, damage to our reputation and other liability, or (b) have a material adverse effect on our business, financial condition and results of operations.

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 are increasing. 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 and enforcement actions requiring costly compliance measures. A significant number of recent privacy and data security incidents, including those involving other large airlines, have resulted in very substantial adverse financial consequences to those companies. A cybersecurity incident could also impact our brand, including that of the AAdvantage program, harm our reputation and adversely impact our relationship with our customers, employees and stockholders. The increased regulatory focus on data privacy practices apart from how personal data is secured, such as how personal data is collected, used for marketing purposes, and shared with third parties, also increases the risk on our business in the event of a significant violation. Accordingly, failure to appropriately address data privacy and cybersecurity issues could result in material financial and other liabilities and cause significant reputational harm to our company.

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 Booking Holdings, including its booking sites Kayak and Priceline), 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. In addition, our agreements with GDSs and other distribution channels are subject to periodic renegotiation, and our efforts to control our distribution costs depend on our ability to renew or continue these agreements on favorable terms. We cannot assure that we will be able to renew our distribution agreements on commercially acceptable terms, and any failure to do so could materially increase our costs, thereby adversely impacting our business, financial condition and results of operations.

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. 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.

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 Dallas/Fort Worth International Airport, JFK, Chicago O'Hare International Airport (ORD), LAX and LGA. 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 we serve are regulated by governmental entities through allocations 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 impose 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: 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 DCA and LGA 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 1,250 and 1,500 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 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. Due to the dramatic reduction in air travel resulting from the COVID-19 pandemic, we are in many instances relying on exemptions granted by applicable authorities from the requirement that we continuously use certain slots, gates and routes or risk having such operating rights revoked, and depending on the applicable authority these exemptions can vary in the way they are structured and applied. We cannot predict whether such exemptions will continue to be granted, whether they will be granted on the same or similar terms, or whether we ultimately could be at risk of losing valuable operating rights. If we are forced to surrender slots, we may be unable to provide our desired level of service to or from certain destinations in the future. We cannot provide any assurance that regulatory changes resulting in changes in the application of slot controls or the allocation of or any reallocation of existing slots, the continued enforcement or termination of a perimeter rule or similar regulatory regime will not have a material adverse impact on our operations.

Our ability to provide service can also be impaired at airports, such as LAX and ORD where the airport gates 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.

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

We operate principally through our hubs in Charlotte, Chicago, Dallas/Fort Worth, Los Angeles, Miami, New York, Philadelphia, Phoenix and Washington, D.C. and partner gateways including in London Heathrow (among others). 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, gateways or other airports where we have a significant presence, resulting from air traffic control 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.

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. The occurrence or persistence of certain events, including armed conflicts, could also impact our ability to obtain commercial insurance coverage against certain risks, or to obtain such insurance on commercially acceptable terms. If we are unable to maintain adequate insurance coverage or to secure suitable alternatives outside the commercial insurance markets, 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.

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.

Risks Related to Ownership of AAG Common Stock and Convertible Notes

The price of AAG common stock has been and may in the future be volatile.

The market price of AAG common stock has fluctuated substantially in the past, and may fluctuate substantially in the future, due to a variety of factors, many of which are beyond our control, including:

- the effects of the COVID-19 pandemic on our business or the U.S. and global economies;
- 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 ratings;
- material announcements by us or our competitors;
- expectations regarding our capital deployment program, including any future share repurchase programs and any future dividend payments that may be declared by our Board of Directors, or any future determination to cease repurchasing stock or paying dividends (which we have suspended for an indefinite period in accordance with the applicable requirements under the CARES Act, the PSP Extension Law and the ARP);
- new regulatory pronouncements and changes in regulatory guidelines;
- general and industry-specific economic conditions;
- changes in our key personnel;
- public or private 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, including warrants we have issued in connection with our receipt of funds under the CARES Act, the PSP Extension Law and the ARP;
- increases or decreases in reported holdings by insiders or other significant stockholders;
- fluctuations in trading volume; and
- technical factors in the public trading market for our stock that may produce price movements that may or may not comport with macro, industry or company-specific fundamentals, including, without limitation, the sentiment of retail investors (including as may be expressed on financial trading and other social media sites), the amount and status of short interest in our securities, access to margin debt, trading in options and other derivatives on our common stock and any related hedging and other technical trading factors.

The closing price of our common stock on Nasdaq varied from $15.00 to $25.82 during 2021 and $12.16 to $20.22 during 2022 year-to-date through July 15, 2022. At times during this period, fluctuations in our stock price have been rapid, imposing risks on investors due to the possibility of significant, short-term price volatility. While we believe that this wide range of trading prices is broadly indicative of the changing prospects for a large airline facing the challenges imposed by the COVID-19 pandemic, we also believe, based in part on the commentary of market analysts, that the trading price of our common stock has at times been influenced by the technical trading factors discussed in the last bullet above. On some occasions, market analysts have explained fluctuations in our stock price by reference to purported "short squeeze" activity. A "short squeeze" is a technical market condition that occurs when the price of a stock increases substantially, forcing market participants who had taken a position that its price would fall (i.e., who had sold the stock "short"), to buy it, which in turn may create significant, short-term demand for the stock not for fundamental reasons, but rather due to the need for such market participants to acquire the stock in order to forestall the risk of even greater losses. A "short squeeze" condition in the market for a stock can lead to short-term conditions involving very high volatility and trading that may or may not track fundamental valuation models.

We have ceased making repurchases of our common stock and paying dividends on our common stock as required by the CARES Act, the PSP Extension Law and the ARP. Following the end of those restrictions, if we do decide to make repurchases of or pay dividends on our common stock, we cannot guarantee that we will continue to do so or that our capital deployment program will enhance long-term stockholder value.

In connection with the financial assistance provided under PSP1, PSP2 and PSP3, we agreed not to repurchase shares of AAG common stock through September 30, 2022. If we determine to make any share repurchases in the future, such 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 again 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, such as the requirements of the CARES Act, the PSP Extension Law, the ARP 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.

In connection with the financial assistance provided under PSP1, PSP2 and PSP3, we agreed not to pay dividends on AAG common stock through September 30, 2022. If we determine to make any dividends in the future, such 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 again 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 they will do so.

AAG's Certificate of Incorporation and Bylaws include provisions that limit voting and acquisition and disposition of our equity interests and specify an exclusive forum for certain stockholder disputes.

Our Certificate of Incorporation and Bylaws include significant 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*" and AAG's Description of the Registrants' Securities Registered Pursuant to Section 12 of the Exchange Act, which is filed as Exhibit 4.1 in our 2021 Form 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.

Our Certificate of Incorporation also specifies that the Court of Chancery of the State of Delaware shall be the exclusive forum for substantially all disputes between us and our stockholders. Because the applicability of the exclusive forum provision is limited to the extent permitted by applicable law, we do not intend for the exclusive forum provision to apply to suits brought to enforce any duty or liability created by the Exchange Act or any other claim for which the federal courts have exclusive jurisdiction, and acknowledge that federal courts have concurrent jurisdiction over all suits brought to enforce any duty or liability created by the Securities Act of 1933 (Securities Act). We note that there is uncertainty as to whether a court would enforce the provision as it applies to the Securities Act and that investors cannot waive compliance with the federal securities laws and the rules and regulations thereunder. This provision may have the effect of discouraging lawsuits against our directors and officers.

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.

The issuance or sale of shares of our common stock, rights to acquire shares of our common stock, or warrants issued to Treasury under the CARES Act, the PSP Extension Law, the ARP, PSP1, PSP2 and PSP3, could depress the trading price of our common stock and the Convertible Notes.

We may conduct future offerings of material amounts of our common stock, preferred stock or other securities that are convertible into or exercisable for our common stock to finance our operations, to fund acquisitions, or for any other purposes at any time and from time to time (including as compensation to the U.S. Government for the proceeds received pursuant to PSP1, PSP2 or PSP3). If these additional shares or securities are issued or sold, or if it is perceived that they will be sold, into the public market or otherwise, the price of our common stock and Convertible Notes could decline substantially. If we issue additional shares of our common stock or rights to acquire shares of our common stock, if any of our existing stockholders sells a substantial amount of our common stock, or if the market perceives that such issuances or sales may occur, then the trading price of our common stock and Convertible Notes could decline substantially.

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% 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. 23, dated as of May 5, 2022, to Purchase Agreement No. 03735 dated as of February 1, 2013, between American Airlines, Inc. and The Boeing Company.*
10.2	Supplemental Agreement No. 24, dated as of June 6, 2022, to Purchase Agreement No. 03735 dated as of February 1, 2013, between American Airlines, Inc. and The Boeing Company.*
10.3	Amendment, dated as of June 30, 2022, to the Promissory Notes and the Warrants issued by American Airlines Group Inc. to the United States Department of the Treasury.*
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, formatted in Inline XBRL (eXtensible Business Reporting Language).
104.1	Cover page interactive data file (formatted in Inline XBRL and contained in Exhibit 101.1).

* Portions of this exhibit have been omitted in accordance with Item 601(b)(10) of Regulation S-K 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: July 21, 2022

By: /s/ Derek J. Kerr
Derek J. Kerr
Vice Chair, Chief Financial Officer and
President, American Eagle
(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: July 21, 2022

By: /s/ Derek J. Kerr
Derek J. Kerr
Vice Chair, Chief Financial Officer and
President, American Eagle
(Duly Authorized Officer and Principal Financial Officer)