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

FORM 10-Q

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Quarterly Period Ended March 31, 2021

☐ **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**

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 definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

American Airlines Group Inc.	☒ Large accelerated filer	☐ Accelerated filer	☐ Non-accelerated filer	☐ Smaller reporting company	☐ Emerging growth company
American Airlines, Inc.	☐ Large accelerated filer	☐ Accelerated filer	☒ Non-accelerated filer	☐ Smaller reporting company	☐ Emerging growth company

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

American Airlines Group Inc.	☐
American Airlines, Inc.	☐

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

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

As of April 16, 2021, there were 641,383,123 shares of American Airlines Group Inc. common stock outstanding.

As of April 16, 2021, 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 March 31, 2021
Table of Contents

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, 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 outbreak 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. 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 has resulted in a severe decline in demand for air travel which has and will continue to adversely impact our business, operating results, financial condition and liquidity.
- Downturns in economic conditions and related depressed demand for air travel 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.
- 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 negative publicity stemming from any public incident involving our company, our people, our brand or any of our regional, codeshare or joint business operators or any damage to our reputation or brand image could adversely affect our business or financial results.
- Our intellectual property rights, particularly our branding rights, are valuable, and any inability to protect them may adversely affect our business and financial results.
- Our ability to utilize our NOL 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 airlines, including any related equity investment, 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.
- 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.

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 Credit Facilities" means the 2013 Revolving Facility and 2013 Term Loan Facility provided for by the 2013 Credit Agreement.

"2013 Revolving Facility" means the $750 million revolving credit facility provided for by the 2013 Credit Agreement.

"2013 Term Loan Facility" means the $1.9 billion 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 Credit Facilities" means the 2014 Revolving Facility and the 2014 Term Loan Facility provided for by the 2014 Credit Agreement.

"2014 Revolving Facility" means the $1.6 billion revolving credit facility provided for by the 2014 Credit Agreement.

"2014 Term Loan Facility" means the $1.2 billion term loan facility provided for by the 2014 Credit Agreement.

"2020 Form 10-K" means AAG's and American's Annual Report on Form 10-K for the year ended December 31, 2020.

"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 Collateral" means the AAdvantage Agreements (including all payments thereunder) and rights under an intercompany agreement and certain IP Licenses, certain rights under the AAdvantage program, certain deposit accounts that will receive cash under the AAdvantage Agreements, certain reserve accounts, the equity of each of Loyalty Issuer and the SPV Guarantors and substantially all other assets of Loyalty Issuer and the SPV Guarantors.

"AAdvantage Financing" means the AAdvantage Notes and the AAdvantage Term Loan Facility.

"AAdvantage Financing Closing Date" means March 24, 2021.

"AAdvantage Guarantees" means the AAdvantage Notes Guarantees, together with the full and unconditional guarantee of the AAdvantage Loans by the AAdvantage Guarantors.

"AAdvantage Guarantors" means the SPV Guarantors and AAG.

"AAdvantage Indenture" means the indenture, dated as of March 24, 2021, by and among the AAdvantage Issuers, the AAdvantage Guarantors and Wilmington Trust, National Association, as trustee and as collateral custodian.

"AAdvantage Issuers" means the Loyalty Issuer and American.

"AAdvantage Loans" means the $3.5 billion of term loans provided pursuant to the AAdvantage Term Loan Facility.

"AAdvantage Note Guarantees" means the full and unconditional guarantee of the AAdvantage Notes by AAG, AAdvantage Holdings 1, Ltd. and HoldCo2.

"AAdvantage Notes" means, collectively, the 2026 Notes and the 2029 Notes.

"AAdvantage Payment Date" means, with respect to the payment of interest on the AAdvantage Notes and AAdvantage Loans, the 20th day of each January, April, July and October.

"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.

"AMT" means alternative minimum tax.

"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 Credit Facilities" means the April 2016 Revolving Facility and April 2016 Term Loan Facility provided for by the 2016 Credit Agreement.

"April 2016 Revolving Facility" means the $450 million revolving credit facility provided for by the April 2016 Credit Agreement.

"April 2016 Term Loan Facility" means the $1,000 million term loan facility provided for by the April 2016 Credit Agreement.

"ARP" means the American Rescue Plan Act of 2021, as amended.

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

"ASU" means Accounting Standards Update.

"ATC system" means the U.S. National Airspace System.

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

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

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

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

"CBAs" means collective bargaining agreements.

"CEO" means Chief Executive Officer.

"CFO" means Chief Financial Officer.

"Chapter 11 Cases" means the voluntary petitions for relief filed on November 29, 2011 by the Debtors.

"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” means coronavirus.

“DCA” means Ronald Reagan Washington National Airport.

“DC Court” means the Federal District Court for the District of Columbia.

“Debtors” means AMR, American, and certain of AMR’s other direct and indirect domestic subsidiaries.

“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 the revolving credit facility that may be established under the December 2016 Credit Agreement and the December 2016 Term Loan Facility provided for by the December 2016 Credit Agreement.

“December 2016 Term Loan Facility” means the $1.2 billion term loan facility provided for under the December 2016 Credit Agreement.

“Disputed Claims Reserve” means a reserve established by the Bankruptcy Court, pursuant to the Plan, to hold shares of AAG common stock for issuance to disputed claimholders at the Effective Date.

“DOJ” means the U.S. Department of Justice.

“DOT” means the U.S. Department of Transportation.

“EC” means the European Commission.

“EETC” means enhanced equipment trust certificate.

“Effective Date” means December 9, 2013.

“Envoy” means Envoy Air Inc.

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

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

“EU” means European Union.

"EWR" means Newark Liberty International Airport.

“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.

“GDSs” means global distribution systems.

“GHG” means greenhouse gas.

“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).

"HoldCo2" means AAdvantage Holdings 2, Ltd., a Cayman Islands exempted company incorporated with limited liability and an indirect wholly owned subsidiary of American and the direct parent of Loyalty Issuer.

"HoldCo2 License" means the exclusive, irrevocable (subject to certain termination rights), perpetual, worldwide, royalty-bearing license to use the Transferred AAdvantage IP granted to HoldCo2 from Loyalty Issuer.

"IAM" means International Association of Machinists & Aerospace Workers.

"IAM Pension Fund" means the IAM National Pension Fund.

"ICAO" means International Civil Aviation Organization.

"IP Licenses" means the HoldCo2 License and the exclusive, irrevocable (subject to certain termination rights), perpetual, worldwide, royalty-bearing sublicense to use the Transferred AAdvantage IP granted by HoldCo2 to American.

"IP Notes" means American's $1.0 billion in initial principal amount of 10.75% senior secured IP notes.

"Installment" means the financial assistance payment, in installments, by Treasury pursuant to the PSP2 Agreement.

"JetBlue" means JetBlue Airways Corporation.

"JFK" means John F. Kennedy International Airport.

"LAX" means Los Angeles International Airport.

"LEED" means U.S. Green Building Council's Leadership in Energy and Environmental Design.

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

"LGA/DCA Notes Indenture" means the indenture, dated as of September 25, 2020, by and among American, AAG and Wilmington Trust, National Association, as trustee and as collateral trustee, pursuant to which the LGA/DCA Notes were issued.

"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.

"Loyalty Issuer" means AAdvantage Loyalty IP Ltd., a Cayman Islands exempted company incorporated with limited liability and an indirect wholly owned subsidiary of American.

"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.

"NMB" means National Mediation Board.

"NOL Carryforwards" means a deduction in any taxable year for net operating losses carried over from prior taxable years.

"NOLs" means net operating losses.

"ORD" means Chicago O'Hare International Airport.

"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.

“Piedmont” means Piedmont Airlines, Inc.

“Plan” means the Debtors’ fourth amended joint plan of reorganization.

“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 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 14.1 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 the PSP2 Closing Date.

“PSP2 Closing Date” means January 15, 2021.

"PSP2 Financial Assistance" means the portion of financial assistance received from Treasury pursuant to the PSP2 Agreement that is not allocated to the PSP2 Warrants or PSP2 Promissory Note.

“PSP2 Maturity Date” means the tenth anniversary of the PSP2 Closing Date.

“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 at least 5.7 million shares of AAG common stock.

“PSP2 Warrant Shares” means at least 5.7 million shares of AAG common stock which Treasury will have the right to purchase pursuant to PSP2 Warrants issued or to be issued by AAG in accordance with the PSP2 Warrant Agreement.

“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 to be entered into by the Subsidiaries with Treasury in connection with the provision of financial assistance under PSP3.

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

“PSP3 Warrant Agreement” means the agreement to be entered into between AAG and Treasury in connection with the PSP3 Agreement, pursuant to which AAG will issue warrants to Treasury to purchase up to approximately 4.4 million shares of AAG common stock.

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

“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.

“SEA” means Seattle-Tacoma International Airport.

"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.

"SPV Guarantors" means AAdvantage Holdings 1, Ltd. and HoldCo2.

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

"Terminal 8" means the passenger terminal facility used by American at JFK.

"Transferred AAdvantage IP" means, among other things, American's rights to certain data and other intellectual property used in the AAdvantage program (subject to certain exceptions).

"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 or to be 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" means US Airways, Inc.

"US Airways Group" means US Airways Group, Inc. and its consolidated subsidiaries.

"USTR" means the Office of the U.S. Trade Representative.

"Withdrawal Agreement" means the agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community.

"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 March 31,	
	2021	2020
Operating revenues:		
Passenger	$ 3,179	$ 7,681
Cargo	315	147
Other	514	687
Total operating revenues	4,008	8,515
Operating expenses:		
Aircraft fuel and related taxes	1,034	1,784
Salaries, wages and benefits	2,730	3,219
Regional expenses	625	1,140
Maintenance, materials and repairs	376	629
Other rent and landing fees	570	611
Aircraft rent	351	334
Selling expenses	151	385
Depreciation and amortization	478	560
Special items, net	(1,708)	1,132
Other	716	1,270
Total operating expenses	5,323	11,064
Operating loss	(1,315)	(2,549)
Nonoperating income (expense):		
Interest income	4	21
Interest expense, net	(371)	(257)
Other income (expense), net	109	(105)
Total nonoperating expense, net	(258)	(341)
Loss before income taxes	(1,573)	(2,890)
Income tax benefit	(323)	(649)
Net loss	$ (1,250)	$ (2,241)
Loss per common share:		
Basic and diluted	$ (1.97)	$ (5.26)
Weighted average shares outstanding (in thousands):		
Basic and diluted	634,609	425,713
Cash dividends declared per common share	$ —	$ 0.10

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Net loss	$ (1,250)	$ (2,241)
Other comprehensive income (loss), net of tax:		
Pension, retiree medical and other postretirement benefits	67	(126)
Investments	—	(23)
Total other comprehensive income (loss), net of tax	67	(149)
Total comprehensive loss	$ (1,183)	$ (2,390)

See accompanying notes to condensed consolidated financial statements.

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

	March 31, 2021 (Unaudited)	December 31, 2020
ASSETS		
Current assets		
Cash	$ 277	$ 245
Short-term investments	13,762	6,619
Restricted cash and short-term investments	806	609
Accounts receivable, net	971	1,342
Aircraft fuel, spare parts and supplies, net	1,658	1,614
Prepaid expenses and other	615	666
Total current assets	18,089	11,095
Operating property and equipment		
Flight equipment	37,480	37,816
Ground property and equipment	9,108	9,194
Equipment purchase deposits	1,136	1,446
Total property and equipment, at cost	47,724	48,456
Less accumulated depreciation and amortization	(16,827)	(16,757)
Total property and equipment, net	30,897	31,699
Operating lease right-of-use assets	8,000	8,039
Other assets		
Goodwill	4,091	4,091
Intangibles, net of accumulated amortization of $755 and $745, respectively	2,019	2,029
Deferred tax asset	3,632	3,239
Other assets	1,921	1,816
Total other assets	11,663	11,175
Total assets	$ 68,649	$ 62,008
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Current maturities of long-term debt and finance leases	$ 2,444	$ 2,797
Accounts payable	1,624	1,196
Accrued salaries and wages	1,576	1,716
Air traffic liability	5,598	4,757
Loyalty program liability	2,323	2,033
Operating lease liabilities	1,595	1,651
Other accrued liabilities	2,173	2,419
Total current liabilities	17,333	16,569
Noncurrent liabilities		
Long-term debt and finance leases, net of current maturities	37,247	29,796
Pension and postretirement benefits	6,765	7,069
Loyalty program liability	7,055	7,162
Operating lease liabilities	6,738	6,777
Other liabilities	1,456	1,502
Total noncurrent liabilities	59,261	52,306
Commitments and contingencies		
Stockholders' equity (deficit)		
Common stock, $0.01 par value; 1,750,000,000 shares authorized, 641,374,475 shares issued and outstanding at March 31, 2021; 621,479,522 shares issued and outstanding at December 31, 2020	6	6
Additional paid-in capital	6,980	6,894
Accumulated other comprehensive loss	(7,036)	(7,103)
Retained deficit	(7,895)	(6,664)
Total stockholders' deficit	(7,945)	(6,867)
Total liabilities and stockholders' equity (deficit)	$ 68,649	$ 62,008

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Net cash provided by (used in) operating activities	$ 174	$ (168)
Cash flows from investing activities:		
Capital expenditures, net of aircraft purchase deposit returns	19	(845)
Proceeds from sale of property and equipment	108	35
Proceeds from sale-leaseback transactions	99	280
Purchases of short-term investments	(8,557)	(820)
Sales of short-term investments	1,415	1,237
Increase in restricted short-term investments	(194)	—
Other investing activities	(42)	(49)
Net cash used in investing activities	(7,152)	(162)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	10,861	1,698
Payments on long-term debt and finance leases	(4,054)	(926)
Proceeds from issuance of equity	316	—
Deferred financing costs	(162)	(31)
Treasury stock repurchases and shares withheld for taxes pursuant to employee stock plans	(13)	(171)
Dividend payments	—	(43)
Other financing activities	65	(1)
Net cash provided by financing activities	7,013	526
Net increase in cash and restricted cash	35	196
Cash and restricted cash at beginning of period	399	290
Cash and restricted cash at end of period [1]	$ 434	$ 486
Non-cash transactions:		
Right-of-use (ROU) assets acquired through operating leases	$ 359	$ 328
Property and equipment acquired through finance leases	22	—
Settlement of bankruptcy obligations	—	56
Deferred financing costs paid through issuance of debt	—	17
Supplemental information:		
Interest paid, net	479	239
Income taxes paid	—	2

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

	2021	2020
Cash	$ 277	$ 474
Restricted cash included in restricted cash and short-term investments	157	12
Total cash and restricted cash	$ 434	$ 486

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, 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 (ASU) 2020-06 related to convertible instruments (see Note 1(c))	—	(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 (see Note 1(b))	—	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)

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	Total
Balance at December 31, 2019	$ 4	$ 3,945	$ (6,331)	$ 2,264	$ (118)
Net loss	—	—	—	(2,241)	(2,241)
Other comprehensive loss, net	—	—	(149)	—	(149)
Purchase and retirement of 6,378,025 shares of AAG common stock	—	(145)	—	—	(145)
Dividends declared on AAG common stock ($0.10 per share)	—	—	—	(44)	(44)
Issuance of 1,062,052 shares of AAG common stock pursuant to employee stock plans net of shares withheld for cash taxes	—	(13)	—	—	(13)
Settlement of single-dip unsecured claims held in Disputed Claims Reserve	—	56	—	—	56
Share-based compensation expense	—	18	—	—	18
Balance at March 31, 2020	$ 4	$ 3,861	$ (6,480)	$ (21)	$ (2,636)

See accompanying notes to condensed consolidated financial statements.

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

1. Basis of Presentation and Recent Accounting Pronouncements

(a) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of American Airlines Group Inc. (we, us, our and similar terms, or AAG) should be read in conjunction with the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2020. The accompanying unaudited condensed consolidated financial statements include the accounts of AAG and its wholly-owned subsidiaries. AAG's principal subsidiary is American Airlines, Inc. (American). All significant intercompany transactions have been eliminated.

Management believes that all adjustments necessary for the fair presentation of results, consisting of normally recurring items, have been included in the unaudited condensed consolidated financial statements for the interim periods presented. The preparation of financial statements in accordance with accounting principles generally accepted in the United States (GAAP) requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The most significant areas of judgment relate to passenger revenue recognition, impairment of goodwill, impairment of long-lived and intangible assets, the loyalty program, deferred tax assets, as well as pension and retiree medical and other postretirement benefits. Certain prior period amounts have been reclassified to conform to the current year presentation. See Note 10 for further information.

(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, including travel restrictions, testing regimes, closing of borders, "stay at home" orders and business closures. As a result, we have experienced an unprecedented decline in the demand for air travel, which has resulted in a material deterioration in our revenues. While global vaccination efforts are underway and demand for air travel has begun to return, the continued impact of COVID-19, including any increases in infection rates and renewed governmental action to slow the spread of COVID-19 such as has occurred throughout Western Europe and Latin America in the first quarter of 2021, cannot be estimated.

We have taken aggressive actions to mitigate the effects of the COVID-19 pandemic on our business, including deep capacity reductions, structural changes to our fleet, cost reductions, and steps to preserve cash and improve our overall liquidity position. We remain extremely focused on taking all self-help measures available to manage our business during this unprecedented time, consistent with the terms of the financial assistance we have received from the U.S. Government under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and Subtitle A of Title IV of Division N of the Consolidated Appropriations Act, 2021 (PSP Extension Law).

Capacity Reductions

We have significantly reduced our capacity (as measured by available seat miles), with first quarter of 2021 flying down 39.2% year-over-year. Domestic capacity in the first quarter of 2021 was down 36.8% while international capacity was down 45.1% year-over-year.

While demand for domestic and short-haul international markets has begun to return, uncertainty continues to exist. We will continue to match our forward capacity with observed booking trends for future travel and make further adjustments to our capacity as needed.

Cost Reductions

We have reduced our 2021 operating expenditures as a result of permanent non-volume cost reductions. These reductions include labor productivity enhancements, management salaries and benefits and other permanent cost reductions. In the first quarter of 2021, an additional 1,600 represented team members opted in to a voluntary early retirement program.

Liquidity

As of March 31, 2021, we had $17.3 billion in total available liquidity, consisting of $14.0 billion in unrestricted cash and short-term investments, $2.8 billion in an undrawn capacity under revolving credit facilities and a total of $454 million in undrawn short-term revolving and other facilities.

During the first quarter of 2021, we completed the following financing transactions (see Note 5 for further information):

- issued $3.5 billion in aggregate principal amount of 5.50% Senior Secured Notes due 2026 and $3.0 billion in aggregate principal amount of 5.75% Senior Secured Notes due 2029 and entered into a $3.5 billion senior secured term loan facility (the AAdvantage Term Loan Facility) of which the full amount of term loans was drawn at closing;
- repaid in full $750 million under the 2013 Revolving Facility, $1.6 billion under the 2014 Revolving Facility and $450 million under the April 2016 Revolving Facility, all of which was borrowed in April 2020 in response to the COVID-19 pandemic;
- repaid the $550 million of outstanding loans under the $7.5 billion secured term loan facility with the U.S. Department of Treasury (Treasury) (the Treasury Loan Agreement) and terminated the Treasury Loan Agreement;
- issued 18.2 million shares of AAG common stock at an average price of $17.59 per share pursuant to an at-the-market offering for net proceeds of $316 million; and
- raised $99 million principally from aircraft sale-leaseback transactions.

In addition to the foregoing financings, we received an aggregate of approximately $3.1 billion in financial assistance through the payroll support program (PSP2) established under the PSP Extension Law, all of which was received by the end of March 2021. In connection with our receipt of this financial assistance, AAG issued a promissory note (the PSP2 Promissory Note) to Treasury for $896 million in aggregate principal amount and warrants to purchase up to an aggregate of approximately 5.7 million shares (the PSP2 Warrant Shares) of AAG common stock. See below for further discussion on PSP2.

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 loan to value, collateral coverage and/or debt service coverage ratio covenants.

Given the above actions and 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 funds from government assistance to be obtained pursuant to the American Rescue Plan Act of 2021, as amended (the ARP)), and projected cash flows from operations.

PSP2

On January 15, 2021 (the PSP2 Closing Date), American, Envoy Air Inc. (Envoy), Piedmont Airlines, Inc. (Piedmont) and PSA Airlines, Inc. (PSA and together with American, Envoy and Piedmont, the Subsidiaries), entered into a Payroll Support Program Extension Agreement (the PSP2 Agreement) with Treasury, with respect to PSP2 provided pursuant to the PSP Extension Law. In connection with our entry into the PSP2 Agreement, on the PSP2 Closing Date, AAG also entered into a warrant agreement (the PSP2 Warrant Agreement) with Treasury and issued the PSP2 Promissory Note to Treasury, with the Subsidiaries as guarantors.

PSP2 Agreement

In connection with PSP2, we are required to comply with the relevant provisions of the PSP Extension Law, which are substantially similar as the restrictions contained in the Payroll Support Program Agreement entered into by the Subsidiaries with Treasury in connection with the payroll support program established under the CARES Act, but are in effect for a longer time period. These provisions include the requirement that funds provided pursuant to the PSP2 Agreement be used exclusively for the continuation of payment of eligible employee wages, salaries and benefits, the requirement against involuntary furloughs and reductions in employee pay rates and benefits through March 31, 2021, the provisions that prohibit the repurchase of AAG common stock, and the payment of common stock dividends through at least March 31, 2022, the provisions that restrict the payment of certain executive compensation until at least October 1, 2022, as well as a requirement to recall employees involuntarily terminated or furloughed after September 30, 2020. As was the case with PSP1, the PSP2 Agreement also imposes substantial reporting obligations on us.

Pursuant to the PSP2 Agreement, Treasury provided us financial assistance in two installments (each prior installment and any future installment disbursement, an Installment) totaling approximately $3.1 billion in the aggregate. As partial compensation to the U.S. Government for the provision of financial assistance under PSP2, AAG issued the PSP2 Promissory Note in the aggregate principal amount of $896 million and issued warrants (each a PSP2 Warrant and, collectively, the PSP2 Warrants) to Treasury to purchase up to an aggregate of approximately 5.7 million shares of AAG common stock.

For accounting purposes, the $3.1 billion of aggregate financial assistance we received pursuant to the PSP2 Agreement is allocated to the PSP2 Promissory Note, the PSP2 Warrants and the other PSP2 financial assistance (the PSP2 Financial Assistance). The aggregate principal amount of $896 million of the PSP2 Promissory Note was recorded as unsecured long-term debt, and the total fair value of the PSP2 Warrants of $65 million, estimated using a Black-Scholes option pricing model, was recorded in stockholders' deficit in the condensed consolidated balance sheet. The remaining amount of approximately $2.1 billion of PSP2 Financial Assistance was recognized as a credit to special items, net in the condensed consolidated statement of operations in the first quarter of 2021, the remaining period over which the continuation of payment of eligible employee wages, salaries and benefits was required.

PSP2 Promissory Note

As partial compensation to the U.S. Government for the provision of financial assistance under the PSP2 Agreement, AAG issued the PSP2 Promissory Note to Treasury, which provides for our unconditional promise to pay to Treasury the principal sum of $896 million, subject to an increase equal to 30% of the amount of any additional Installment disbursed under the PSP2 Agreement, and the guarantee of our obligations under the PSP2 Promissory Note by the Subsidiaries.

The PSP2 Promissory Note bears interest on the outstanding principal amount at a rate equal to 1.00% per annum until the fifth anniversary of the PSP2 Closing Date and 2.00% plus an interest rate based on the secured overnight financing rate per annum or other benchmark replacement rate consistent with customary market conventions (but not to be less than 0.00%) thereafter until the tenth anniversary of the PSP2 Closing Date (the PSP2 Maturity Date), and interest accrued thereon will be payable in arrears on the last business day of March and September of each year, beginning on March 31, 2021. The aggregate principal amount outstanding under the PSP2 Promissory Note, together with all accrued and unpaid interest thereon and all other amounts payable under the PSP2 Promissory Note, will be due and payable on the PSP2 Maturity Date.

We may, at any time and from time to time, voluntarily prepay amounts outstanding under the PSP2 Promissory Note, in whole or in part, without penalty or premium. Within 30 days of the occurrence of certain change of control triggering events, we are required to prepay the aggregate outstanding principal amount of the PSP2 Promissory Note at such time, together with any accrued interest or other amounts owing under the PSP2 Promissory Note at such time.

The PSP2 Promissory Note is our senior unsecured obligation and each guarantee of the PSP2 Promissory Note is the senior unsecured obligation of each of the Subsidiaries, respectively.

The PSP2 Promissory Note contains events of default, including cross-default with respect to acceleration or failure to pay at maturity other material indebtedness. Upon the occurrence of an event of default and subject to certain grace periods, the outstanding obligations under the PSP2 Promissory Note may, and in certain circumstances will automatically, be accelerated and become due and payable immediately.

PSP2 Warrant Agreement and PSP2 Warrants

As partial compensation to the U.S. Government for the provision of financial assistance under the PSP2 Agreement, and pursuant to the PSP2 Warrant Agreement, AAG issued the PSP2 Warrants to Treasury to purchase PSP2 Warrant Shares. The exercise price of the PSP2 Warrant Shares is $15.66 per share, subject to certain anti-dilution provisions provided for in the PSP2 Warrants.

Pursuant to the PSP2 Warrant Agreement, AAG issued to Treasury PSP2 Warrants to purchase up to an aggregate of approximately 5.7 million shares of Common Stock based on the terms described herein and on the date of any increase of the principal amount of the PSP2 Promissory Note in connection with the disbursement of any additional Installment under the PSP2 Agreement, AAG will issue to Treasury an additional PSP2 Warrant for a number of shares of AAG common stock equal to 10% of such increase of the principal amount of the PSP2 Promissory Note, divided by $15.66, the exercise price of such shares.

The PSP2 Warrants do not have any voting rights and are freely transferrable, with registration rights. Each PSP2 Warrant expires on the fifth anniversary of the date of issuance of such PSP2 Warrant. The PSP2 Warrants will be exercisable either through net share settlement or cash, at our option. The PSP2 Warrants were and will be issued solely as compensation to the U.S. Government related to entry into the PSP2 Agreement. No separate proceeds (apart from the financial assistance described above) were received upon issuance of the PSP2 Warrants or will be received upon exercise thereof.

(c) Recent Accounting Pronouncements

ASU 2020-06: Accounting for Convertible Instruments and Contracts In An Entity's Own Equity (the New Convertible Debt Standard)

The New Convertible Debt Standard simplifies the accounting for certain convertible instruments by removing the separation models for convertible debt with a cash conversion feature and for convertible instruments with a beneficial conversion feature. As a result, more convertible debt instruments will be reported as a single liability instrument with no separate accounting for embedded conversion features. Additionally, the New Convertible Debt Standard amends the diluted earnings per share calculation for convertible instruments by requiring the use of the if-converted method. The treasury stock method is no longer available. Entities may adopt the New Convertible Debt Standard using either a full or modified retrospective approach, and it is effective for interim and annual reporting periods beginning after December 15, 2021. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2020. The New Convertible Debt Standard is applicable to our 6.50% convertible senior notes due 2025 (the Convertible Notes). We early adopted the New Convertible Debt Standard as of January 1, 2021 using the modified retrospective method to recognize our Convertible Notes as a single liability instrument. As of January 1, 2021, we recorded a $415 million ($320 million net of tax) reduction to additional paid-in capital to remove the equity component of the Convertible Notes from our balance sheet and a $19 million cumulative effect adjustment credit, net of tax, to retained deficit related to non-cash debt discount amortization recognized in periods prior to adoption resulting in a corresponding reduction of $389 million to the debt discount associated with the Convertible Notes.

ASU 2019-12: Simplifying the Accounting for Income Taxes (Topic 740)

This standard simplifies the accounting and disclosure requirements for income taxes by clarifying the existing guidance to improve consistency in the application of Accounting Standards Codification 740. This standard also removed the requirement to calculate income tax expense for the stand-alone financial statements of wholly-owned subsidiaries that are not subject to income tax. We adopted this standard effective January 1, 2021, and it did not have a material impact on our condensed consolidated financial statements.

2. Special Items, Net

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

	Three Months Ended March 31,	
	2021	2020
PSP2 Financial Assistance (1)	$ (1,882)	$ —
Severance expenses (2)	168	205
Mark-to-market adjustments on bankruptcy obligations, net (3)	6	(50)
Fleet impairment (4)	—	744
Labor contract expenses (5)	—	218
Other operating special items, net	—	15
Mainline operating special items, net	(1,708)	1,132
PSP2 Financial Assistance (1)	(244)	—
Fleet impairment (4)	27	93
Severance expenses (2)	2	—
Regional operating special items, net	(215)	93
Operating special items, net	(1,923)	1,225
Mark-to-market adjustments on equity and other investments, net (6)	(49)	180
Debt refinancing, extinguishment and other, net	26	37
Nonoperating special items, net	(23)	217

(1) PSP2 Financial Assistance represents recognition of financial assistance received from Treasury pursuant to the PSP2 Agreement. See Note 1(b) for further information.

(2) Severance expenses include salary and medical costs primarily associated with certain team members who opted in to 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 were approximately $170 million during the first quarter of 2021.

(3) Bankruptcy obligations that will be settled in shares of our common stock are marked-to-market based on our stock price.

(4) Fleet impairment resulted from our decision to retire certain aircraft earlier than planned driven primarily by the severe decline in air travel due to the COVID-19 pandemic. In the first quarter of 2021, we retired our remaining fleet of Embraer 140 aircraft resulting in a $27 million non-cash write-down of these aircraft. In the first quarter of 2020, we retired our Boeing 757, Boeing 767, Airbus A330-300 and Embraer 190 fleets as well as certain Embraer 140 and Bombardier CRJ200 aircraft resulting in a $764 million non-cash write-down of these aircraft and associated spare parts and $73 million in cash charges primarily for impairment of ROU assets and lease return costs.

(5) Labor contract expenses primarily related to one-time charges resulting from the ratification of a new contract with the Transport Workers Union and International Association of Machinists & Aerospace Workers for our maintenance and fleet service team members, including signing bonuses and adjustments to vacation accruals resulting from pay rate increases.

(6) Mark-to-market adjustments on equity and other investments, net primarily related to net unrealized gains and losses associated with our equity investment in China Southern Airlines Company Limited (China Southern Airlines) and certain treasury rate lock derivative instruments.

3. Loss Per Common Share

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

	Three Months Ended March 31,	
	2021	2020
Basic and diluted EPS:		
Net loss	$ (1,250)	$ (2,241)
Weighted average common shares outstanding (in thousands)	634,609	425,713
Basic and diluted EPS	$ (1.97)	$ (5.26)

Securities that could potentially dilute EPS in the future, and 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 March 31,	
	2021	2020
6.50% convertible senior notes	61,728	—
PSP1 Warrants	4,957	—
Restricted stock unit awards	3,255	4,934
Treasury Loan Warrants	1,545	—
PSP2 Warrants	520	—

4. Revenue Recognition

Revenue

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

	Three Months Ended March 31, 2021	2020
Passenger revenue:		
Passenger travel	$ 2,893	$ 7,079
Loyalty revenue - travel (1)	286	602
Total passenger revenue	3,179	7,681
Cargo	315	147
Other:		
Loyalty revenue - marketing services (2)	457	571
Other revenue	57	116
Total other revenue	514	687
Total operating revenues	$ 4,008	$ 8,515

(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 March 31, 2021 and 2020, cash payments from co-branded credit card and other partners was $1.0 billion and $1.3 billion, respectively.

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

	Three Months Ended March 31, 2021	2020
Domestic	$ 2,655	$ 5,780
Latin America	482	1,180
Atlantic	22	523
Pacific	20	198
Total passenger revenue	$ 3,179	$ 7,681

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

Contract Balances

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

	March 31, 2021	December 31, 2020
	(In millions)	
Loyalty program liability	$ 9,378	$ 9,195
Air traffic liability	5,598	4,757
Total	$ 14,976	$ 13,952

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, 2020	$	9,195
Deferral of revenue		490
Recognition of revenue (1)		(307)
Balance at March 31, 2021 (2)	$	9,378

(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 18 months. In response to the COVID-19 pandemic, we suspended the expiration of mileage credits through June 30, 2021 and eliminated mileage reinstatement fees for canceled award tickets. As of March 31, 2021, our current loyalty program liability was $2.3 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 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 three months ended March 31, 2021, $838 million of revenue was recognized in passenger revenue that was included in our air traffic liability at December 31, 2020. In response to the COVID-19 pandemic, we extended the contract duration for certain tickets to March 31, 2022, principally those tickets which were scheduled to expire from March 1, 2020 through March 31, 2021. Additionally, we have eliminated change fees for most domestic and international tickets. As of March 31, 2021, the air traffic liability included approximately $2.1 billion of travel credits related to these unused tickets. Accordingly, any revenue associated with these tickets will be recognized within the next 12 months. Given this change in contract duration and 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):

	March 31, 2021	December 31, 2020
Secured		
2013 Term Loan Facility, variable interest rate of 1.86%, installments through 2025	$ 1,788	$ 1,788
2013 Revolving Facility	—	750
2014 Term Loan Facility, variable interest rate of 1.86%, installments through 2027	1,208	1,220
2014 Revolving Facility	—	1,643
April 2016 Term Loan Facility, variable interest rate of 2.11%, installments through 2023	960	960
April 2016 Revolving Facility	—	450
December 2016 Term Loan Facility, variable interest rate of 2.11%, installments through 2023	1,200	1,200
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
Treasury Term Loan Facility	—	550
5.50% senior secured notes, installments beginning in July 2023 until due in April 2026	3,500	—
5.75% senior secured notes, installments beginning in July 2026 until due in April 2029	3,000	—
AAdvantage Term Loan Facility, variable interest rate of 5.5%, installments beginning in July 2023 through April 2028	3,500	—
Enhanced equipment trust certificates (EETCs), fixed interest rates ranging from 3.00% to 8.39%, averaging 3.95%, maturing from 2021 to 2032	10,652	11,013
Equipment loans and other notes payable, fixed and variable interest rates ranging from 1.28% to 5.83%, averaging 1.87%, maturing from 2021 to 2032	4,156	4,417
Special facility revenue bonds, fixed interest rates ranging from 5.00% to 8.00%, maturing from 2021 to 2036	1,064	1,064
	34,728	28,755
Unsecured		
PSP1 Promissory Note	1,765	1,765
PSP2 Promissory Note	896	—
6.50% convertible senior notes, interest only payments until due in July 2025	1,000	1,000
5.000% senior notes, interest only payments until due in June 2022	750	750
3.75% senior notes, interest only payments until due in March 2025	500	500
	4,911	4,015
Total long-term debt	39,639	32,770
Less: Total unamortized debt discount, premium and issuance costs	515	749
Less: Current maturities	2,339	2,697
Long-term debt, net of current maturities	$ 36,785	$ 29,324

As of March 31, 2021, 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	454
Total	$ 3,297

American has an undrawn $400 million short-term revolving credit facility it entered into in December 2019, which was set to expire at the end of December 2020 but which has been extended through the beginning of July 2021. American has the option to extend further this short-term revolving credit facility to January 2022 and, if extended, the available amount thereunder for the period from July 2021 to January 2022 shall be increased to $500 million. American also currently has approximately $54 million of available borrowing base under a cargo receivables facility that was entered into in December 2020. The December 2016 Credit Facilities provide for a revolving credit facility that may be established thereunder in the future.

Secured financings are collateralized by assets, consisting primarily of aircraft, engines, simulators, aircraft spare parts, airport gate leasehold rights, route authorities, airport slots and certain pre-delivery payments, as well as certain intellectual property and loyalty program assets.

6.50% Convertible Senior Notes

At March 31, 2021, the if-converted value of the Convertible Notes exceeded the principal amount by $475 million. The last reported sale price per share of our common stock (as defined in the indenture governing our Convertible Notes, the Convertible Notes Indenture) exceeded 130% of the conversion price of the Convertible Notes for each of at least 20 trading days during the 30 consecutive trading days ending on March 31, 2021. Accordingly, pursuant to the terms of the Convertible Notes Indenture, the holders of the Convertible Notes may convert at their option at any time during the quarter ending June 30, 2021. 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.

2021 Financing Activities

2013, 2014 and April 2016 Revolving Facilities

In March 2021, American repaid in full the $750 million of revolving loans outstanding under the 2013 Revolving Facility, the $1.6 billion of revolving loans outstanding under the 2014 Revolving Facility and the $450 million of revolving loans outstanding under the April 2016 Revolving Facility. Following the March 2021 repayment, American is able to draw upon the commitments under these revolving facilities again as needed upon the terms of the underlying credit agreements or leave them undrawn, in each case, until such commitments expire, which is currently scheduled to occur in 2024 for substantially all of such commitments. As of March 31, 2021, there were no borrowings or letters of credit outstanding under the 2013 Revolving Facility, the 2014 Revolving Facility or the April 2016 Revolving Facility.

PSP2 Promissory Note

As partial compensation to the U.S. Government for the provision of financial assistance under the PSP2 Agreement, AAG issued the PSP2 Promissory Note to Treasury, which provides for our unconditional promise to pay to Treasury the principal sum of $896 million, subject to an increase equal to 30% of the amount of any additional Installment disbursed under the PSP2 Agreement, and the guarantee of our obligations under the PSP2 Promissory Note by the Subsidiaries.

The PSP2 Promissory Note bears interest on the outstanding principal amount at a rate equal to 1.00% per annum until the fifth anniversary of the PSP2 Closing Date and 2.00% plus an interest rate based on the secured overnight financing rate per annum or other benchmark replacement rate consistent with customary market conventions (but not to be less than 0.00%) thereafter until the tenth anniversary of the PSP2 Closing Date (the PSP2 Maturity Date), and interest accrued thereon will be payable in arrears on the last business day of March and September of each year, beginning on March 31, 2021. The aggregate principal amount outstanding under the PSP2 Promissory Note, together with all accrued and unpaid interest thereon and all other amounts payable under the PSP2 Promissory Note, will be due and payable on the PSP2 Maturity Date.

We may, at any time and from time to time, voluntarily prepay amounts outstanding under the PSP2 Promissory Note, in whole or in part, without penalty or premium. Within 30 days of the occurrence of certain change of control triggering events, we are required to prepay the aggregate outstanding principal amount of the PSP2 Promissory Note at such time, together with any accrued interest or other amounts owing under the PSP2 Promissory Note at such time.

The PSP2 Promissory Note is our senior unsecured obligation and each guarantee of the PSP2 Promissory Note is the senior unsecured obligation of each of the Subsidiaries, respectively.

The PSP2 Promissory Note contains events of default, including cross-default with respect to acceleration or failure to pay at maturity other material indebtedness. Upon the occurrence of an event of default and subject to certain grace periods, the outstanding obligations under the PSP2 Promissory Note may, and in certain circumstances will automatically, be accelerated and become due and payable immediately.

AAdvantage Financing

On March 24, 2021 (the AAdvantage Financing Closing Date), American and AAdvantage Loyalty IP Ltd., a newly formed Cayman Islands exempted company incorporated with limited liability and an indirect wholly owned subsidiary of American (Loyalty Issuer and, together with American, the AAdvantage Issuers), completed the offering of $3.5 billion aggregate principal amount of 5.50% Senior Secured Notes due 2026 (the 2026 Notes) and $3.0 billion aggregate principal amount of 5.75% Senior Secured Notes due 2029 (the 2029 Notes, and together with the 2026 Notes, the AAdvantage Notes). The AAdvantage Notes are fully and unconditionally guaranteed (the AAdvantage Note Guarantees) on a senior unsecured basis by AAG and fully and unconditionally guaranteed on a senior secured basis, jointly and severally, by AAdvantage Holdings 1, Ltd., a newly formed Cayman Islands exempted company incorporated with limited liability and a direct wholly owned subsidiary of American, and AAdvantage Holdings 2, Ltd., a newly formed Cayman Islands exempted company incorporated with limited liability and an indirect wholly owned subsidiary of American and the direct parent of Loyalty Issuer (HoldCo2 and, together with AAdvantage Holdings 1, Ltd., the SPV Guarantors, and the SPV Guarantors together with AAG, the AAdvantage Guarantors). The AAdvantage Notes were issued pursuant to an indenture, dated as of March 24, 2021 (the AAdvantage Indenture), by and among the AAdvantage Issuers, the AAdvantage Guarantors and Wilmington Trust, National Association, as trustee and as collateral custodian.

Concurrent with the issuance of the AAdvantage Notes, the AAdvantage Issuers, as co-borrowers, entered into a term loan credit and guaranty agreement, dated March 24, 2021, with Barclays Bank PLC, as administrative agent, Wilmington Trust, National Association, as collateral administrator, and the lenders party thereto, providing for a $3.5 billion term loan facility (the AAdvantage Term Loan Facility and collectively with the AAdvantage Notes, the AAdvantage Financing) and pursuant to which the full $3.5 billion of term loans (the AAdvantage Loans) were drawn on the AAdvantage Financing Closing Date. The AAdvantage Loans are fully and unconditionally guaranteed (together with the AAdvantage Note Guarantees, the AAdvantage Guarantees) by the AAdvantage Guarantors.

Subject to certain permitted liens and other exceptions, the AAdvantage Notes, AAdvantage Loans and AAdvantage Guarantees provided by the SPV Guarantors will be secured by a first-priority security interest in, and pledge of, various agreements with respect to the AAdvantage program (the AAdvantage Agreements) (including all payments thereunder) and rights under an intercompany agreement and certain IP Licenses (as defined below), certain rights under the AAdvantage program, certain deposit accounts that will receive cash under the AAdvantage Agreements, certain reserve accounts, the equity of each of Loyalty Issuer and the SPV Guarantors and substantially all other assets of Loyalty Issuer and the SPV Guarantors (collectively, the AAdvantage Collateral).

Payment Terms of the AAdvantage Notes and AAdvantage Loans under the AAdvantage Term Loan Facility

Interest on the AAdvantage Notes is payable in cash, quarterly in arrears on the 20th day of each January, April, July and October (each, an AAdvantage Payment Date), beginning July 20, 2021. The 2026 Notes will mature on April 20, 2026, and the 2029 Notes will mature on April 20, 2029. The outstanding principal on the 2026 Notes will be repaid in quarterly installments of approximately $292 million on each AAdvantage Payment Date, beginning on July 20, 2023. The outstanding principal on the 2029 Notes will be repaid in quarterly installments of $250 million on each AAdvantage Payment Date, beginning on July 20, 2026.

The AAdvantage Issuers may redeem the AAdvantage Notes, at their option, in whole at any time or in part from time to time, at a redemption price equal to 100% of the principal amount of the AAdvantage Notes redeemed plus a “make-whole” premium, together with accrued and unpaid interest to the date of redemption.

The scheduled maturity date of the AAdvantage Loans under the AAdvantage Term Loan Facility is April 20, 2028. The AAdvantage Loans bear interest at a variable rate equal to LIBOR (but not less than 0.75% per annum), plus a margin of 4.75% per annum, payable on each AAdvantage Payment Date. The outstanding principal on the AAdvantage Loans will be repaid in quarterly installments of $175 million, on each AAdvantage Payment Date beginning with the AAdvantage Payment Date in July 2023. These amortization payments (as well as those for the AAdvantage Notes) will be subject to the occurrence of certain early amortization events, including the failure to satisfy a minimum debt service coverage ratio at specified determination dates.

Prepayment of some or all of the AAdvantage Loans outstanding under the AAdvantage Term Loan Facility is permitted, although payment of an applicable premium is required as specified in the AAdvantage Term Loan Facility.

The AAdvantage Indenture and the AAdvantage Term Loan Facility contain mandatory prepayment provisions triggered upon (i) the issuance or incurrence by Loyalty Issuer or the SPV Guarantors of certain indebtedness or (ii) the receipt by American or its subsidiaries of net proceeds from pre-paid frequent flyer (i.e., AAdvantage) mile purchases exceeding $500 million, with prepayment required only in respect of net proceeds from such purchases exceeding $505 million in the aggregate. Each of these prepayments would also require payment of an applicable premium. Certain other events, including the occurrence of a change of control with respect to AAG and certain AAdvantage Collateral sales exceeding a specified threshold, will also trigger mandatory repurchase or mandatory prepayment provisions under the AAdvantage Indenture and the AAdvantage Term Loan Facility, respectively.

Other Terms of the AAdvantage Indenture and the AAdvantage Term Loan Facility

The AAdvantage Indenture and the AAdvantage Term Loan Facility contain certain covenants that limit the ability of Loyalty Issuer, the SPV Guarantors and, in certain circumstances, American and AAG, to among other things, (i) incur additional indebtedness and make restricted payments, (ii) incur certain liens on the AAdvantage Collateral, (iii) merge, consolidate or sell substantially all of their assets, (iv) dispose of the AAdvantage Collateral, (v) sell pre-paid frequent flyer (i.e. AAdvantage) miles in excess of $550 million in the aggregate, and (vi) terminate, amend, waive, supplement or modify the IP Licenses, or exercise rights and remedies thereunder, except under certain circumstances. American and Loyalty Issuer are also prohibited from substantially reducing the AAdvantage program business or modifying the terms of the AAdvantage program in a manner that would reasonably be expected to materially impair repayment of the AAdvantage Financing obligations (described as a Payment Material Adverse Effect in the AAdvantage Indenture and the AAdvantage Term Loan Facility), and AAG and its subsidiaries are prohibited from changing the policies and procedures of the AAdvantage program in a manner that would reasonably be expected to have a Payment Material Adverse Effect or operating a competing loyalty program. Notwithstanding these restrictions, the AAdvantage program is expected to operate as it has in the past, and the entry into the AAdvantage Financing is not expected to have any impact on the benefits offered to AAdvantage members.

In addition, subject to certain exceptions, the AAdvantage Indenture and the AAdvantage Term Loan Facility restrict the ability of American, Loyalty Issuer or any Guarantor to terminate, or modify certain terms within, the intercompany agreement governing the relationship between American and Loyalty Issuer with respect to the AAdvantage program.

The AAdvantage Indenture and the AAdvantage Term Loan Facility also require the AAdvantage Issuers to comply with certain affirmative covenants, including (i) certain reporting requirements and (ii) the use of commercially reasonable efforts to cause sufficient counterparties to AAdvantage Agreements to direct payments with respect to the AAdvantage program into a collections account, such that at least 90% of such cash receipts in a quarterly reporting period are deposited directly into this collection account, with amounts to be distributed from this collection account for the payment of fees, principal and interest on the AAdvantage Notes and the AAdvantage Loans pursuant to a payment waterfall described in the AAdvantage Indenture and the AAdvantage Term Loan Facility, respectively. In addition, the AAdvantage Indenture and the AAdvantage Term Loan Facility require AAG to maintain minimum liquidity, defined as the sum of (a) unrestricted cash and cash equivalents and (b) the aggregate principal amount committed and available to be drawn under all of AAG's revolving credit and other facilities, at the close of any business day of at least $2.0 billion.

Subject to certain materiality thresholds, qualifications, exceptions, “baskets” and grace and cure periods, the AAdvantage Indenture and the AAdvantage Term Loan Facility contain various events of default, including payment defaults, covenant defaults, cross-defaults to certain indebtedness, termination of certain agreements related to the AAdvantage program, bankruptcy events of Loyalty Issuer or any SPV Guarantor, and a change of control of Loyalty Issuer or any SPV Guarantor. A bankruptcy event of American is not itself an event of default; following an American bankruptcy, an event of default would only occur if American failed to satisfy certain enumerated bankruptcy case milestones, including an assumption of the AAdvantage Financing by a certain date. Upon the occurrence of an event of default, the outstanding obligations under the AAdvantage Indenture and the AAdvantage Term Loan Facility may (or, with respect to the bankruptcy events noted above, shall) be accelerated and become due and payable immediately.

Terms of Certain Intercompany Agreements Related to the AAdvantage Financing

In connection with the issuance of the AAdvantage Notes and entry into the AAdvantage Term Loan Facility, American, Loyalty Issuer and the SPV Guarantors entered into a series of transactions that resulted in the transfer to Loyalty Issuer of, among other things, American's rights to certain data and other intellectual property used in the AAdvantage program (subject to certain exceptions) (such assets, the Transferred AAdvantage IP) and certain rights of American under specified AAdvantage Agreements. Loyalty Issuer has entered into a license agreement with HoldCo2 pursuant to which Loyalty Issuer has granted to HoldCo2 an exclusive, irrevocable (subject to certain termination rights), perpetual, worldwide, royalty-bearing license to use the Transferred AAdvantage IP (the HoldCo2 License), and HoldCo2 has in turn granted to American an exclusive, irrevocable (subject to certain termination rights), perpetual, worldwide, royalty-bearing sublicense to use the Transferred AAdvantage IP (together with the HoldCo2 License, the IP Licenses). The IP Licenses would be terminated, and American's right to use the Transferred AAdvantage IP would cease, upon specified termination events, including, but not limited to, the occurrence of an event of default under the AAdvantage Indenture or the AAdvantage Term Loan Facility. In certain circumstances, such a termination would trigger a liquidated damages payment in an amount that is greater than the initial principal amount of the AAdvantage Notes and the AAdvantage Loans.

In addition, proceeds from the AAdvantage Financing were loaned by Loyalty Issuer to American pursuant to an intercompany note that was guaranteed by AAG. The borrowings under this intercompany note are payable on demand by Loyalty Issuer or, after the occurrence and during the continuance of an event of default under the AAdvantage Financing, by the master collateral agent under the AAdvantage Financing.

Treasury Loan Agreement

On September 25, 2020, American and AAG entered into a Loan and Guarantee Agreement (the Treasury Loan Agreement) with Treasury, which provided for a secured term loan facility (the Treasury Term Loan Facility) that permitted American to borrow up to $5.5 billion. Subsequently, on October 21, 2020, American and AAG entered into an amendment to the Treasury Loan Agreement, which increased the borrowing amount to up to $7.5 billion. American had borrowed $550 million under the Treasury Term Loan Facility in September 2020.

On March 24, 2021, American used proceeds from the AAdvantage Financing to prepay in full the $550 million outstanding under the Treasury Term Loan Facility and terminated the Treasury Loan Agreement.

6. Income Taxes

At December 31, 2020, we had approximately $16.5 billion of federal net operating losses (NOLs) available to reduce future federal taxable income, of which $8.5 billion will expire beginning in 2023 if unused and $8.0 billion can be carried forward indefinitely (NOL Carryforwards). We also had approximately $5.0 billion of NOL Carryforwards to reduce future state taxable income at December 31, 2020, which will expire in taxable years 2020 through 2040 if unused.

Our ability to use our NOL 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 months ended March 31, 2021 and 2020, we recorded an income tax benefit of $323 million and $649 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 classified as Level 2 primarily utilize broker quotes in a non-active market for valuation of these securities. No changes in valuation techniques or inputs occurred during the three months ended March 31, 2021.

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

	Fair Value Measurements as of March 31, 2021			
	Total	Level 1	Level 2	Level 3
Short-term investments (1), (2):				
Money market funds	$ 6,662	$ 6,662	$ —	$ —
Corporate obligations	4,123	—	4,123	—
Bank notes/certificates of deposit/time deposits	2,257	—	2,257	—
Repurchase agreements	720	—	720	—
	13,762	6,662	7,100	—
Restricted cash and short-term investments (1), (3)	806	606	200	—
Long-term investments (4)	201	201	—	—
Total	$ 14,769	$ 7,469	$ 7,300	$ —

(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 money market funds to be used to finance a substantial portion of the cost of the renovation and expansion of Terminal 8 at JFK as well as collateral associated with the payment of certain fees and interest in respect of the AAdvantage Financing and collateral held to support workers' compensation obligations.

(4) Long-term investments primarily include our equity investment in China Southern Airlines, in which we presently own a 1.8% equity interest, and are classified in other assets on the condensed consolidated balance sheet.

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 $2.7 billion and $2.3 billion as of March 31, 2021 and December 31, 2020, respectively, which would have been classified as Level 3 in the fair value hierarchy. The fair value of our Convertible Notes was $1.7 billion and $1.2 billion as of March 31, 2021 and December 31, 2020, respectively.

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

	March 31, 2021		December 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current maturities	$ 39,124	$ 40,325	$ 32,021	$ 30,454

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 March 31,	**2021**	**2020**	**2021**	**2020**
Service cost	$ 1	$ 1	$ 2	$ 1
Interest cost	131	153	6	7
Expected return on assets	(272)	(252)	(3)	(4)
Special termination benefits	—	—	139	—
Amortization of:				
Prior service cost (benefit)	7	7	(3)	(54)
Unrecognized net loss (gain)	53	41	(6)	(6)
Net periodic benefit cost (income)	$ (80)	$ (50)	$ 135	$ (56)

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 (expense), 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 in to voluntary early retirement programs offered as a result of reductions to our operation due to the COVID-19 pandemic. For the three months ended March 31, 2021, we recognized a $139 million special charge for these enhanced healthcare benefits and increased our postretirement benefits obligation by $139 million as of March 31, 2021.

In January 2021, we made $241 million in contributions to our pension plans, including a contribution of $130 million for the 2020 calendar year that was permitted to be deferred to January 4, 2021 as provided under the CARES Act. On March 11, 2021, the ARP was enacted, which included certain funding relief provisions for single employer qualified retirement benefit pension plans such as those sponsored by us. Based on our current understanding of the ARP provisions applicable to our pension plans, we will have no additional funding requirements for 2021.

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 Gain (Loss) on Investments	Income Tax Benefit (Provision) (1)	Total
Balance at December 31, 2020	$ (6,236)	$ (2)	$ (865)	$ (7,103)
Other comprehensive income (loss) before reclassifications	35	—	(8)	27
Amounts reclassified from AOCI	51	—	(11) (2)	40
Net current-period other comprehensive income (loss)	86	—	(19)	67
Balance at March 31, 2021	$ (6,150)	$ (2)	$ (884)	$ (7,036)

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

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

	Amounts reclassified from AOCI		
	Three Months Ended March 31,		
AOCI Components	2021	2020	Affected line items on the condensed consolidated statements of operations
Amortization of pension, retiree medical and other postretirement benefits:			
Prior service cost (benefit)	$ 3	$ (36)	Nonoperating other income (expense), net
Actuarial loss	37	27	Nonoperating other income (expense), net
Total reclassifications for the period, net of tax	$ 40	$ (9)	

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.

Beginning in the first quarter of 2021, aircraft fuel and related taxes as well as certain salaries, wages and benefits, other rent and landing fees, selling and other expenses are no longer allocated to regional expenses on our condensed consolidated statements of operations. The first quarter of 2020 condensed consolidated statement of operations has been recast to conform to the 2021 presentation. This statement of operations presentation change has no impact on total operating expenses or net loss.

Regional expenses for the three months ended March 31, 2021 and 2020 include $81 million and $83 million of depreciation and amortization, respectively, and $2 million and $6 million of aircraft rent, respectively.

During the three months ended March 31, 2021 and 2020, we recognized $127 million and $150 million, respectively, of expense under our capacity purchase agreement with Republic Airways Inc. (Republic). We hold a 25% equity interest in Republic Airways Holdings Inc., the parent company of Republic.

11. Legal Proceedings

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

Pursuant to rulings of the Bankruptcy Court, the Plan established a disputed claims reserve (the Disputed Claims Reserve) to hold shares of AAG common stock reserved for issuance to disputed claimholders at the Effective Date that ultimately become holders of allowed claims. The shares of AAG common stock issued to the Disputed Claims Reserve were originally issued on December 13, 2013 and have at all times since been included in the number of shares issued and outstanding as reported from time to time in our quarterly and annual reports, including for calculating earnings per common share. As disputed claims are resolved, the claimants receive distributions of shares from the Disputed Claims Reserve. We are not required to distribute additional shares above the limits contemplated by the Plan, even if the shares remaining for distribution in the Disputed Claims Reserve are not sufficient to fully pay any additional allowed unsecured claims. If any of the reserved shares remain undistributed upon resolution of all remaining disputed claims, such shares will not be returned to us but rather will be distributed to former AMR stockholders and former convertible noteholders treated as stockholders under the Plan. As of March 31, 2021, the Disputed Claims Reserve held approximately 4.8 million shares of AAG common stock.

Private Party Antitrust Action Related to Passenger Capacity. We, along with Delta Air Lines, Inc., Southwest Airlines Co., United Airlines, Inc. and, in the case of litigation filed in Canada, Air Canada, 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 Bankruptcy Court. The complaint named as defendants US Airways Group, Inc., US Airways, Inc., AMR and American, alleged that the effect of the Merger may be to create a monopoly in violation of Section 7 of the Clayton Antitrust Act, and sought injunctive relief and/or divestiture. On November 27, 2013, the Bankruptcy Court denied plaintiffs' motion to preliminarily enjoin the Merger. On August 29, 2018, the 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. The plaintiffs have appealed this ruling. We believe this lawsuit is without merit and intend to continue to vigorously defend against the allegations, including plaintiffs' appeal of the Bankruptcy Court's January 29, 2021 ruling.

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 March 31,	
	2021	2020
Operating revenues:		
Passenger	$ 3,179	$ 7,681
Cargo	315	147
Other	514	686
Total operating revenues	4,008	8,514
Operating expenses:		
Aircraft fuel and related taxes	1,034	1,784
Salaries, wages and benefits	2,729	3,217
Regional expenses	624	1,107
Maintenance, materials and repairs	376	629
Other rent and landing fees	570	611
Aircraft rent	351	334
Selling expenses	151	385
Depreciation and amortization	478	560
Special items, net	(1,708)	1,132
Other	717	1,291
Total operating expenses	5,322	11,050
Operating loss	(1,314)	(2,536)
Nonoperating income (expense):		
Interest income	9	104
Interest expense, net	(333)	(260)
Other income (expense), net	109	(105)
Total nonoperating expense, net	(215)	(261)
Loss before income taxes	(1,529)	(2,797)
Income tax benefit	(314)	(628)
Net loss	$ (1,215)	$ (2,169)

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2021	2020
Net loss	$ (1,215)	$ (2,169)
Other comprehensive income (loss), net of tax:		
Pension, retiree medical and other postretirement benefits	66	(126)
Investments	—	(23)
Total other comprehensive income (loss), net of tax	66	(149)
Total comprehensive loss	$ (1,149)	$ (2,318)

See accompanying notes to condensed consolidated financial statements.

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

	March 31, 2021 (Unaudited)	December 31, 2020
ASSETS		
Current assets		
Cash	$ 270	$ 231
Short-term investments	13,748	6,617
Restricted cash and short-term investments	806	609
Accounts receivable, net	965	1,334
Receivables from related parties, net	6,647	7,877
Aircraft fuel, spare parts and supplies, net	1,564	1,520
Prepaid expenses and other	584	633
Total current assets	24,584	18,821
Operating property and equipment		
Flight equipment	37,147	37,485
Ground property and equipment	8,748	8,836
Equipment purchase deposits	1,136	1,446
Total property and equipment, at cost	47,031	47,767
Less accumulated depreciation and amortization	(16,449)	(16,393)
Total property and equipment, net	30,582	31,374
Operating lease right-of-use assets	7,958	7,994
Other assets		
Goodwill	4,091	4,091
Intangibles, net of accumulated amortization of $755 and $745, respectively	2,019	2,029
Deferred tax asset	3,530	3,235
Other assets	1,773	1,671
Total other assets	11,413	11,026
Total assets	$ 74,537	$ 69,215
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Current maturities of long-term debt and finance leases	$ 2,447	$ 2,800
Accounts payable	1,536	1,116
Accrued salaries and wages	1,515	1,661
Air traffic liability	5,598	4,757
Loyalty program liability	2,323	2,033
Operating lease liabilities	1,586	1,641
Other accrued liabilities	2,065	2,300
Total current liabilities	17,070	16,308
Noncurrent liabilities		
Long-term debt and finance leases, net of current maturities	32,346	26,182
Pension and postretirement benefits	6,723	7,027
Loyalty program liability	7,055	7,162
Operating lease liabilities	6,701	6,739
Other liabilities	1,405	1,449
Total noncurrent liabilities	54,230	48,559
Commitments and contingencies		
Stockholder's equity		
Common stock, $1.00 par value; 1,000 shares authorized, issued and outstanding	—	—
Additional paid-in capital	17,088	17,050
Accumulated other comprehensive loss	(7,128)	(7,194)
Retained deficit	(6,723)	(5,508)
Total stockholder's equity	3,237	4,348
Total liabilities and stockholder's equity	$ 74,537	$ 69,215

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Net cash provided by (used in) operating activities	$ 1,428	$ (401)
Cash flows from investing activities:		
Capital expenditures, net of aircraft purchase deposit returns	24	(829)
Proceeds from sale of property and equipment	108	34
Proceeds from sale-leaseback transactions	99	280
Purchases of short-term investments	(8,545)	(820)
Sales of short-term investments	1,415	1,237
Increase in restricted short-term investments	(194)	—
Other investing activities	(42)	(49)
Net cash used in investing activities	(7,135)	(147)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	9,965	1,198
Payments on long-term debt and finance leases	(4,054)	(426)
Deferred financing costs	(162)	(25)
Net cash provided by financing activities	5,749	747
Net increase in cash and restricted cash	42	199
Cash and restricted cash at beginning of period	385	277
Cash and restricted cash at end of period (1)	$ 427	$ 476
Non-cash transactions:		
Right-of-use (ROU) assets acquired through operating leases	$ 358	$ 320
Property and equipment acquired through finance leases	22	—
Settlement of bankruptcy obligations	—	56
Deferred financing costs paid through issuance of debt	—	17
Supplemental information:		
Interest paid, net	426	228
Income taxes paid	—	2

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

	2021	2020
Cash	$ 270	$ 464
Restricted cash included in restricted cash and short-term investments	157	12
Total cash and restricted cash	$ 427	$ 476

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, 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

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance at December 31, 2019	$ —	$ 16,903	$ (6,423)	$ 2,942	$ 13,422
Net loss	—	—	—	(2,169)	(2,169)
Other comprehensive loss, net	—	—	(149)	—	(149)
Share-based compensation expense	—	18	—	—	18
Intercompany equity transfer	—	56	—	—	56
Balance at March 31, 2020	$ —	$ 16,977	$ (6,572)	$ 773	$ 11,178

See accompanying notes to condensed consolidated financial statements.

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

1. Basis of Presentation and Recent Accounting Pronouncements

(a) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of American Airlines, Inc. (American) should be read in conjunction with the consolidated financial statements contained in American's Annual Report on Form 10-K for the year ended December 31, 2020. American is the principal wholly-owned subsidiary of American Airlines Group Inc. (AAG). All significant intercompany transactions have been eliminated.

Management believes that all adjustments necessary for the fair presentation of results, consisting of normally recurring items, have been included in the unaudited condensed consolidated financial statements for the interim periods presented. The preparation of financial statements in accordance with accounting principles generally accepted in the United States (GAAP) requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The most significant areas of judgment relate to passenger revenue recognition, impairment of goodwill, impairment of long-lived and intangible assets, the loyalty program, deferred tax assets, as well as pension and retiree medical and other postretirement benefits. Certain prior period amounts have been reclassified to conform to the current year presentation. See Note 9 for further information.

(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, including travel restrictions, testing regimes, closing of borders, "stay at home" orders and business closures. As a result, American has experienced an unprecedented decline in the demand for air travel, which has resulted in a material deterioration in its revenues. While global vaccination efforts are underway and demand for air travel has begun to return, the continued impact of COVID-19, including any increases in infection rates and renewed governmental action to slow the spread of COVID-19 such as has occurred throughout Western Europe and Latin America in the first quarter of 2021, cannot be estimated.

American has taken aggressive actions to mitigate the effects of the COVID-19 pandemic on its business, including deep capacity reductions, structural changes to its fleet, cost reductions, and steps to preserve cash and improve its overall liquidity position. American remains extremely focused on taking all self-help measures available to manage its business during this unprecedented time, consistent with the terms of the financial assistance it has received from the U.S. Government under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and Subtitle A of Title IV of Division N of the Consolidated Appropriations Act, 2021 (PSP Extension Law).

Capacity Reductions

American has significantly reduced its capacity (as measured by available seat miles), with first quarter of 2021 flying down 39.2% year-over-year. Domestic capacity in the first quarter of 2021 was down 36.8% while international capacity was down 45.1% year-over-year.

While demand for domestic and short-haul international markets has begun to return, uncertainty continues to exist. 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.

Cost Reductions

American has reduced its 2021 operating expenditures as a result of permanent non-volume cost reductions. These reductions include labor productivity enhancements, management salaries and benefits and other permanent cost reductions. In the first quarter of 2021, an additional 1,600 represented team members opted in to a voluntary early retirement program.

Liquidity

As of March 31, 2021, American had $17.3 billion in total available liquidity, consisting of $14.0 billion in unrestricted cash and short-term investments, $2.8 billion in an undrawn capacity under revolving credit facilities and a total of $454 million in undrawn short-term revolving and other facilities.

During the first quarter of 2021, American completed the following financing transactions (see Note 4 for further information):

- issued $3.5 billion in aggregate principal amount of 5.50% Senior Secured Notes due 2026 and $3.0 billion in aggregate principal amount of 5.75% Senior Secured Notes due 2029 and entered into a $3.5 billion senior secured term loan facility (the AAdvantage Term Loan Facility) of which the full amount of term loans was drawn at closing;
- repaid in full $750 million under the 2013 Revolving Facility, $1.6 billion under the 2014 Revolving Facility and $450 million under the April 2016 Revolving Facility, all of which was borrowed in April 2020 in response to the COVID-19 pandemic;
- repaid the $550 million of outstanding loans under the $7.5 billion secured term loan facility with the U.S. Department of Treasury (Treasury) (the Treasury Loan Agreement) and terminated the Treasury Loan Agreement; and
- raised $99 million principally from aircraft sale-leaseback transactions.

In addition to the foregoing financings, AAG and the Subsidiaries (as defined below) received an aggregate of approximately $3.1 billion in financial assistance through the payroll support program (PSP2) established under the PSP Extension Law, all of which was received by the end of March 2021. In connection with the receipt by AAG and the Subsidiaries of this financial assistance, AAG issued a promissory note (the PSP2 Promissory Note) to Treasury for $896 million in aggregate principal amount and warrants to purchase up to an aggregate of approximately 5.7 million shares (the PSP2 Warrant Shares) of AAG common stock. See below for further discussion on PSP2.

A significant portion of American's debt financing agreements contain covenants requiring it 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 loan to value, collateral coverage and/or debt service coverage ratio covenants.

Given the above actions and American's 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, American expects to meet its cash obligations as well as remain in compliance with the debt covenants in its existing financing agreements for the next 12 months based on its current level of unrestricted cash and short-term investments, its anticipated access to liquidity (including via proceeds from financings and funds from government assistance to be obtained pursuant to the American Rescue Plan Act of 2021, as amended (the ARP)), and projected cash flows from operations.

PSP2

On January 15, 2021 (the PSP2 Closing Date), American, Envoy Air Inc. (Envoy), Piedmont Airlines, Inc. (Piedmont) and PSA Airlines, Inc. (PSA and together with American, Envoy and Piedmont, the Subsidiaries), entered into a Payroll Support Program Extension Agreement (the PSP2 Agreement) with Treasury, with respect to PSP2 provided pursuant to the PSP Extension Law. In connection with the Subsidiaries' entry into the PSP2 Agreement, on the PSP2 Closing Date, AAG also entered into a warrant agreement (the PSP2 Warrant Agreement) with Treasury and issued the PSP2 Promissory Note to Treasury, with the Subsidiaries as guarantors.

PSP2 Agreement

In connection with PSP2, AAG and the Subsidiaries are required to comply with the relevant provisions of the PSP Extension Law, which are substantially similar as the restrictions contained in the Payroll Support Program Agreement entered into by the Subsidiaries with Treasury in connection with the payroll support program established under the CARES Act, but are in effect for a longer time period. These provisions include the requirement that funds provided pursuant to the PSP2 Agreement be used exclusively for the continuation of payment of eligible employee wages, salaries and benefits, the requirement against involuntary furloughs and reductions in employee pay rates and benefits through March 31, 2021, the provisions that prohibit the repurchase of AAG common stock, and the payment of common stock dividends through at least March 31, 2022, the provisions that restrict the payment of certain executive compensation until at least October 1, 2022, as well as a requirement to recall employees involuntarily terminated or furloughed after September 30, 2020. As was the case with PSP1, the PSP2 Agreement also imposes substantial reporting obligations on AAG and its Subsidiaries.

Pursuant to the PSP2 Agreement, Treasury provided AAG and its Subsidiaries financial assistance in two installments (each prior installment and any future installment disbursement, an Installment) totaling approximately $3.1 billion in the aggregate. As partial compensation to the U.S. Government for the provision of financial assistance under PSP2, AAG issued the PSP2 Promissory Note in the aggregate principal amount of $896 million and issued warrants (each a PSP2 Warrant and, collectively, the PSP2 Warrants) to Treasury to purchase up to an aggregate of approximately 5.7 million shares of AAG common stock.

For accounting purposes, the $3.1 billion of aggregate financial assistance AAG and the Subsidiaries received pursuant to the PSP2 Agreement is allocated to the PSP2 Promissory Note, the PSP2 Warrants and the other PSP2 financial assistance (the PSP2 Financial Assistance). The aggregate principal amount of $896 million of the PSP2 Promissory Note was recorded as unsecured long-term debt, and the total fair value of the PSP2 Warrants of $65 million, estimated using a Black-Scholes option pricing model, was recorded in stockholders' deficit in AAG's condensed consolidated balance sheet. The remaining amount of approximately $2.1 billion of PSP2 Financial Assistance was recognized as a credit to special items, net in the condensed consolidated statement of operations in the first quarter of 2021, the remaining period over which the continuation of payment of eligible employee wages, salaries and benefits was required.

PSP2 Promissory Note

As partial compensation to the U.S. Government for the provision of financial assistance under the PSP2 Agreement, AAG issued the PSP2 Promissory Note to Treasury, which provides for AAG’s unconditional promise to pay to Treasury the principal sum of $896 million, subject to an increase equal to 30% of the amount of any additional Installment disbursed under the PSP2 Agreement, and the guarantee of AAG’s obligations under the PSP2 Promissory Note by the Subsidiaries.

The PSP2 Promissory Note bears interest on the outstanding principal amount at a rate equal to 1.00% per annum until the fifth anniversary of the PSP2 Closing Date and 2.00% plus an interest rate based on the secured overnight financing rate per annum or other benchmark replacement rate consistent with customary market conventions (but not to be less than 0.00%) thereafter until the tenth anniversary of the PSP2 Closing Date (the PSP2 Maturity Date), and interest accrued thereon will be payable in arrears on the last business day of March and September of each year, beginning on March 31, 2021. The aggregate principal amount outstanding under the PSP2 Promissory Note, together with all accrued and unpaid interest thereon and all other amounts payable under the PSP2 Promissory Note, will be due and payable on the PSP2 Maturity Date.

AAG may, at any time and from time to time, voluntarily prepay amounts outstanding under the PSP2 Promissory Note, in whole or in part, without penalty or premium. Within 30 days of the occurrence of certain change of control triggering events, AAG is required to prepay the aggregate outstanding principal amount of the PSP2 Promissory Note at such time, together with any accrued interest or other amounts owing under the PSP2 Promissory Note at such time.

The PSP2 Promissory Note is AAG’s senior unsecured obligation and each guarantee of the PSP2 Promissory Note is the senior unsecured obligation of each of the Subsidiaries, respectively.

The PSP2 Promissory Note contains events of default, including cross-default with respect to acceleration or failure to pay at maturity other material indebtedness. Upon the occurrence of an event of default and subject to certain grace periods, the outstanding obligations under the PSP2 Promissory Note may, and in certain circumstances will automatically, be accelerated and become due and payable immediately.

PSP2 Warrant Agreement and PSP2 Warrants

As partial compensation to the U.S. Government for the provision of financial assistance under the PSP2 Agreement, and pursuant to the PSP2 Warrant Agreement, AAG issued the PSP2 Warrants to Treasury to purchase PSP2 Warrant Shares. The exercise price of the PSP2 Warrant Shares is $15.66 per share, subject to certain anti-dilution provisions provided for in the PSP2 Warrants.

Pursuant to the PSP2 Warrant Agreement, AAG issued to Treasury PSP2 Warrants to purchase up to an aggregate of approximately 5.7 million shares of Common Stock based on the terms described herein and on the date of any increase of the principal amount of the PSP2 Promissory Note in connection with the disbursement of any additional Installment under the PSP2 Agreement, AAG will issue to Treasury an additional PSP2 Warrant for a number of shares of AAG common stock equal to 10% of such increase of the principal amount of the PSP2 Promissory Note, divided by $15.66, the exercise price of such shares.

The PSP2 Warrants do not have any voting rights and are freely transferrable, with registration rights. Each PSP2 Warrant expires on the fifth anniversary of the date of issuance of such PSP2 Warrant. The PSP2 Warrants will be exercisable either through net share settlement or cash, at AAG's option. The PSP2 Warrants were and will be issued solely as compensation to the U.S. Government related to entry into the PSP2 Agreement. No separate proceeds (apart from the financial assistance described above) were received upon issuance of the PSP2 Warrants or will be received upon exercise thereof.

(c) Recent Accounting Pronouncement

Accounting Standards Update 2019-12: Simplifying the Accounting for Income Taxes (Topic 740)

This standard simplifies the accounting and disclosure requirements for income taxes by clarifying the existing guidance to improve consistency in the application of Accounting Standards Codification 740. This standard also removed the requirement to calculate income tax expense for the stand-alone financial statements of wholly-owned subsidiaries that are not subject to income tax. American adopted this standard effective January 1, 2021, and it did not have a material impact on its condensed consolidated financial statements.

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

2. Special Items, Net

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

	Three Months Ended March 31,	
	2021	2020
PSP2 Financial Assistance (1)	$ (1,882)	$ —
Severance expenses (2)	168	205
Mark-to-market adjustments on bankruptcy obligations, net (3)	6	(50)
Fleet impairment (4)	—	744
Labor contract expenses (5)	—	218
Other operating special items, net	—	15
Mainline operating special items, net	(1,708)	1,132
PSP2 Financial Assistance (1)	(244)	—
Fleet impairment (4)	27	93
Regional operating special items, net	(217)	93
Operating special items, net	(1,925)	1,225
Mark-to-market adjustments on equity and other investments, net (6)	(49)	180
Debt refinancing, extinguishment and other, net	26	37
Nonoperating special items, net	(23)	217

(1) PSP2 Financial Assistance represents recognition of financial assistance received from Treasury pursuant to the PSP2 Agreement. See Note 1(b) for further information.

(2) Severance expenses include salary and medical costs primarily associated with certain team members who opted in to 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 were approximately $170 million during the first quarter of 2021.

(3) Bankruptcy obligations that will be settled in shares of AAG common stock are marked-to-market based on AAG's stock price.

(4) Fleet impairment resulted from American's decision to retire certain aircraft earlier than planned driven primarily by the severe decline in air travel due to the COVID-19 pandemic. In the first quarter of 2021, American retired its remaining fleet of Embraer 140 aircraft resulting in a $27 million non-cash write-down of these aircraft. In the first quarter of 2020, American retired its Boeing 757, Boeing 767, Airbus A330-300 and Embraer 190 fleets as well as certain Embraer 140 and Bombardier CRJ200 aircraft resulting in a $764 million non-cash write-down of these aircraft and associated spare parts and $73 million in cash charges primarily for impairment of ROU assets and lease return costs.

(5) Labor contract expenses primarily related to one-time charges resulting from the ratification of a new contract with the Transport Workers Union and International Association of Machinists & Aerospace Workers for American's maintenance and fleet service team members, including signing bonuses and adjustments to vacation accruals resulting from pay rate increases.

(6) Mark-to-market adjustments on equity and other investments, net primarily related to net unrealized gains and losses associated with American's equity investment in China Southern Airlines Company Limited (China Southern Airlines) and certain treasury rate lock derivative instruments.

3. Revenue Recognition

Revenue

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

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Passenger revenue:		
Passenger travel	$ 2,893	$ 7,079
Loyalty revenue - travel (1)	286	602
Total passenger revenue	3,179	7,681
Cargo	315	147
Other:		
Loyalty revenue - marketing services (2)	457	571
Other revenue	57	115
Total other revenue	514	686
Total operating revenues	$ 4,008	$ 8,514

(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 March 31, 2021 and 2020, cash payments from co-branded credit card and other partners was $1.0 billion and $1.3 billion, respectively.

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

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Domestic	$ 2,655	$ 5,780
Latin America	482	1,180
Atlantic	22	523
Pacific	20	198
Total passenger revenue	$ 3,179	$ 7,681

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

Contract Balances

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

	March 31, 2021	December 31, 2020
	(In millions)	
Loyalty program liability	$ 9,378	$ 9,195
Air traffic liability	5,598	4,757
Total	$ 14,976	$ 13,952

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, 2020	$ 9,195
Deferral of revenue	490
Recognition of revenue (1)	(307)
Balance at March 31, 2021 (2)	$ 9,378

(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 18 months. In response to the COVID-19 pandemic, American suspended the expiration of mileage credits through June 30, 2021 and eliminated mileage reinstatement fees for canceled award tickets. As of March 31, 2021, American's current loyalty program liability was $2.3 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 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 three months ended March 31, 2021, $838 million of revenue was recognized in passenger revenue that was included in American's air traffic liability at December 31, 2020. In response to the COVID-19 pandemic, American extended the contract duration for certain tickets to March 31, 2022, principally those tickets which were scheduled to expire from March 1, 2020 through March 31, 2021. Additionally, American has eliminated change fees for most domestic and international tickets. As of March 31, 2021, the air traffic liability included approximately $2.1 billion of travel credits related to these unused tickets. Accordingly, any revenue associated with these tickets will be recognized within the next 12 months. Given this change in contract duration and 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 American's 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):

	March 31, 2021	December 31, 2020
Secured		
2013 Term Loan Facility, variable interest rate of 1.86%, installments through 2025	$ 1,788	$ 1,788
2013 Revolving Facility	—	750
2014 Term Loan Facility, variable interest rate of 1.86%, installments through 2027	1,208	1,220
2014 Revolving Facility	—	1,643
April 2016 Term Loan Facility, variable interest rate of 2.11%, installments through 2023	960	960
April 2016 Revolving Facility	—	450
December 2016 Term Loan Facility, variable interest rate of 2.11%, installments through 2023	1,200	1,200
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
Treasury Term Loan Facility	—	550
5.50% senior secured notes, installments beginning in July 2023 until due in April 2026	3,500	—
5.75% senior secured notes, installments beginning in July 2026 until due in April 2029	3,000	—
AAdvantage Term Loan Facility, variable interest rate of 5.5%, installments beginning in July 2023 through April 2028	3,500	—
Enhanced equipment trust certificates (EETCs), fixed interest rates ranging from 3.00% to 8.39%, averaging 3.95%, maturing from 2021 to 2032	10,652	11,013
Equipment loans and other notes payable, fixed and variable interest rates ranging from 1.28% to 5.83%, averaging 1.87%, maturing from 2021 to 2032	4,156	4,417
Special facility revenue bonds, fixed interest rates ranging from 5.00% to 5.38%, maturing from 2021 to 2036	1,040	1,040
Total long-term debt	34,704	28,731
Less: Total unamortized debt discount, premium and issuance costs	479	321
Less: Current maturities	2,342	2,700
Long-term debt, net of current maturities	$ 31,883	$ 25,710

As of March 31, 2021, 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	454
Total	$ 3,297

American has an undrawn $400 million short-term revolving credit facility it entered into in December 2019, which was set to expire at the end of December 2020 but which has been extended through the beginning of July 2021. American has the option to extend further this short-term revolving credit facility to January 2022 and, if extended, the available amount thereunder for the period from July 2021 to January 2022 shall be increased to $500 million. American also currently has approximately $54 million of available borrowing base under a cargo receivables facility that was entered into in December 2020. The December 2016 Credit Facilities provide for a revolving credit facility that may be established thereunder in the future.

Secured financings are collateralized by assets, consisting primarily of aircraft, engines, simulators, aircraft spare parts, airport gate leasehold rights, route authorities, airport slots and certain pre-delivery payments, as well as certain intellectual property and loyalty program assets.

2021 Financing Activities

2013, 2014 and April 2016 Revolving Facilities

In March 2021, American repaid in full the $750 million of revolving loans outstanding under the 2013 Revolving Facility, the $1.6 billion of revolving loans outstanding under the 2014 Revolving Facility and the $450 million of revolving loans outstanding under the April 2016 Revolving Facility. Following the March 2021 repayment, American is able to draw upon the commitments under these revolving facilities again as needed upon the terms of the underlying credit agreements or leave them undrawn, in each case, until such commitments expire, which is currently scheduled to occur in 2024 for substantially all of such commitments. As of March 31, 2021, there were no borrowings or letters of credit outstanding under the 2013 Revolving Facility, the 2014 Revolving Facility or the April 2016 Revolving Facility.

AAdvantage Financing

On March 24, 2021 (the AAdvantage Financing Closing Date), American and AAdvantage Loyalty IP Ltd., a newly formed Cayman Islands exempted company incorporated with limited liability and an indirect wholly owned subsidiary of American (Loyalty Issuer and, together with American, the AAdvantage Issuers), completed the offering of $3.5 billion aggregate principal amount of 5.50% Senior Secured Notes due 2026 (the 2026 Notes) and $3.0 billion aggregate principal amount of 5.75% Senior Secured Notes due 2029 (the 2029 Notes, and together with the 2026 Notes, the AAdvantage Notes). The AAdvantage Notes are fully and unconditionally guaranteed (the AAdvantage Note Guarantees) on a senior unsecured basis by AAG and fully and unconditionally guaranteed on a senior secured basis, jointly and severally, by AAdvantage Holdings 1, Ltd., a newly formed Cayman Islands exempted company incorporated with limited liability and a direct wholly owned subsidiary of American, and AAdvantage Holdings 2, Ltd., a newly formed Cayman Islands exempted company incorporated with limited liability and an indirect wholly owned subsidiary of American and the direct parent of Loyalty Issuer (HoldCo2 and, together with AAdvantage Holdings 1, Ltd., the SPV Guarantors, and the SPV Guarantors together with AAG, the AAdvantage Guarantors). The AAdvantage Notes were issued pursuant to an indenture, dated as of March 24, 2021 (the AAdvantage Indenture), by and among the AAdvantage Issuers, the AAdvantage Guarantors and Wilmington Trust, National Association, as trustee and as collateral custodian.

Concurrent with the issuance of the AAdvantage Notes, the AAdvantage Issuers, as co-borrowers, entered into a term loan credit and guaranty agreement, dated March 24, 2021, with Barclays Bank PLC, as administrative agent, Wilmington Trust, National Association, as collateral administrator, and the lenders party thereto, providing for a $3.5 billion term loan facility (the AAdvantage Term Loan Facility and collectively with the AAdvantage Notes, the AAdvantage Financing) and pursuant to which the full $3.5 billion of term loans (the AAdvantage Loans) were drawn on the AAdvantage Financing Closing Date. The AAdvantage Loans are fully and unconditionally guaranteed (together with the AAdvantage Note Guarantees, the AAdvantage Guarantees) by the AAdvantage Guarantors.

Subject to certain permitted liens and other exceptions, the AAdvantage Notes, AAdvantage Loans and AAdvantage Guarantees provided by the SPV Guarantors will be secured by a first-priority security interest in, and pledge of, various agreements with respect to the AAdvantage program (the AAdvantage Agreements) (including all payments thereunder) and rights under an intercompany agreement and certain IP Licenses (as defined below), certain rights under the AAdvantage program, certain deposit accounts that will receive cash under the AAdvantage Agreements, certain reserve accounts, the equity of each of Loyalty Issuer and the SPV Guarantors and substantially all other assets of Loyalty Issuer and the SPV Guarantors (collectively, the AAdvantage Collateral).

Payment Terms of the AAdvantage Notes and AAdvantage Loans under the AAdvantage Term Loan Facility

Interest on the AAdvantage Notes is payable in cash, quarterly in arrears on the 20th day of each January, April, July and October (each, an AAdvantage Payment Date), beginning July 20, 2021. The 2026 Notes will mature on April 20, 2026, and the 2029 Notes will mature on April 20, 2029. The outstanding principal on the 2026 Notes will be repaid in quarterly installments of approximately $292 million on each AAdvantage Payment Date, beginning on July 20, 2023. The outstanding principal on the 2029 Notes will be repaid in quarterly installments of $250 million on each AAdvantage Payment Date, beginning on July 20, 2026.

The AAdvantage Issuers may redeem the AAdvantage Notes, at their option, in whole at any time or in part from time to time, at a redemption price equal to 100% of the principal amount of the AAdvantage Notes redeemed plus a "make-whole" premium, together with accrued and unpaid interest to the date of redemption.

The scheduled maturity date of the AAdvantage Loans under the AAdvantage Term Loan Facility is April 20, 2028. The AAdvantage Loans bear interest at a variable rate equal to LIBOR (but not less than 0.75% per annum), plus a margin of 4.75% per annum, payable on each AAdvantage Payment Date. The outstanding principal on the AAdvantage Loans will be repaid in quarterly installments of $175 million, on each AAdvantage Payment Date beginning with the AAdvantage Payment Date in July 2023. These amortization payments (as well as those for the AAdvantage Notes) will be subject to the occurrence of certain early amortization events, including the failure to satisfy a minimum debt service coverage ratio at specified determination dates.

Prepayment of some or all of the AAdvantage Loans outstanding under the AAdvantage Term Loan Facility is permitted, although payment of an applicable premium is required as specified in the AAdvantage Term Loan Facility.

The AAdvantage Indenture and the AAdvantage Term Loan Facility contain mandatory prepayment provisions triggered upon (i) the issuance or incurrence by Loyalty Issuer or the SPV Guarantors of certain indebtedness or (ii) the receipt by American or its subsidiaries of net proceeds from pre-paid frequent flyer (i.e., AAdvantage) mile purchases exceeding $500 million, with prepayment required only in respect of net proceeds from such purchases exceeding $505 million in the aggregate. Each of these prepayments would also require payment of an applicable premium. Certain other events, including the occurrence of a change of control with respect to AAG and certain AAdvantage Collateral sales exceeding a specified threshold, will also trigger mandatory repurchase or mandatory prepayment provisions under the AAdvantage Indenture and the AAdvantage Term Loan Facility, respectively.

Other Terms of the AAdvantage Indenture and the AAdvantage Term Loan Facility

The AAdvantage Indenture and the AAdvantage Term Loan Facility contain certain covenants that limit the ability of Loyalty Issuer, the SPV Guarantors and, in certain circumstances, American and AAG, to among other things, (i) incur additional indebtedness and make restricted payments, (ii) incur certain liens on the AAdvantage Collateral, (iii) merge, consolidate or sell substantially all of their assets, (iv) dispose of the AAdvantage Collateral, (v) sell pre-paid frequent flyer (i.e. AAdvantage) miles in excess of $550 million in the aggregate, and (vi) terminate, amend, waive, supplement or modify the IP Licenses, or exercise rights and remedies thereunder, except under certain circumstances. American and Loyalty Issuer are also prohibited from substantially reducing the AAdvantage program business or modifying the terms of the AAdvantage program in a manner that would reasonably be expected to materially impair repayment of the AAdvantage Financing obligations (described as a Payment Material Adverse Effect in the AAdvantage Indenture and the AAdvantage Term Loan Facility), and AAG and its subsidiaries are prohibited from changing the policies and procedures of the AAdvantage program in a manner that would reasonably be expected to have a Payment Material Adverse Effect or operating a competing loyalty program. Notwithstanding these restrictions, the AAdvantage program is expected to operate as it has in the past, and the entry into the AAdvantage Financing is not expected to have any impact on the benefits offered to AAdvantage members.

In addition, subject to certain exceptions, the AAdvantage Indenture and the AAdvantage Term Loan Facility restrict the ability of American, Loyalty Issuer or any Guarantor to terminate, or modify certain terms within, the intercompany agreement governing the relationship between American and Loyalty Issuer with respect to the AAdvantage program.

The AAdvantage Indenture and the AAdvantage Term Loan Facility also require the AAdvantage Issuers to comply with certain affirmative covenants, including (i) certain reporting requirements and (ii) the use of commercially reasonable efforts to cause sufficient counterparties to AAdvantage Agreements to direct payments with respect to the AAdvantage program into a collections account, such that at least 90% of such cash receipts in a quarterly reporting period are deposited directly into this collection account, with amounts to be distributed from this collection account for the payment of fees, principal and interest on the AAdvantage Notes and the AAdvantage Loans pursuant to a payment waterfall described in the AAdvantage Indenture and the AAdvantage Term Loan Facility, respectively. In addition, the AAdvantage Indenture and the AAdvantage Term Loan Facility require AAG to maintain minimum liquidity, defined as the sum of (a) unrestricted cash and cash equivalents and (b) the aggregate principal amount committed and available to be drawn under all of AAG's revolving credit and other facilities, at the close of any business day of at least $2.0 billion.

Subject to certain materiality thresholds, qualifications, exceptions, “baskets” and grace and cure periods, the AAdvantage Indenture and the AAdvantage Term Loan Facility contain various events of default, including payment defaults, covenant defaults, cross-defaults to certain indebtedness, termination of certain agreements related to the AAdvantage program, bankruptcy events of Loyalty Issuer or any SPV Guarantor, and a change of control of Loyalty Issuer or any SPV Guarantor. A bankruptcy event of American is not itself an event of default; following an American bankruptcy, an event of default would only occur if American failed to satisfy certain enumerated bankruptcy case milestones, including an assumption of the AAdvantage Financing by a certain date. Upon the occurrence of an event of default, the outstanding obligations under the AAdvantage Indenture and the AAdvantage Term Loan Facility may (or, with respect to the bankruptcy events noted above, shall) be accelerated and become due and payable immediately.

Terms of Certain Intercompany Agreements Related to the AAdvantage Financing

In connection with the issuance of the AAdvantage Notes and entry into the AAdvantage Term Loan Facility, American, Loyalty Issuer and the SPV Guarantors entered into a series of transactions that resulted in the transfer to Loyalty Issuer of, among other things, American’s rights to certain data and other intellectual property used in the AAdvantage program (subject to certain exceptions) (such assets, the Transferred AAdvantage IP) and certain rights of American under specified AAdvantage Agreements. Loyalty Issuer has entered into a license agreement with HoldCo2 pursuant to which Loyalty Issuer has granted to HoldCo2 an exclusive, irrevocable (subject to certain termination rights), perpetual, worldwide, royalty-bearing license to use the Transferred AAdvantage IP (the HoldCo2 License), and HoldCo2 has in turn granted to American an exclusive, irrevocable (subject to certain termination rights), perpetual, worldwide, royalty-bearing sublicense to use the Transferred AAdvantage IP (together with the HoldCo2 License, the IP Licenses). The IP Licenses would be terminated, and American’s right to use the Transferred AAdvantage IP would cease, upon specified termination events, including, but not limited to, the occurrence of an event of default under the AAdvantage Indenture or the AAdvantage Term Loan Facility. In certain circumstances, such a termination would trigger a liquidated damages payment in an amount that is greater than the initial principal amount of the AAdvantage Notes and the AAdvantage Loans.

In addition, proceeds from the AAdvantage Financing were loaned by Loyalty Issuer to American pursuant to an intercompany note that was guaranteed by AAG. The borrowings under this intercompany note are payable on demand by Loyalty Issuer or, after the occurrence and during the continuance of an event of default under the AAdvantage Financing, by the master collateral agent under the AAdvantage Financing.

Treasury Loan Agreement

On September 25, 2020, American and AAG entered into a Loan and Guarantee Agreement (the Treasury Loan Agreement) with Treasury, which provided for a secured term loan facility (the Treasury Term Loan Facility) that permitted American to borrow up to $5.5 billion. Subsequently, on October 21, 2020, American and AAG entered into an amendment to the Treasury Loan Agreement, which increased the borrowing amount to up to $7.5 billion. American had borrowed $550 million under the Treasury Term Loan Facility in September 2020.

On March 24, 2021, American used proceeds from the AAdvantage Financing to prepay in full the $550 million outstanding under the Treasury Term Loan Facility and terminated the Treasury Loan Agreement.

5. Income Taxes

At December 31, 2020, American had approximately $16.5 billion of federal net operating losses (NOLs) available to reduce future federal taxable income, of which $8.9 billion will expire beginning in 2023 if unused and $7.6 billion can be carried forward indefinitely (NOL Carryforwards). American is a member of AAG's consolidated federal and certain state income tax returns. The amount of federal NOL Carryforwards available in those returns is $16.5 billion to reduce AAG's future federal taxable income. American also had approximately $5.0 billion of NOL Carryforwards to reduce future state taxable income at December 31, 2020, which will expire in taxable years 2020 through 2040 if unused.

American's ability to use its NOL 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 months ended March 31, 2021 and 2020, American recorded an income tax benefit of $314 million and $628 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 classified as Level 2 primarily utilize broker quotes in a non-active market for valuation of these securities. No changes in valuation techniques or inputs occurred during the three months ended March 31, 2021.

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

	Fair Value Measurements as of March 31, 2021			
	Total	Level 1	Level 2	Level 3
Short-term investments (1), (2):				
Money market funds	$ 6,648	$ 6,648	$ —	$ —
Corporate obligations	4,123	—	4,123	—
Bank notes/certificates of deposit/time deposits	2,257	—	2,257	—
Repurchase agreements	720	—	720	—
	13,748	6,648	7,100	—
Restricted cash and short-term investments (1), (3)	806	606	200	—
Long-term investments (4)	201	201	—	—
Total	$ 14,755	$ 7,455	$ 7,300	$ —

(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 money market funds to be used to finance a substantial portion of the cost of the renovation and expansion of Terminal 8 at JFK as well as collateral associated with the payment of certain fees and interest in respect of the AAdvantage Financing and collateral held to support workers' compensation obligations.

(4) Long-term investments primarily include American's equity investment in China Southern Airlines, in which American presently owns a 1.8% equity interest, and are classified in other assets on the condensed consolidated balance sheet.

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 except for $550 million as of December 31, 2020, which would have been classified as Level 3 in the fair value hierarchy.

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

	March 31, 2021		December 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current maturities	$ 34,225	$ 35,328	$ 28,410	$ 27,193

7. Employee Benefit Plans

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

	Pension Benefits		Retiree Medical and Other Postretirement Benefits	
Three Months Ended March 31,	2021	2020	2021	2020
Service cost	$ 1	$ 1	$ 2	$ 1
Interest cost	130	152	6	7
Expected return on assets	(270)	(251)	(3)	(4)
Special termination benefits	—	—	139	—
Amortization of:				
Prior service cost (benefit)	7	7	(3)	(54)
Unrecognized net loss (gain)	52	41	(6)	(6)
Net periodic benefit cost (income)	$ (80)	$ (50)	$ 135	$ (56)

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 (expense), 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 in to voluntary early retirement programs offered as a result of reductions to its operation due to the COVID-19 pandemic. For the three months ended March 31, 2021, American recognized a $139 million special charge for these enhanced healthcare benefits and increased its postretirement benefits obligation by $139 million as of March 31, 2021.

In January 2021, American made $241 million in contributions to its pension plans, including a contribution of $130 million for the 2020 calendar year that was permitted to be deferred to January 4, 2021 as provided under the CARES Act. On March 11, 2021, the ARP was enacted, which included certain funding relief provisions for single employer qualified retirement benefit pension plans such as those sponsored by American. Based on American's current understanding of the ARP provisions applicable to its pension plans, American will have no additional funding requirements for 2021.

8. Accumulated Other Comprehensive Loss

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

	Pension, Retiree Medical and Other Postretirement Benefits	Unrealized Gain (Loss) on Investments	Income Tax Benefit (Provision) (1)	Total
Balance at December 31, 2020	$ (6,215)	$ (2)	$ (977)	$ (7,194)
Other comprehensive income (loss) before reclassifications	35	—	(8)	27
Amounts reclassified from AOCI	50	—	(11) (2)	39
Net current-period other comprehensive income (loss)	85	—	(19)	66
Balance at March 31, 2021	$ (6,130)	$ (2)	$ (996)	$ (7,128)

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

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

	Amounts reclassified from AOCI		
	Three Months Ended March 31,		
AOCI Components	2021	2020	Affected line items on the condensed consolidated statements of operations
Amortization of pension, retiree medical and other postretirement benefits:			
Prior service cost (benefit)	$ 3	$ (36)	Nonoperating other income (expense), net
Actuarial loss	36	27	Nonoperating other income (expense), net
Total reclassifications for the period, net of tax	$ 39	$ (9)	

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.

Beginning in the first quarter of 2021, aircraft fuel and related taxes as well as certain salaries, wages and benefits, other rent and landing fees, selling and other expenses are no longer allocated to regional expenses on American's condensed consolidated statements of operations. The first quarter of 2020 condensed consolidated statement of operations has been recast to conform to the 2021 presentation. This statement of operations presentation change has no impact on total operating expenses or net loss.

Regional expenses for the three months ended March 31, 2021 and 2020 include $68 million and $70 million of depreciation and amortization, respectively, and $2 million and $6 million of aircraft rent, respectively.

During the three months ended March 31, 2021 and 2020, American recognized $127 million and $150 million, respectively, of expense under its capacity purchase agreement with Republic Airways Inc. (Republic). American holds a 25% equity interest in Republic Airways Holdings Inc., the parent company of Republic.

10. Transactions with Related Parties

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

	March 31, 2021	December 31, 2020
AAG [1]	$ 8,822	$ 9,940
AAG's wholly-owned subsidiaries [2]	(2,175)	(2,063)
Total	$ 6,647	$ 7,877

(1) The decrease in American's net related party receivable from AAG is primarily due to cash received from the proceeds of AAG financing transactions including the PSP2 Promissory Note and the issuance of shares of AAG common stock pursuant to an at-the-market offering.

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

11. Legal Proceedings

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

Pursuant to rulings of the Bankruptcy Court, the Plan established a disputed claims reserve (the Disputed Claims Reserve) to hold shares of AAG common stock reserved for issuance to disputed claimholders at the Effective Date that ultimately become holders of allowed claims. The shares of AAG common stock issued to the Disputed Claims Reserve were originally issued on December 13, 2013 and have at all times since been included in the number of shares issued and outstanding as reported by AAG from time to time in its quarterly and annual reports, including for calculating earnings per common share. As disputed claims are resolved, the claimants receive distributions of shares from the Disputed Claims Reserve. American is not required to distribute additional shares above the limits contemplated by the Plan, even if the shares remaining for distribution in the Disputed Claims Reserve are not sufficient to fully pay any additional allowed unsecured claims. If any of the reserved shares remain undistributed upon resolution of all remaining disputed claims, such shares will not be returned to AAG but rather will be distributed to former AMR stockholders and former convertible noteholders treated as stockholders under the Plan. As of March 31, 2021, the Disputed Claims Reserve held approximately 4.8 million shares of AAG common stock.

Private Party Antitrust Action Related to Passenger Capacity. American, along with Delta Air Lines, Inc., Southwest Airlines Co., United Airlines, Inc. and, in the case of litigation filed in Canada, Air Canada, 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 Bankruptcy Court. The complaint named as defendants US Airways Group, Inc., US Airways, Inc., AMR and American, alleged that the effect of the Merger may be to create a monopoly in violation of Section 7 of the Clayton Antitrust Act, and sought injunctive relief and/or divestiture. On November 27, 2013, the Bankruptcy Court denied plaintiffs' motion to preliminarily enjoin the Merger. On August 29, 2018, the 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. The plaintiffs have appealed this ruling. American believes this lawsuit is without merit and intends to continue to vigorously defend against the allegations, including plaintiffs' appeal of the Bankruptcy Court's January 29, 2021 ruling.

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, 2020 (the 2020 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 2020 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, including travel restrictions, testing regimes, closing of borders, "stay at home" orders and business closures. As a result, we have experienced an unprecedented decline in the demand for air travel, which has resulted in a material deterioration in our revenues. While global vaccination efforts are underway and demand for air travel has begun to return, the continued impact of COVID-19, including any increases in infection rates and renewed governmental action to slow the spread of COVID-19 such as has occurred throughout Western Europe and Latin America in the first quarter of 2021, cannot be estimated.

We have taken aggressive actions to mitigate the effects of the COVID-19 pandemic on our business, including deep capacity reductions, structural changes to our fleet, cost reductions, and steps to preserve cash and improve our overall liquidity position. We remain extremely focused on taking all self-help measures available to manage our business during this unprecedented time, consistent with the terms of the financial assistance we have received from the U.S. Government under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and Subtitle A of Title IV of Division N of the Consolidated Appropriations Act, 2021 (PSP Extension Law).

Capacity Reductions

We have significantly reduced our capacity (as measured by available seat miles), with first quarter of 2021 flying down 39.2% year-over-year. Domestic capacity in the first quarter of 2021 was down 36.8% while international capacity was down 45.1% year-over-year.

We currently expect our second quarter of 2021 system capacity to be down 20% to 25% as compared to the second quarter of 2019. While demand for domestic and short-haul international markets has begun to return, uncertainty continues to exist. We will continue to match our forward capacity with observed booking trends for future travel and make further adjustments to our capacity as needed.

Cost Reductions

In aggregate, we estimate that we have reduced our 2021 operating expenditures by more than $1.3 billion, which are permanent non-volume cost reductions. These reductions include approximately $600 million in labor productivity enhancements, $500 million in management salaries and benefits and $200 million in other permanent cost reductions. In the first quarter of 2021, an additional 1,600 represented team members opted in to a voluntary early retirement program.

Liquidity

As of March 31, 2021, we had $17.3 billion in total available liquidity, consisting of $14.0 billion in unrestricted cash and short-term investments, $2.8 billion in an undrawn capacity under revolving credit facilities and a total of $454 million in undrawn short-term revolving and other facilities.

During the first quarter of 2021, we completed the following financing transactions (see Note 5 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A for further information):

- issued $3.5 billion in aggregate principal amount of 5.50% Senior Secured Notes due 2026 and $3.0 billion in aggregate principal amount of 5.75% Senior Secured Notes due 2029 and entered into a $3.5 billion senior secured term loan facility of which the full amount of term loans was drawn at closing;
- repaid in full $750 million under the 2013 Revolving Facility, $1.6 billion under the 2014 Revolving Facility and $450 million under the April 2016 Revolving Facility, all of which was borrowed in April 2020 in response to the COVID-19 pandemic;

- repaid the $550 million of outstanding loans under the $7.5 billion secured term loan facility with the U.S. Department of Treasury (Treasury) (the Treasury Loan Agreement) and terminated the Treasury Loan Agreement;
- issued 18.2 million shares of AAG common stock at an average price of $17.59 per share pursuant to an at-the-market offering for net proceeds of $316 million; and
- raised $99 million principally from aircraft sale-leaseback transactions.

In addition to the foregoing financings, we received an aggregate of approximately $3.1 billion in financial assistance through the payroll support program (PSP2) established under the PSP Extension Law, all of which was received by the end of March 2021. In connection with our receipt of this financial assistance, AAG issued a promissory note (the PSP2 Promissory Note) to Treasury for $896 million in aggregate principal amount and warrants to purchase up to an aggregate of approximately 5.7 million shares (the PSP2 Warrant Shares) of AAG common stock. See Note 1 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A for further discussion on PSP2. In April 2021, we received notice from Treasury that we would be receiving $463 million of additional financial assistance pursuant to PSP2 for an aggregate amount of approximately $3.5 billion. This additional amount is anticipated to be received before the end of April 2021 and, upon receipt of such amount, the principal amount of the PSP2 Promissory Note shall be increased by $139 million for a new aggregate amount of $1.0 billion and the number of PSP2 Warrant Shares shall be increased by approximately 0.9 million shares for a new aggregate amount of approximately 6.6 million shares.

In March 2021, the American Rescue Plan Act of 2021, as amended (the ARP), was enacted, which included an extension of the payroll support program (PSP3) providing for an additional $14.0 billion of financial assistance to be provided to passenger air carriers (including American) that is to be used exclusively for airline employee wages, salaries and benefits. Following the passage of the ARP, we canceled the 13,000 WARN notices sent to team members in February 2021 regarding the possibility of a workforce reduction at their work location.

In April 2021, we received notice from Treasury that, pursuant to PSP3, we are eligible to receive approximately $3.3 billion of financial assistance, which is anticipated to be paid in two installments with the first installment expected to be paid in April and the second installment expected to be paid in May. Concurrent with the receipt of the first installment, we expect to enter into a new payroll support agreement (the PSP3 Agreement) with Treasury, pursuant to which we will be required to comply with the relevant provisions of the ARP, which provisions will be substantially similar to the restrictions contained in the PSP1 Agreement and PSP2 Agreement, but are in effect for a longer time period. These provisions include the requirement that funds provided pursuant to the PSP3 be used exclusively for the continuation of payment of eligible employee wages, salaries and benefits, the requirement against involuntary furloughs and reductions in employee pay rates and benefits through at least September 30, 2021, prohibitions against 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.

In addition, as partial compensation to the U.S. Government for the provision of the $3.3 billion of financial assistance under the PSP3 Agreement, AAG will issue a promissory note (the PSP3 Promissory Note) providing for the unconditional promise to pay to Treasury the principal sum of $963 million and enter into a warrant agreement (the PSP3 Warrant Agreement) providing for the issuance of warrants to Treasury to purchase up to approximately 4.4 million shares of AAG common stock at an exercise price of $21.75 per share (which is the closing price of AAG common stock on March 10, 2021), subject to certain anti-dilution provisions to be included in the PSP3 Warrant Agreement. The other terms of the PSP3 Promissory Note and the PSP3 Warrant Agreement are expected to be substantially the same as the terms of the PSP2 Promissory Note and PSP2 Warrant Agreement, respectively.

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 loan to value, collateral coverage and/or debt service coverage ratio covenants.

Given the above actions and 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 funds from government assistance to be obtained pursuant to the ARP), and projected cash flows from operations.

AAG's First Quarter 2021 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 March 31, 2021	Three Months Ended March 31, 2020	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Passenger revenue	$ 3,179	$ 7,681	$ (4,502)	(58.6)
Cargo revenue	315	147	168	nm [2]
Other operating revenue	514	687	(173)	(25.3)
Total operating revenues	4,008	8,515	(4,507)	(52.9)
Aircraft fuel and related taxes	1,034	1,784	(750)	(42.0)
Salaries, wages and benefits	2,730	3,219	(489)	(15.2)
Total operating expenses	5,323	11,064	(5,741)	(51.9)
Operating loss	(1,315)	(2,549)	(1,234)	(48.4)
Pre-tax loss	(1,573)	(2,890)	(1,317)	(45.6)
Income tax benefit	(323)	(649)	(326)	(50.1)
Net loss	(1,250)	(2,241)	(991)	(44.2)
Pre-tax loss – GAAP	$ (1,573)	$ (2,890)	$ (1,317)	(45.6)
Adjusted for: pre-tax net special items [1]	(1,946)	1,442	(3,388)	nm
Pre-tax loss excluding net special items	$ (3,519)	$ (1,448)	$ 2,071	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) Not meaningful or greater than 100% change.

Pre-Tax Loss and Net Loss

Pre-tax loss and net loss were $1.6 billion and $1.3 billion, respectively, in the first quarter of 2021. This compares to first quarter 2020 pre-tax loss and net loss of $2.9 billion and $2.2 billion, respectively. The quarter-over-quarter decrease in our pre-tax loss was principally driven by the recognition of $1.9 billion of net special credits during the first quarter of 2021 due primarily to the Payroll Support Program financial assistance (the PSP2 Financial Assistance), offset in part by severance expenses. A decrease in operating expenses due to our reduced schedule and cost reduction actions as a result of a severe decline in passenger demand and government travel restrictions related to the outbreak and spread of COVID-19 also contributed to the decrease in our pre-tax loss. This decline in operating expenses was offset in part by lower revenues due to the decline in passenger demand described above. See Notes 1 and 2 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A for further information on the PSP2 Financial Assistance and net special items, respectively.

Excluding the effects of pre-tax net special items, pre-tax loss was $3.5 billion and $1.4 billion in the first quarter of 2021 and 2020, respectively. The quarter-over-quarter increase in our pre-tax loss excluding pre-tax net special items was principally driven by lower revenues, offset in part by decreased operating expenses due to our reduced schedule and cost reduction actions as described above.

Revenue

In the first quarter of 2021, we reported total operating revenues of $4.0 billion, a decrease of $4.5 billion, or 52.9%, as compared to the first quarter of 2020. Passenger revenue was $3.2 billion in the first quarter of 2021, a decrease of $4.5 billion, or 58.6%, as compared to the first quarter of 2020. The decrease in passenger revenue in the first quarter of 2021 was due to a decline in passenger demand and government travel restrictions related to COVID-19, resulting in a 50.3% quarter-over-quarter decrease in revenue passenger miles (RPMs) and a 13.2 point decrease in passenger load factor.

In the first quarter of 2021, cargo revenue was $315 million, an increase of $168 million, more than two times higher, as compared to the first quarter of 2020. The increase in cargo revenue was primarily due to a 76.0% increase in cargo yield as a result of rate increases as well as a 22.1% increase in cargo ton miles reflecting increases in freight volumes, principally as a result of adding cargo-only flights to our schedule.

Other operating revenue decreased $173 million, or 25.3%, as compared to the first quarter of 2020, driven primarily by lower revenue associated with our loyalty program and airport clubs.

Our total revenue per available seat mile (TRASM) was 10.61 cents in the first quarter of 2021, a 22.6% decrease as compared to 13.71 cents in the first quarter of 2020.

Fuel

Aircraft fuel expense was $1.0 billion in the first quarter of 2021, which was $750 million, or 42.0%, lower as compared to the first quarter of 2020. This decrease was primarily driven by a 37.4% decrease in gallons of fuel consumed as a result of lower capacity and a 7.4% decrease in the average price per gallon of aircraft fuel including related taxes to $1.70 in the first quarter of 2021 from $1.83 in the first quarter of 2020.

As of March 31, 2021, 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. We do not currently view the market opportunities to hedge fuel prices as attractive because, among other things, our future fuel needs remain unclear due to uncertainties regarding air travel demand and any hedging would potentially require significant capital or collateral to be placed at risk. 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 COVID-19 pandemic has resulted in a very rapid deterioration in general economic conditions.

Our 2021 first quarter total operating cost per available seat mile (CASM) was 14.09 cents, a decrease of 20.9%, from 17.82 cents in the first quarter of 2020. The PSP2 Financial Assistance recognized in the first quarter of 2021 drove the decrease in our CASM, offset in part by lower capacity due to decreased passenger demand and government travel restrictions related to the COVID-19 pandemic described above.

Our 2021 first quarter total operating CASM excluding net special items and fuel was 16.45 cents, an increase of 26.8%, from 12.97 cents in the first quarter of 2020. The increase was primarily driven by lower capacity in the first quarter of 2021 as described above.

For a reconciliation of total operating CASM to total operating 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 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 loss (GAAP measure) to pre-tax 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 March 31,	
	2021	2020
	(In millions)	
Reconciliation of Pre-Tax Loss Excluding Net Special Items:		
Pre-tax loss – GAAP	$ (1,573)	$ (2,890)
Pre-tax net special items [1]:		
Operating special items, net	(1,923)	1,225
Nonoperating special items, net	(23)	217
Total pre-tax net special items	(1,946)	1,442
Pre-tax loss excluding net special items	$ (3,519)	$ (1,448)

(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 expenses (GAAP measure) to total operating costs excluding net special items and fuel (non-GAAP measure). Management uses total operating costs 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 March 31,	
	2021	2020
Reconciliation of Total Operating CASM Excluding Net Special Items and Fuel:		
(In millions)		
Total operating expenses – GAAP	$ 5,323	$ 11,064
Operating net special items [1]:		
Mainline operating special items, net	1,708	(1,132)
Regional operating special items, net	215	(93)
Aircraft fuel and related taxes	(1,034)	(1,784)
Total operating expenses, excluding net special items and fuel	$ 6,212	$ 8,055
Total Available Seat Miles (ASM)	37,764	62,099
(In cents)		
Total operating CASM	14.09	17.82
Operating net special items per ASM [1]:		
Mainline operating special items, net	4.52	(1.82)
Regional operating special items, net	0.57	(0.15)
Aircraft fuel and related taxes per ASM	(2.74)	(2.87)
Total operating CASM, excluding net special items and fuel	16.45	12.97

(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

As discussed above, our results of operations for the first quarter of 2021 were significantly impacted by the COVID-19 pandemic. As a result, the comparison of these results to the first quarter of 2020 are largely not meaningful. Refer to the "Financial Overview" above for discussion of our first quarter of 2021 financial results and the impact of the COVID-19 pandemic on our business.

Operating Statistics

The table below sets forth selected operating data for the three months ended March 31, 2021 and 2020. Amounts may not recalculate due to rounding.

	Three Months Ended March 31,		
	2021	2020	Decrease
Revenue passenger miles (millions) [a]	22,464	45,171	(50.3) %
Available seat miles (millions) [b]	37,764	62,099	(39.2) %
Passenger load factor (percent) [c]	59.5	72.7	(13.2)pts
Yield (cents) [d]	14.15	17.00	(16.8) %
Passenger revenue per available seat mile (cents) [e]	8.42	12.37	(31.9) %
Total revenue per available seat mile (cents) [f]	10.61	13.71	(22.6) %
Aircraft at end of period [g]	1,399	1,484	(5.7) %
Fuel consumption (gallons in millions)	608	972	(37.4) %
Average aircraft fuel price including related taxes (dollars per gallon)	1.70	1.83	(7.4) %
Full-time equivalent employees at end of period	113,200	131,500	(13.9) %
Total operating cost per available seat mile (cents) [h]	14.09	17.82	(20.9) %

(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) Includes aircraft owned and leased by American as well as aircraft operated by third-party regional carriers under capacity purchase agreements. Excludes 35 Boeing 737-800 mainline aircraft and two Embraer 145 regional aircraft that are in temporary storage at March 31, 2021.

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

Three Months Ended March 31, 2021 Compared to Three Months Ended March 31, 2020

Operating Revenues

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Passenger	$ 3,179	$ 7,681	$ (4,502)	(58.6)
Cargo	315	147	168	nm
Other	514	687	(173)	(25.3)
Total operating revenues	$ 4,008	$ 8,515	$ (4,507)	(52.9)

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

	Three Months Ended March 31, 2021	Decrease vs. Three Months Ended March 31, 2020: RPMs	ASMs	Load Factor	Passenger Yield	PRASM
	(In millions)					
Passenger revenue	$ 3,179	(50.3)%	(39.2)%	(13.2)pts	(16.8) %	(31.9)%

Total operating revenues in the first quarter of 2021 decreased $4.5 billion, or 52.9%, from the first quarter of 2020, primarily due to a severe decline in passenger demand and government travel restrictions related to the COVID-19 pandemic.

Operating Expenses

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Aircraft fuel and related taxes	$ 1,034	$ 1,784	$ (750)	(42.0)
Salaries, wages and benefits	2,730	3,219	(489)	(15.2)
Regional expenses	625	1,140	(515)	(45.2)
Maintenance, materials and repairs	376	629	(253)	(40.2)
Other rent and landing fees	570	611	(41)	(6.6)
Aircraft rent	351	334	17	4.9
Selling expenses	151	385	(234)	(60.8)
Depreciation and amortization	478	560	(82)	(14.6)
Mainline operating special items, net	(1,708)	1,132	(2,840)	nm
Other	716	1,270	(554)	(43.6)
Total operating expenses	$ 5,323	$ 11,064	$ (5,741)	(51.9)

Total operating expenses decreased $5.7 billion, or 51.9%, in the first quarter of 2021 from the first quarter of 2020 due to our reduced schedule and cost reduction actions as described above as well as the recognition of $2.1 billion of PSP2 Financial Assistance.

Depreciation and amortization decreased $82 million, or 14.6%, in the first quarter of 2021 from the first quarter of 2020 primarily due to the early retirement of aircraft as a result of the COVID-19 pandemic. See further discussion in operating special items, net below.

Aircraft rent increased $17 million, or 4.9%, in the first quarter of 2021 from the first quarter of 2020 primarily due to the delivery of 26 new leased mainline aircraft subsequent to the first quarter of 2020.

Operating Special Items, Net

	Three Months Ended March 31,	
	2021	2020
	(In millions)	
PSP2 Financial Assistance (1)	$ (1,882)	$ —
Severance expenses (2)	168	205
Mark-to-market adjustments on bankruptcy obligations, net (3)	6	(50)
Fleet impairment (4)	—	744
Labor contract expenses (5)	—	218
Other operating special items, net	—	15
Mainline operating special items, net	(1,708)	1,132
PSP2 Financial Assistance (1)	(244)	—
Fleet impairment (4)	27	93
Severance expenses (2)	2	—
Regional operating special items, net	(215)	93
Operating special items, net	$ (1,923)	$ 1,225

(1) PSP2 Financial Assistance represents recognition of financial assistance received from Treasury pursuant to the PSP2 Agreement. See Note 1(b) to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A for further information.

(2) Severance expenses include salary and medical costs primarily associated with certain team members who opted in to 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 were approximately $170 million during the first quarter of 2021.

(3) Bankruptcy obligations that will be settled in shares of our common stock are marked-to-market based on our stock price.

(4) Fleet impairment resulted from our decision to retire certain aircraft earlier than planned driven primarily by the severe decline in air travel due to the COVID-19 pandemic. In the first quarter of 2021, we retired our remaining fleet of Embraer 140 aircraft resulting in a $27 million non-cash write-down of these aircraft. In the first quarter of 2020, we retired our Boeing 757, Boeing 767, Airbus A330-300 and Embraer 190 fleets as well as certain Embraer 140 and Bombardier CRJ200 aircraft resulting in a $764 million non-cash write-down of these aircraft and associated spare parts and $73 million in cash charges primarily for impairment of right-of-use (ROU) assets and lease return costs.

(5) Labor contract expenses primarily related to one-time charges resulting from the ratification of a new contract with the Transport Workers Union and International Association of Machinists & Aerospace Workers for our maintenance and fleet service team members, including signing bonuses and adjustments to vacation accruals resulting from pay rate increases.

Nonoperating Results

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Interest income	$ 4	$ 21	$ (17)	(83.3)
Interest expense, net	(371)	(257)	(114)	43.9
Other income (expense), net	109	(105)	214	nm
Total nonoperating expense, net	$ (258)	$ (341)	$ 83	(24.3)

Interest income decreased in the first quarter of 2021 compared to the first quarter of 2020 primarily as a result of lower returns on our short-term investments. Interest expense, net increased in the first quarter of 2021 compared to the first quarter of 2020 primarily due to the issuance of debt subsequent to the first quarter of 2020 to improve our liquidity position in response to the COVID-19 pandemic.

In the first quarter of 2021, other nonoperating income, net included $87 million of non-service related pension and other postretirement benefit plan income and $23 million of net special credits principally for mark-to-market net unrealized gains associated with our equity investment in China Southern Airlines Company Limited (China Southern Airlines) and certain treasury rate lock derivative instruments, offset in part by non-cash charges associated with debt refinancings and extinguishments.

In the first quarter of 2020, other nonoperating expense, net included $217 million of net special charges principally for mark-to-market net unrealized losses associated with our equity investment in China Southern Airlines and certain treasury rate lock derivative instruments as well as non-cash charges associated with debt refinancings and extinguishments, offset in part by $108 million of non-service related pension and other postretirement benefit plan income.

Income Taxes

In the first quarter of 2021, we recorded an income tax benefit of $323 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

As discussed above, American's results of operations for the first quarter of 2021 were significantly impacted by the COVID-19 pandemic. As a result, the comparison of these results to the first quarter of 2020 are largely not meaningful. Refer to the "Financial Overview" above for discussion of American's first quarter of 2021 financial results and the impact of the COVID-19 pandemic on American's business.

Three Months Ended March 31, 2021 Compared to Three Months Ended March 31, 2020

Operating Revenues

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Passenger	$ 3,179	$ 7,681	$ (4,502)	(58.6)
Cargo	315	147	168	nm
Other	514	686	(172)	(25.3)
Total operating revenues	$ 4,008	$ 8,514	$ (4,506)	(52.9)

Total operating revenues in the first quarter of 2021 decreased $4.5 billion, or 52.9%, from the first quarter of 2020, primarily due to a severe decline in passenger demand and government travel restrictions related to the COVID-19 pandemic.

Operating Expenses

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Aircraft fuel and related taxes	$ 1,034	$ 1,784	$ (750)	(42.0)
Salaries, wages and benefits	2,729	3,217	(488)	(15.2)
Regional expenses	624	1,107	(483)	(43.6)
Maintenance, materials and repairs	376	629	(253)	(40.2)
Other rent and landing fees	570	611	(41)	(6.6)
Aircraft rent	351	334	17	4.9
Selling expenses	151	385	(234)	(60.8)
Depreciation and amortization	478	560	(82)	(14.6)
Mainline operating special items, net	(1,708)	1,132	(2,840)	nm
Other	717	1,291	(574)	(44.4)
Total operating expenses	$ 5,322	$ 11,050	$ (5,728)	(51.8)

Total operating expenses decreased $5.7 billion, or 51.8%, in the first quarter of 2021 from the first quarter of 2020 due to American's reduced schedule and cost reduction actions as described above as well as the recognition of $2.1 billion of PSP2 Financial Assistance.

Depreciation and amortization decreased $82 million, or 14.6%, in the first quarter of 2021 from the first quarter of 2020 primarily due to the early retirement of aircraft as a result of the COVID-19 pandemic. See further discussion in operating special items, net below.

Aircraft rent increased $17 million, or 4.9%, in the first quarter of 2021 from the first quarter of 2020 primarily due to the delivery of 26 new leased mainline aircraft subsequent to the first quarter of 2020.

Operating Special Items, Net

	Three Months Ended March 31,	
	2021	2020
	(In millions)	
PSP2 Financial Assistance [1]	$ (1,882)	$ —
Severance expenses [2]	168	205
Mark-to-market adjustments on bankruptcy obligations, net [3]	6	(50)
Fleet impairment [4]	—	744
Labor contract expenses [5]	—	218
Other operating special items, net	—	15
Mainline operating special items, net	(1,708)	1,132
PSP2 Financial Assistance [1]	(244)	—
Fleet impairment [4]	27	93
Regional operating special items, net	(217)	93
Operating special items, net	$ (1,925)	$ 1,225

(1) PSP2 Financial Assistance represents recognition of financial assistance received from Treasury pursuant to the PSP2 Agreement. See Note 1(b) to American's Condensed Consolidated Financial Statements in Part I, Item 1B for further information.

(2) Severance expenses include salary and medical costs primarily associated with certain team members who opted in to 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 were approximately $170 million during the first quarter of 2021.

(3) Bankruptcy obligations that will be settled in shares of AAG common stock are marked-to-market based on AAG's stock price.

(4) Fleet impairment resulted from American's decision to retire certain aircraft earlier than planned driven primarily by the severe decline in air travel due to the COVID-19 pandemic. In the first quarter of 2021, American retired its remaining fleet of Embraer 140 aircraft resulting in a $27 million non-cash write-down of these aircraft. In the first quarter of 2020, American retired its Boeing 757, Boeing 767, Airbus A330-300 and Embraer 190 fleets as well as certain Embraer 140 and Bombardier CRJ200 aircraft resulting in a $764 million non-cash write-down of these aircraft and associated spare parts and $73 million in cash charges primarily for impairment of ROU assets and lease return costs.

(5) Labor contract expenses primarily related to one-time charges resulting from the ratification of a new contract with the Transport Workers Union and International Association of Machinists & Aerospace Workers for American's maintenance and fleet service team members, including signing bonuses and adjustments to vacation accruals resulting from pay rate increases.

Nonoperating Results

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Interest income	$ 9	$ 104	$ (95)	(91.4)
Interest expense, net	(333)	(260)	(73)	28.0
Other income (expense), net	109	(105)	214	nm
Total nonoperating expense, net	$ (215)	$ (261)	$ 46	(17.3)

Interest income decreased in the first quarter of 2021 compared to the first quarter of 2020 primarily as a result of lower returns on American's short-term investments and lower interest-bearing related party receivables from American's parent company, AAG. Interest expense, net increased in the first quarter of 2021 compared to the first quarter of 2020 primarily due to the issuance of debt subsequent to the first quarter of 2020 to improve American's liquidity position in response to the COVID-19 pandemic.

In the first quarter of 2021, other nonoperating income, net included $87 million of non-service related pension and other postretirement benefit plan income and $23 million of net special credits principally for mark-to-market net unrealized gains associated with American's equity investment in China Southern Airlines and certain treasury rate lock derivative instruments, offset in part by non-cash charges associated with debt refinancings and extinguishments.

In the first quarter of 2020, other nonoperating expense, net included $217 million of net special charges principally for mark-to-market net unrealized losses associated with American's equity investment in China Southern Airlines and certain treasury rate lock derivative instruments as well as non-cash charges associated with debt refinancings and extinguishments, offset in part by $108 million of non-service related pension and other postretirement benefit plan income.

Income Taxes

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

In the first quarter of 2021, American recorded an income tax benefit of $314 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

As of March 31, 2021, AAG had $17.3 billion in total available liquidity and $806 million in restricted cash and short-term investments. Additional detail regarding our available liquidity is provided in the table below (in millions):

	AAG		American	
	March 31, 2021	December 31, 2020	March 31, 2021	December 31, 2020
Cash	$ 277	$ 245	$ 270	$ 231
Short-term investments	13,762	6,619	13,748	6,617
Undrawn facilities	3,297	7,396	3,297	7,396
Total available liquidity	$ 17,336	$ 14,260	$ 17,315	$ 14,244

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 current 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 funds from government assistance to be obtained pursuant to the ARP) and projected cash flows from operations.

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) or collateral coverage ratio covenants and require us to appraise the related collateral annually or semiannually. Pursuant to such agreements, if the LTV or collateral coverage ratio exceeds a specified threshold or if the value of the appraised collateral fails to meet a specified threshold, as the case may be, we are required, as applicable, to pledge additional qualifying collateral (which in some cases may include cash or investment securities), or pay down such financing, in whole or in part, or the interest rate for the financing under such agreements will be increased. As of the most recent applicable measurement dates, we were in compliance with each of the foregoing collateral 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 debt service coverage ratio, pursuant to which failure to comply with a certain threshold may result in early repayment of the AAdvantage Financing. For further information regarding our debt covenants, see Note 5 to AAG's Consolidated Financial Statements in Part I, Item 1A and Note 4 to American's Consolidated Financial Statements in Part I, Item 1B.

Sources and Uses of Cash

AAG

Operating Activities

Our net cash provided by operating activities was $174 million for the first quarter of 2021 as compared to net cash used in operating activities of $168 million for the first quarter of 2020, a $342 million quarter-over-quarter increase. In the first quarter of 2021, we received cash proceeds of approximately $2.1 billion associated with the PSP2 Financial Assistance. Excluding the PSP2 Financial Assistance, our operating cash flows decreased $1.8 billion compared to the first quarter of 2020 driven by lower revenues as a result of a severe decline in passenger demand and government travel restrictions related to the outbreak and spread of COVID-19, offset in part by a decrease in expenses due to our reduced schedule and cost reduction actions. In addition, during the first quarter of 2021, we made $241 million in contributions to our pension plans and approximately $170 million in cash payments associated with all of our voluntary early retirement programs. We expect cash payments under these programs of approximately $390 million in the remainder of 2021, approximately $230 million in 2022 and approximately $530 million in 2023 and beyond.

Investing Activities

Our net cash used in investing activities was $7.2 billion and $162 million for the first quarter of 2021 and 2020, respectively.

Our principal investing activities in the first quarter of 2021 included $7.1 billion in net purchases of short-term investments as well as a $194 million increase in restricted short-term investments primarily related to collateral for the AAdvantage Financing. These cash outflows were offset in part by $108 million of proceeds from the sale of property and equipment and $99 million of proceeds primarily from aircraft sale-leaseback transactions. Additionally, aircraft purchase deposit returns exceeded our capital expenditures for the first quarter of 2021, which expenditures were principally related to the harmonization of interior configurations across our mainline fleet and the purchase of one Airbus 321neo aircraft.

Our principal investing activities in the first quarter of 2020 included expenditures of $845 million for property and equipment, including five Airbus 321neo aircraft, three Embraer 175 aircraft and three Bombardier CRJ900 aircraft. These cash outflows were offset in part by $417 million in net sales of short-term investments and $280 million of proceeds primarily from aircraft sale-leaseback transactions.

Financing Activities

Our net cash provided by financing activities was $7.0 billion and $526 million for the first quarter of 2021 and 2020, respectively.

Our principal financing activities in the first quarter of 2021 included $10.9 billion in proceeds from the issuance of debt, including approximately $10.0 billion associated with the AAdvantage Financing and $896 million in aggregate principal amount under the PSP2 Promissory Note. We also had $316 million in net proceeds from the issuance of equity pursuant to an at-the-market offering. These cash inflows were offset in part by $4.1 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 $661 million in scheduled debt repayments. In addition, we had $162 million of deferred financing cost cash outflows.

Our principal financing activities in the first quarter of 2020 included $1.7 billion in proceeds from the issuance of debt, including $1.0 billion provided under the senior secured delayed draw term loan credit facility, $500 million aggregate principal amount of 3.75% senior notes and $197 million in other aircraft financings. These cash inflows were offset in part by $926 million in scheduled debt repayments, including repayment of $500 million of 4.625% senior notes, $171 million in share repurchases and $43 million in dividend payments.

American

Operating Activities

American's net cash provided by operating activities was $1.4 billion for the first quarter of 2021 as compared to net cash used in operating activities of $401 million for the first quarter of 2020, a $1.8 billion quarter-over-quarter increase. In the first quarter of 2021, American received cash proceeds of approximately $1.9 billion associated with the PSP2 Financial Assistance as well as a $1.6 billion net increase in intercompany cash receipts principally from AAG's financing transactions. Excluding the PSP2 Financial Assistance and these AAG financing transactions, American's operating cash flows decreased $1.7 billion compared to the first quarter of 2020 driven by lower revenues as a result of a severe decline in passenger demand and government travel restrictions related to the outbreak and spread of COVID-19, offset in part by a decrease in expenses due to American's reduced schedule and cost reduction actions. In addition, during the first quarter of 2021, American made $241 million in contributions to its pension plans and approximately $170 million in cash payments associated with all of American's voluntary early retirement programs. American expects cash payments under these programs of approximately $390 million in the remainder of 2021, approximately $230 million in 2022 and approximately $530 million in 2023 and beyond.

Investing Activities

American's net cash used in investing activities was $7.1 billion and $147 million for the first quarter of 2021 and 2020, respectively.

American's principal investing activities in the first quarter of 2021 included $7.1 billion in net purchases of short-term investments as well as a $194 million increase in restricted short-term investments primarily related to collateral for the AAdvantage Financing. These cash outflows were offset in part by $108 million of proceeds from the sale of property and equipment and $99 million of proceeds primarily from aircraft sale-leaseback transactions. Additionally, aircraft purchase deposit returns exceeded American's capital expenditures for the first quarter of 2021, which expenditures were principally related to the harmonization of interior configurations across its mainline fleet and the purchase of one Airbus 321neo aircraft.

American's principal investing activities in the first quarter of 2020 included expenditures of $829 million for property and equipment, including five Airbus 321neo aircraft, three Embraer 175 aircraft and three Bombardier CRJ900 aircraft. These cash outflows were offset in part by $417 million in net sales of short-term investments and $280 million of proceeds primarily from aircraft sale-leaseback transactions.

Financing Activities

American's net cash provided by financing activities was $5.7 billion and $747 million for the first quarter of 2021 and 2020, respectively.

American's principal financing activities in the first quarter of 2021 included $10.0 billion in proceeds associated with the AAdvantage Financing. These cash inflows were offset in part by $4.1 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 $661 million in scheduled debt repayments. In addition, American had $162 million of deferred financing cost cash outflows.

American's principal financing activities in the first quarter of 2020 included $1.2 billion in proceeds from the issuance of debt, including $1.0 billion provided under the senior secured delayed draw term loan credit facility and $197 million in other aircraft financings, offset in part by $426 million primarily in scheduled debt repayments.

Commitments

Significant Indebtedness

As of March 31, 2021, AAG had $39.6 billion in long-term debt, including current maturities of $2.3 billion. As of March 31, 2021, American had $34.7 billion in long-term debt, including current maturities of $2.3 billion. All material changes in our significant indebtedness since our 2020 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 March 31, 2021, we had definitive purchase agreements for the acquisition of the following aircraft [1]:

	Remainder of 2021	2022	2023	2024	2025	2026 and Thereafter	Total
Airbus							
A320neo Family [2]	13	26	5	18	22	5	89
Boeing [3]							
737 MAX Family	1	—	12	6	20	20	59
787 Family	12	2	11	6	8	5	44
Total	26	28	28	30	50	30	192

(1) Delivery schedule represents our best estimate as of the date of this report. Actual delivery dates are subject to change based on various potential factors including production delays by the manufacturer.

(2) In October 2019, the Office of the U.S. Trade Representative announced a 10% tariff on new Airbus aircraft imported from Europe. Effective March 18, 2020, this tariff rate increased to 15%, and effective January 12, 2021, the scope of the 15% tariff was expanded to include certain imported aircraft parts in addition to aircraft. On March 5, 2021, the United States and the EU announced an agreement to suspend for four months the imposition of these tariffs on commercial aircraft. We continue to endeavor to mitigate the effect of these tariffs on our Airbus deliveries. 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.*"

(3) On April 8, 2021, we exercised our right to defer 10 Boeing 737 MAX Family aircraft previously scheduled to be delivered in 2022 to 2023-2024. In connection with this deferral in April 2021, we prepaid $248 million of outstanding loans under our pre-delivery deposit financing facility. In addition, during the first quarter of 2021, we agreed with Boeing to defer five 787 Family aircraft previously scheduled to be delivered in 2021 to 2023. The table above and the contractual obligations table below reflects the purchase commitments after giving effect to these deferrals.

We also have agreements for 27 spare engines to be delivered in 2021 and beyond.

We currently have financing commitments in place for all 26 aircraft scheduled to be delivered in 2021: 13 Airbus A320neo Family aircraft, 12 Boeing 787 Family aircraft and one Boeing 737 MAX Family aircraft. We also have financing commitments in place for two Boeing 787 Family aircraft in 2022 and five Boeing 787 Family Aircraft in 2023. 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. See Part II, Item 1A. Risk Factors – *"We will need to obtain sufficient financing or other capital to operate successfully"* for additional discussion.

Off-Balance Sheet Arrangements

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

There have been no material changes in our off-balance sheet arrangements as discussed in our 2020 Form 10-K.

Contractual Obligations

The following table provides details of our future cash contractual obligations as of March 31, 2021 (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 2021	2022	2023	2024	2025	2026 and Thereafter	Total
American							
Long-term debt:							
Principal amount [(a), (c)]	$ 2,114	$ 1,642	$ 5,095	$ 3,455	$ 7,738	$ 14,660	$ 34,704
Interest obligations [(b), (c)]	1,014	1,550	1,494	1,344	1,183	1,407	7,992
Finance lease obligations	101	141	119	124	90	93	668
Aircraft and engine purchase commitments [(d)]	264	1,647	1,642	2,521	3,373	1,734	11,181
Operating lease commitments	1,477	1,952	1,804	1,432	1,051	4,728	12,444
Regional capacity purchase agreements [(e)]	888	1,644	1,662	1,638	1,485	3,601	10,918
Minimum pension obligations [(f)]	—	—	46	136	111	224	517
Retiree medical and other postretirement benefits	69	90	85	82	77	358	761
Other purchase obligations [(g)]	2,109	2,058	1,298	510	151	1,033	7,159
Total American Contractual Obligations	8,036	10,724	13,245	11,242	15,259	27,838	86,344
AAG Parent and Other AAG Subsidiaries							
Long-term debt:							
Principal amount [(a)]	2	752	2	2	1,503	2,674	4,935
Interest obligations [(b)]	94	131	112	111	124	542	1,114
Operating lease commitments	12	12	12	9	4	17	66
Minimum pension obligations [(f)]	1	—	—	—	1	4	6
Total AAG Contractual Obligations	$ 8,145	$ 11,619	$ 13,371	$ 11,364	$ 16,891	$ 31,075	$ 92,465

(a) Amounts represent contractual amounts due. Excludes $479 million and $36 million of unamortized debt discount, premium and issuance costs as of March 31, 2021 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 March 31, 2021.

(c) Includes $10.7 billion of future principal payments and $1.8 billion of future interest payments as of March 31, 2021, 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 current best estimate; however, the actual delivery schedule may differ from the table above, potentially materially. Additionally, the amounts in the table exclude 12 and two Boeing 787-8 aircraft to be delivered in 2021 and 2022, respectively, as well as five Boeing 787-9 aircraft to be delivered in 2023, 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) On March 11, 2021, the ARP was enacted, which included certain funding relief provisions for single employer qualified retirement benefit pension plans such as those sponsored by American. The amounts in the table represent minimum pension contributions based on actuarially determined estimates and reflect our current understanding of the ARP provisions applicable to our pension plans and could change based on any associated regulations or interpretive guidance from certain government agencies or any other factors.

(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 the cash needs imposed by the current operating losses due to reduced demand in response to the COVID-19 pandemic as well as our significant financial commitments related to, among other things, new flight equipment, the servicing and amortization of existing debt and equipment leasing arrangements, and pension funding obligations, 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 global outbreak of COVID-19), natural disasters or other causes could reduce the demand for air travel, which would reduce the amount of cash generated by operations. See Part II, Item 1A. Risk Factors – *"The outbreak and global spread of COVID-19 has resulted in a severe decline in demand for air travel which has 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"* for additional discussion. 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 2020 Form 10-K.

Recent Accounting Pronouncements

Accounting Standards Update (ASU) 2020-06: Accounting for Convertible Instruments and Contracts In An Entity's Own Equity (the New Convertible Debt Standard)

The New Convertible Debt Standard simplifies the accounting for certain convertible instruments by removing the separation models for convertible debt with a cash conversion feature and for convertible instruments with a beneficial conversion feature. As a result, more convertible debt instruments will be reported as a single liability instrument with no separate accounting for embedded conversion features. Additionally, the New Convertible Debt Standard amends the diluted earnings per share calculation for convertible instruments by requiring the use of the if-converted method. The treasury stock method is no longer available. Entities may adopt the New Convertible Debt Standard using either a full or modified retrospective approach, and it is effective for interim and annual reporting periods beginning after December 15, 2021. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2020. The New Convertible Debt Standard is applicable to our 6.50% convertible senior notes due 2025 (the Convertible Notes). We early adopted the New Convertible Debt Standard as of January 1, 2021 using the modified retrospective method to recognize our Convertible Notes as a single liability instrument. As of January 1, 2021, we recorded a $415 million ($320 million net of tax) reduction to additional paid-in capital to remove the equity component of the Convertible Notes from our balance sheet and a $19 million cumulative effect adjustment credit, net of tax, to retained deficit related to non-cash debt discount amortization recognized in periods prior to adoption resulting in a corresponding reduction of $389 million to the debt discount associated with the Convertible Notes.

ASU 2019-12: Simplifying the Accounting for Income Taxes (Topic 740)

This standard simplifies the accounting and disclosure requirements for income taxes by clarifying the existing guidance to improve consistency in the application of Accounting Standards Codification 740. This standard also removed the requirement to calculate income tax expense for the stand-alone financial statements of wholly-owned subsidiaries that are not subject to income tax. We adopted this standard effective January 1, 2021, and it did not have a material impact on our condensed consolidated financial statements.

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 2020 Form 10-K except as updated below.

Aircraft Fuel

As of March 31, 2021, we did not have any fuel hedging contracts outstanding to hedge our fuel consumption. We do not currently view the market opportunities to hedge fuel prices as attractive because, among other things, our future fuel needs remain unclear due to uncertainties regarding air travel demand and any hedging would potentially require significant capital or collateral to be placed at risk. As such, and assuming we do not enter into any future transactions to hedge our fuel consumption, we will continue to be fully exposed to fluctuations in fuel prices. Our current policy is not to enter into transactions to hedge our fuel consumption, although we review that policy from time to time based on market conditions and other factors. Based on our 2021 forecasted fuel consumption, we estimate that a one cent per gallon increase in the price of aircraft fuel would increase our 2021 annual fuel expense by $35 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 British pound sterling, Euro, Canadian dollar and various Latin American currencies, primarily the Brazilian real. We do not currently have a foreign currency hedge program.

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

Interest

Our earnings and cash flow are affected by changes in interest rates due to the impact those changes have on our interest expense from variable-rate debt instruments and our interest income from short-term, interest-bearing investments. If annual interest rates increase 100 basis points, based on our March 31, 2021 variable-rate debt and short-term investments balances, annual interest expense on variable rate debt would increase by approximately $130 million and annual interest income on short-term investments would increase by approximately $140 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 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) is currently under consultation by the ICE Benchmark Administration (the administrator of LIBOR) and may be extended until June 30, 2023. It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2021. 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 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 transaction 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 March 31, 2021, we had $12.6 billion of borrowings based on 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 March 31, 2021 was performed under the supervision and with the participation of AAG's and American's management, including AAG's and American's CEO and CFO. Based on that evaluation, AAG's and American's management, including AAG's and American's CEO and CFO, concluded that AAG's and American's disclosure controls and procedures were effective as of March 31, 2021 at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

For the quarter ended March 31, 2021, 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 March 31, 2021.

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 has resulted in a severe decline in demand for air travel which has 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, has resulted in a severe decline in demand for air travel, which has adversely affected our business, operations and financial condition to an unprecedented extent. Measures ranging from travel restrictions, including testing regimes, “stay at home” and quarantine orders, limitations on public gatherings, to cancellation of public events and many others have 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 have taken a number of aggressive actions to ameliorate our business, operations and financial condition. We have focused on reducing our capacity, making structural changes to our fleet, implementing cost reductions, preserving cash and improving our overall liquidity position. We have reduced our system-wide capacity and will continue to monitor conditions and to proactively evaluate and adjust our schedule to match demand. Additionally, we have retired certain mainline aircraft earlier than planned, including Airbus A330-200, Boeing 757, Boeing 767, Airbus A330-300 and Embraer 190 aircraft as well as regional aircraft, including certain 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 have moved quickly to attempt to better align our costs with our reduced schedule and made 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). Nonetheless, we incurred significant negative operating cash flow in 2020 and the first quarter of 2021, we continue to do so, and we expect to continue to do so until there is a significant recovery in demand for air travel. 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 will 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 ARP. In 2020, we received approximately $6.0 billion in financial assistance from Treasury through PSP1 established under the CARES Act, and in the first quarter of 2021, we received approximately $3.1 billion in financial assistance from Treasury through PSP2 established under the PSP Extension Law. In April 2021, we received notice from Treasury that we would be receiving $463 million of additional financial assistance through PSP2. Also, in April 2021, we received notice from Treasury that we are eligible to receive approximately $3.3 billion of financial assistance from Treasury through PSP3 established under the ARP. In connection with the financial assistance we have received through PSP1 and PSP2 and will receive through PSP3, we are required, and will be required to continue, 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 against involuntary furloughs and reductions in employee pay rates and benefits through at least September 30, 2021; the requirement to recall employees involuntarily terminated or furloughed after September 30, 2020; 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, and will continue to be, 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 intend to pursue 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, 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 could be conducted in the near term, 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, 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 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. 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.

We are also depending upon successful 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 COVID-19 variants, significant unplanned adverse reactions to the vaccine, politicization of the vaccine or general public distrust of the vaccine could have an adverse effect on our business, financial condition and results of operations.

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 ongoing COVID-19 pandemic and associated decline in economic activity and increase in unemployment levels are expected to have a severe and prolonged effect on the global economy generally and, in turn, is expected to depress demand for air travel into the foreseeable future. Due to the uncertainty surrounding the duration and severity of this pandemic, we can provide no assurance as to when and at what pace demand for air travel will return to pre-COVID-19 pandemic levels, if at all. Accordingly, we cannot predict the ultimate impact of the COVID-19 pandemic on our business, financial condition and results of operations. See also *"The outbreak and global spread of COVID-19 has resulted in a severe decline in demand* *for air travel which has 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 modernizing our fleet, improving the experience of our customers and updating our facilities. Significant capital resources will be required to execute this plan. We estimate that, based on our commitments as of March 31, 2021, our planned aggregate expenditures for aircraft purchase commitments and certain engines on a consolidated basis for calendar years 2021-2025 would be approximately $9.4 billion. We may also require financing to refinance maturing obligations and to provide liquidity to fund other corporate requirements, in particular given the severe decline in revenue we have experienced as a result of the COVID-19 pandemic. If needed to meet our liquidity needs, 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 and contemplated in response to the impact of the COVID-19 pandemic; our non-investment grade credit rating; 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 as we continue to seek significant additional liquidity; and the effect the COVID-19 pandemic has had on the global economy generally and the air transportation industry in particular. Accordingly, we will need substantial financing or other capital resources to finance such aircraft and engines and meet such other liquidity needs. If we are unable to arrange such 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 may seek to negotiate deferrals for such aircraft and engines with the applicable aircraft and engine 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. An inability to obtain necessary financing on acceptable terms 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, integration costs and general corporate purposes, and adversely affect the terms on which such funding can be obtained;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness and other obligations, thereby reducing the funds available for other purposes;
- make us more vulnerable to economic downturns, industry conditions and catastrophic external events, particularly relative to competitors with lower relative levels of financial leverage;
- 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
- 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 have on our business, we have obtained and currently anticipate that it will be necessary to continue to obtain a significant amount of additional financing in the near term from a variety of sources. 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 could be conducted in the near term, 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 and PSP2 and will receive through PSP3, we are required, and will be required to continue, 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 against involuntary furloughs and reductions in employee pay rates and benefits through at least September 30, 2021; 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, and will continue to be, 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 the London interbank offered rate (LIBOR) for deposits of U.S. dollars. LIBOR tends to fluctuate based on general short-term interest rates, rates set by the U.S. Federal Reserve and other central banks, the supply of and demand for credit in the London interbank market and general economic conditions. We have not hedged our interest rate exposure with respect to our floating rate debt. Accordingly, our interest expense for any particular period will fluctuate based on LIBOR and other variable interest rates. To the extent the interest rates applicable to our floating rate debt increase, our interest expense will increase, in which event we may have difficulties making interest payments and funding our other fixed costs, and our available cash flow for general corporate requirements may be adversely affected.

On July 27, 2017, the 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) is currently under consultation by the ICE Benchmark Administration (the administrator of LIBOR) and may be extended until June 30, 2023. It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2021. 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. 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 transaction 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 March 31, 2021, we had $12.6 billion of borrowings based on 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 these obligations will depend on the performance of investments held in trust by the pension plans, interest rates for determining liabilities and actuarial experience. The minimum funding obligation applicable to our pension plans was subject to favorable temporary funding rules that expired at the end of 2017 and, as a result, our minimum pension funding obligations increased materially beginning in 2019. In January 2021, we made $241 million in contributions to our pension plans, including a contribution of $130 million for the 2020 calendar year that was permitted to be deferred to January 4, 2021 as provided under the CARES Act. On March 11, 2021, the ARP was enacted, which included certain funding relief provisions for single employer qualified retirement benefit pension plans such as those sponsored by American. Based on our current understanding of the ARP provisions applicable to our pension plans, we will have no additional funding requirements for 2021. In addition, we 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. 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 the COVID-19 pandemic is having on demand for air travel and, in turn, capacity, we have seen an increase in demand from consumers for refunds on their tickets, and we anticipate this will continue to be the case for the near future. 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. 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, which may create retention challenges in the case of executives presented with alternative, non-airline opportunities. 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, higher interest rates, wars, terrorist attacks and political instability;
- changes in consumer preferences, perceptions, spending patterns and demographic trends;
- changes in the competitive environment due to industry consolidation, changes in airline alliance affiliations, and other factors;
- actual or potential disruptions to the 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 particular, an outbreak of a contagious disease such as the Ebola virus, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, H1N1 influenza virus, avian flu, Zika virus, COVID-19 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 has resulted in a severe decline in demand for air travel which has 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). For the dates that the CBAs with our major work groups become amendable under the RLA, see Part I, Item 1. Business – *"Employees and Labor Relations"* in our 2020 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 – *"Employees and Labor Relations"* in our 2020 Form 10-K.

As of December 31, 2020, approximately 84% of our employees were represented for collective bargaining purposes by labor unions. 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 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 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 have materially impacted demand for services provided by our regional carriers and, as a result, we have significantly reduced our regional capacity and expect to maintain these reduced levels of capacity for the foreseeable future. We expect the disruption to services resulting from the COVID-19 pandemic 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. Any material problems with the efficiency and timeliness of contract services, resulting from financial hardships or otherwise, could have a material adverse effect on our business, results of operations and financial condition.

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, including requirements that passengers wear face coverings, the provision of protective equipment for team members and enhanced cleaning procedures onboard aircraft and in airports. 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.

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

In a modern world where news can be captured and travel rapidly, we are at risk of adverse publicity stemming from any public incident involving our company, our people or our brand. Such an incident could involve the actual or alleged behavior of any of our employees. 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 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.

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

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

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

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

We have recently instituted, and intend to institute in the future, changes to our business model designed to increase revenues and offset costs. These measures include further segmentation of the classes of services we offer, such as Premium Economy service and Basic Economy service, enhancements to our AAdvantage loyalty program, charging separately for services that had previously been included within the price of a ticket, 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. 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. Additionally, the implementation of these initiatives may create logistical challenges that could harm the operational performance of our airline or result in decreased demand. Also, our implementation of any new or increased fees might reduce the demand for air travel on our airline or across the industry in general, particularly if weakened economic conditions make our customers more sensitive to increased travel costs or provide a significant competitive advantage to other carriers that determine not to institute similar charges.

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 NOL 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 (NOL Carryforwards). As of December 31, 2020, we had approximately $16.5 billion of federal NOLs available to reduce future federal taxable income, of which $8.5 billion will expire beginning in 2023 if unused and $8.0 billion can be carried forward indefinitely. We also had approximately $5.0 billion of NOL Carryforwards to reduce future state taxable income at December 31, 2020, which will expire in taxable years 2020 through 2040 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 NOL 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 percent 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. 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 $7.0 billion of unlimited NOLs still remaining at December 31, 2020) 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. To reduce the risk of a potential adverse effect on our ability to utilize our NOL Carryforwards, our Certificate of Incorporation contains transfer restrictions applicable to certain substantial stockholders, which are scheduled to expire on December 31, 2021. These restrictions may adversely affect the ability of certain holders of AAG common stock to dispose of or acquire shares of AAG common stock. Although the purpose of these transfer restrictions is to prevent an ownership change from occurring, no assurance can be given that an ownership change will not occur even with these restrictions in place. See also "*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.*"

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. In 2020, we recorded a $1.5 billion impairment charge associated with our decision to retire certain mainline aircraft, principally Airbus A330-200, Boeing 757, Boeing 767, Airbus A330-300 and Embraer 190 aircraft as well as regional aircraft, including certain Embraer 140 and Bombardier CRJ200 aircraft, earlier than previously planned as a result of the severe decline in demand for air travel due to the COVID-19 pandemic. We can provide no assurance that a material impairment loss of tangible or intangible assets will not occur in a future period, and the risk of future material impairments has been significantly heightened as result of the effects of the COVID-19 pandemic on our flight schedules and business. 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. 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 the current one caused by 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 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 several new entrants have announced their intention to start up new ultra-low-cost carriers and, potentially, consolidation, and are expected to continue to have an impact on our revenues and overall performance. We and several other large network carriers have implemented "Basic Economy" fares designed to more effectively compete against low-cost carriers, but we cannot predict whether these initiatives will be successful. 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 has 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 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 created by the COVID-19 pandemic. The CMA plans to complete its investigation before the interim measures expire. 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 2020, we entered into an expanded marketing relationship with Alaska Airlines. This arrangement expands our existing codeshare relationship, including codeshare on certain of our international routes from SEA and LAX, and provides for reciprocal loyalty program benefits and shared lounge access. Pursuant to federal law, American and Alaska

Airlines submitted this proposed arrangement to the DOT for review. After the DOT allowed the review period to expire with no further actions, American and Alaska Airlines commenced implementation of this arrangement.

Also, in 2020, we announced our intention to enter into a marketing relationship with JetBlue. This arrangement includes an alliance agreement with reciprocal codesharing on domestic and certain international routes from New York (JFK, LGA, and EWR) and BOS, and provides for reciprocal loyalty program benefits. The arrangement does not include JetBlue's future 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. The commitments include growth commitments to ensure capacity expansion, slot divestitures at JFK and at DCA near Washington, D.C. and antitrust compliance measures. Beyond this agreement with the DOT, American and JetBlue will also be refraining from certain kinds of coordination on certain city pair markets. In addition to the DOT review, the U.S. Department of Justice and the New York Attorney General, the Massachusetts Attorney General, and the Attorneys General of certain other state and local jurisdictions are investigating this proposed alliance, which remains ongoing. American and JetBlue intend to cooperate with those investigations, but are proceeding with plans to implement this alliance.

Notwithstanding the DOT's termination of its reviews of the Alaska Airlines and JetBlue alliances, the DOT maintains authority to conduct investigations under the scope of its existing statutes and regulations, including conduct related to these alliances.

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 or not regulators will, or if granted continue to, approve or impose material conditions on our business activities.

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

Additionally, our AAdvantage loyalty program, which is an important element of our sales and marketing programs, faces significant and increasing competition from the loyalty programs offered by other travel companies, as well as from similar loyalty benefits offered by banks and other financial services companies. Competition among loyalty programs is intense regarding the rewards, fees, required usage, and other terms and conditions of these programs. 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 airlines, including any related equity investment, may not produce the returns or results we expect.

An important part of our strategy to expand our network has been to expand our commercial relationships with other airlines, such as by entering into global alliance, joint business and codeshare relationships, and, in one instance involving China Southern Airlines, by making a significant equity investment in another airline in connection with initiating such a commercial relationship. We may explore 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. In addition, as a result of the global spread of COVID-19, the industry has experienced a precipitous decline 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. These events could have a material adverse effect on our business, results of operations and financial condition.

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.

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

Although we are currently able to obtain adequate supplies of aircraft fuel, we cannot predict the future availability, price volatility or cost of aircraft fuel. Natural disasters (including hurricanes or similar events in the U.S. Southeast and on the Gulf Coast where a significant portion of domestic refining capacity is located), political disruptions or wars involving oil-producing countries, economic sanctions imposed against oil-producing countries or specific industry participants, changes in fuel-related governmental policy, the strength of the U.S. dollar against foreign currencies, changes in the cost to transport or store petroleum products, changes in access to petroleum product pipelines and terminals, speculation in the energy futures markets, changes in aircraft fuel production capacity, environmental concerns and other unpredictable events may result in fuel supply shortages, distribution challenges, additional fuel price volatility and cost increases in the future. For instance, effective January 1, 2020, rules adopted by the International Maritime Organization restrict the sulfur content allowable in marine fuels from 3.5% to 0.5%, which is expected to cause increased demand by maritime shipping companies for low-sulfur fuel and potentially lead to increased costs of aircraft fuel. 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. We do not currently view the market opportunities to hedge fuel prices as attractive because, among other things, our future fuel needs remain unclear due to uncertainties regarding air travel demand and any hedging would potentially require significant capital or collateral to be placed at risk. Accordingly, as of March 31, 2021, 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 FAA, the Transportation Security Administration, the Department of Homeland Security 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 FAA also exercises comprehensive regulatory authority over nearly all technical aspects of our operations. Our failure to comply with such requirements has in the past and may in the future result in fines and other enforcement actions by the FAA or other regulators. In the future, any new regulatory requirements, particularly requirements that limit our ability to operate or price our products, could have a material adverse effect on us and the industry. In 2021, the FAA is expected to issue a number of rules that will impact us, including regulations mandating certain rest requirements for flight attendants.

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. Other DOT rules apply to post-ticket purchase price increases and an expansion of tarmac delay regulations to international airlines. In 2021, the DOT is expected to implement a number of new regulations that will impact us, including disability rules for accessible lavatories and wheelchair assistance, 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 health care 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.

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 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. For example, an automation failure and an evacuation, in 2015 and 2017, respectively, at the Washington Air Route Control Center resulted in cancellations and delays of hundreds of flights traversing the greater Washington, D.C. airspace.

In the early 2000s, the FAA embarked on a path to modernize the national airspace system, including migration from the current radar-based ATC system to a GPS-based system. This modernization of the ATC system, generally referred to as "NextGen," has been plagued by delays and cost overruns, and it remains uncertain when the full array of benefits expected from this modernization will be available to the public and the airlines, 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.

Brexit occurred on January 31, 2020 under the terms of the agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the EU and the European Atomic Energy Community (the Withdrawal Agreement). The Withdrawal Agreement provided for a transition period that ended on December 31, 2020. Prior to the end of the transition period, on December 24, 2020, EU and United Kingdom negotiators agreed to a new trade and cooperation agreement (the EU-UK Trade and Cooperation Agreement). Provisional application of the EU-UK Trade and Cooperation Agreement between January 1 and April 30, 2021 has been approved by the European Commission, the European Council and the United Kingdom Parliament to allow sufficient time for the formal ratification of the EU-UK Trade and Cooperation Agreement. 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 impact of the EU-UK Trade and Cooperation Agreement is uncertain at this stage pending ratification and eventual implementation. 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 have responded by suspending a significant portion of our long-haul international flights through the summer of 2021 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 in foreign countries, 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, on October 2, 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. In October 2019, the USTR imposed tariffs on certain imports from the EU, including on certain Airbus aircraft that we previously contracted to purchase; these aircraft were initially subject to an ad valorem duty of 10% that was subsequently increased to 15% in March 2020. In January 2021, the USTR expanded the scope of the 15% tariff to apply to certain imported aircraft parts in addition to imported aircraft. On March 5, 2021, the United States and the EU announced an agreement to suspend for four months the imposition of these tariffs on commercial aircraft. While the scope and rate of these tariffs remain subject to further changes, if and to the extent any of these tariffs are imposed 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.

Brexit occurred on January 31, 2020 under the terms of the Withdrawal Agreement. The Withdrawal Agreement provided for a transition period that ended on December 31, 2020. Prior to the end of the transition period, on December 24, 2020, EU and United Kingdom negotiators agreed to the EU-UK Trade and Cooperation Agreement. Provisional application of the EU-UK Trade and Cooperation Agreement between January 1 and April 30, 2021 has been approved by the European Commission, the European Council and the United Kingdom Parliament to allow sufficient time for the formal ratification of the EU-UK Trade and Cooperation Agreement. 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 impact of the EU-UK Trade and Cooperation Agreement is uncertain at this stage pending ratification and eventual implementation. 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.

Moreover, Brexit could adversely affect European or worldwide economic or market conditions and could contribute to further instability in global financial markets. In addition, 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. Brexit could also lead to legal and regulatory uncertainty such as the identity of the relevant regulators, new regulatory action and/or potentially divergent treaties, laws and regulations as the United Kingdom determines which EU treaties, laws and regulations to replace or replicate, including those governing aviation, labor, environmental, data protection/privacy, competition and other matters applicable to the provision of air transportation services by us or our alliance, joint business or codeshare partners. For example, in 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 created by the COVID-19 pandemic. The CMA plans to complete its investigation before the interim measures expire. 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 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 Part I, Item 1. Business – Domestic and Global Regulatory Landscape – Environmental Matters in our 2020 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. 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 designed to implement the ICAO standard, which are aligned with the 2017 ICAO airplane engine GHG emission standards. Like the ICAO standards, the final EPA standards would not apply to engines on in-service aircraft. The 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 along with others issued by the prior administration. On February 17, 2021, the United States Court of Appeals for the District of Columbia Circuit ordered to hold the challenge by the states and environmental groups in abeyance pending EPA's review. The outcome of the legal challenge and administrative review cannot be predicted 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, 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 the environment and noise reduction, including those relating to emissions to the air, discharges to surface and subsurface waters, safe drinking water, and the management of hazardous substances, oils and waste materials. Compliance with environmental laws and regulations can require significant expenditures, and violations can lead to significant fines and penalties.

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

We have various leases and agreements with respect to real property, tanks and pipelines with airports and other operators. Under these leases and agreements, we have agreed to indemnify the lessor or operator against environmental liabilities associated with the real property or operations described under the agreement, 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.

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 2020 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 recent acquisition of Rockwell Collins by United Technologies, the recent transactions involving Airbus and Bombardier and Bombardier and Mitsubishi. Due to the limited number of these suppliers, we are vulnerable to any problems associated with the performance of their obligation to supply key aircraft, parts and engines, including design defects, mechanical problems, contractual performance by suppliers, adverse perception by the public that would result in customer avoidance of any of our aircraft or any action by the FAA or any other regulatory authority resulting in an inability to operate our aircraft, even temporarily. 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 more recently 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. 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.

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

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

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

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

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

Furthermore, in response to these threats 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 cybersecurity standards as well as requirements for notifying regulators and affected individuals in the event of a data security incident. This regulatory environment is increasingly challenging and may present material obligations and risks to our business, including significantly expanded compliance burdens, costs and enforcement risks. For example, in May 2018, the EU’s new General Data Protection Regulation, commonly referred to as GDPR, came into effect, which imposes a host of new data privacy and security requirements, imposing significant costs on us and carrying substantial penalties for non-compliance.

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

A significant cybersecurity incident 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 identifying 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 may not be able to prevent all data security breaches or misuse of data. Similarly, we depend on the ability of our key commercial partners, including 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, 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. Accordingly, failure to appropriately address these 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. 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 Chicago O'Hare International Airport (ORD), Los Angeles International Airport (LAX), LaGuardia Airport (LGA) and Ronald Reagan Washington National Airport (DCA). This spending is expected to result in increased costs to airlines and the traveling public that use those facilities as the airports seek to recover their investments through increased rental, landing and other facility costs. In some circumstances, such costs could be imposed by the relevant airport authority without our approval. Accordingly, our operating costs are expected to increase significantly at many airports at which we operate, including a number of our hubs and gateways, as a result of capital spending projects currently underway and additional projects that we expect to commence over the next several years.

In addition, operations at three major domestic airports, certain smaller domestic airports and many foreign airports 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 have other operational restrictions as well. In the U.S., the DOT and the FAA currently regulate the allocation of slots or slot exemptions at DCA and two New York City airports: John F. Kennedy International Airport 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 we cannot predict whether such exemptions will continue to be granted or whether we ultimately could be at risk of losing valuable operating rights. 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 gate and other facilities are currently inadequate to accommodate all of the service that we would like to provide, or airports such as Dallas Love Field Airport where we have no access to gates at all.

Any limitation on our ability to acquire or maintain adequate gates, ticketing facilities, operations areas, operations control facilities, slots (where applicable), or office space could have a material adverse effect on our business, results of operations and financial condition.

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.

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.

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

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

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

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 existing or potential future share repurchase programs and any future dividend payments that may be declared by our Board of Directors, or any determination to cease repurchasing stock or paying dividends (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 or will issue 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 $9.04 to $30.47 during 2020 and $15.00 to $25.17 during 2021 year-to-date through April 16, 2021. 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 and PSP2 and to be provided under 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 and PSP2 and to be provided under 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.

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 Securities Exchange Act of 1934, which is filed as Exhibit 4.1 in our 2020 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.

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 and 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 percent of our assets, pursuant to paragraph (b)(4) of Item 601 of Regulation S-K, in lieu of filing such as an exhibit, we hereby agree to furnish to the Commission upon request a copy of any agreement with respect to such long-term debt.

Exhibit Number	Description
4.1	Warrant Agreement, dated as of January 15, 2021, between American Airlines Group, Inc. and the United States Department of the Treasury (incorporated by reference to Exhibit 4.182 to AAG's Annual Report on Form 10-K for the year ended December 31, 2020 (Commission File No. 1-8400)).
4.2	Form of PSP2 Warrant (incorporated by reference to Annex B to Exhibit 4.182 to AAG's Annual Report on Form 10-K for the year ended December 31, 2020 (Commission File No. 1-8400).
4.3	Indenture, dated as of March 24, 2021, by and among American Airlines, Inc., AAdvantage Loyalty IP Ltd., American Airlines Group Inc., AAdvantage Holdings 1, Ltd. and AAdvantage Holdings 2, Ltd. and Wilmington Trust, National Association, as trustee.
4.4	Form of 5.50% Senior Secured Notes due 2026 (included as Exhibit A-1 to the Indenture filed herewith as Exhibit 4.3).
4.5	Form of 5.75% Senior Secured Notes due 2029 (included as Exhibit A-2 to the Indenture filed herewith as Exhibit 4.3).
10.1	Payroll Support Program Extension Agreement, dated as of January 15, 2021, between American Airlines, Inc. and the United States Department of the Treasury (incorporated by reference to Exhibit 10.3 to AAG's Annual Report on Form 10-K for the year ended December 31, 2020 (Commission File No. 1-8400)).
10.2	Promissory Note, dated as of January 15, 2021, issued by American Airlines Group Inc. in the name of the United States Department of the Treasury and guaranteed by American Airlines, Inc., Envoy Air Inc., Piedmont Airlines, Inc. and PSA Airlines, Inc. (incorporated by reference to Exhibit 10.4 to AAG's Annual Report on Form 10-K for the year ended December 31, 2020 (Commission File No. 1-8400).
10.3	Letter Agreement, dated as of January 15, 2021, to Loan and Guarantee Agreement, dated as of September 25, 2020, among American Airlines, Inc., American Airlines Group Inc., the other guarantors party thereto from time to time, the United States Department of the Treasury and the Bank of New York Mellon, as administrative and collateral agent (incorporated by reference to Exhibit 10.4 to AAG's Annual Report on Form 10-K for the year ended December 31, 2020 (Commission File No. 1-8400).
10.4	Term Loan Credit and Guaranty Agreement, dated as of March 24, 2021, among American Airlines, Inc., AAdvantage Loyalty IP Ltd., American Airlines Group Inc., AAdvantage Holdings 1, Ltd., AAdvantage Holdings 2, Ltd., Barclays Bank PLC, as administrative agent, Wilmington Trust, National Association, as collateral administrator, and the lenders party thereto.#
10.5	Supplemental Agreement No. 16, dated as of January 14, 2021, to Purchase Agreement No. 03735 dated as of February 1, 2013, by and between American Airlines, Inc. and The Boeing Company.*
10.6	Supplemental Agreement No. 17, dated as of February 11, 2021, to Purchase Agreement No. 03735 dated as of February 1, 2013, by and between American Airlines, Inc. and The Boeing Company.*
10.7	Supplemental Agreement No. 18, dated as of March 12, 2021, to Purchase Agreement No. 03735 dated as of February 1, 2013, by and between American Airlines, Inc. and The Boeing Company.*
10.8	Letter Agreement No. AAL-LA-2100511, dated as of March 9, 2021, to Purchase Agreement No. 3219 by and between American Airlines, Inc. and The Boeing Company.*
10.9	Amendment 1, dated as of March 25, 2021, to the Letter Agreement No. AAL-LA-2100511, dated as of March 9, 2021, to Purchase Agreement No. 3219 by and between American Airlines, Inc. and The Boeing Company.*
10.10	Letter Agreement No. AAL LA 2100530, dated as of March 9, 2021, to Purchase Agreement No. 3219 by and between American Airlines, Inc. and The Boeing Company.*
31.1	Certification of AAG Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of AAG Chief Financial Officer pursuant to Rule 13a-14(a).
31.3	Certification of American Chief Executive Officer pursuant to Rule 13a-14(a).
31.4	Certification of American Chief Financial Officer pursuant to Rule 13a-14(a).
32.1	AAG Certification pursuant to Rule 13a-14(b) and section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code).
32.2	American Certification pursuant to Rule 13a-14(b) and section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code).

Exhibit Number	Description
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).

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

Pursuant to Item 601(a)(5) of Regulation S-K promulgated by the Securities and Exchange Commission, certain exhibits and schedules to this agreement have been omitted. Such exhibits and schedules are described in the referenced agreement. AAG and American hereby agree to furnish to the Securities and Exchange Commission, upon its request, any or all of such omitted exhibits or schedules.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

American Airlines Group Inc.

Date: April 22, 2021	By:	/s/ Derek J. Kerr
		Derek J. Kerr Executive Vice President and Chief Financial Officer (Duly Authorized Officer and Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

American Airlines, Inc.

Date: April 22, 2021	By:	/s/ Derek J. Kerr
		Derek J. Kerr Executive Vice President and Chief Financial Officer (Duly Authorized Officer and Principal Financial Officer)