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 September 30, 2020

☐ **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	**(817) 963-1234**
(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	**(817) 963-1234**
(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 October 16, 2020, there were 508,631,777 shares of American Airlines Group Inc. common stock outstanding.

As of October 16, 2020, 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 September 30, 2020
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 3.

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.

GLOSSARY OF TERMS

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

"2013 Revolving Facility" means the $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 $1.3 billion term loan facility provided for by the 2014 Credit Agreement.

"2016 JFK Bonds" means special facility revenue bonds issued on behalf of American by NYTDC in June 2016.

"2019 Form 10-K" means AAG's and American's Annual Report on Form 10-K for the year ended December 31, 2019.

"2019-1 Aircraft EETCs" means the three pass-through trusts created by American in August 2019 that have issued approximately $1.1 billion aggregate face amount of Series 2019-1 Class AA, Class A and Class B EETCs.

"2020 JFK Bonds" means the approximately $360 million of special facility revenue bonds issued on behalf of American by NYTDC in June 2020.

"3.75% Senior Notes" mean 3.75% senior notes due 2025 with an aggregate principal amount of $500 million.

"5.000% senior notes" means the 5.000% notes due in 2022 with an aggregate principal amount of $750 million.

"10.75% Senior Secured Notes" means the LGA/DCA Notes and the IP Notes.

"10.75% Senior Secured Notes Closing Date" means September 25, 2020.

"10.75% Senior Secured Notes Collateral" means the IP Collateral and LGA/DCA Collateral.

"10.75% Senior Secured Notes Indenture" means the IP Notes Indenture and the LGA/DCA Notes Indenture.

"10.75% Senior Secured Notes Trustee" means the Wilmington Trust, National Association as trustee.

"11.75% Senior Secured Notes" means the 11.75% senior secured notes due in 2025 with an aggregate principal amount of $2.5 billion.

"AAdvantage" means the AAdvantage® frequent flyer program.

"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.

"ASC" means the FASB Accounting Standards Codification.

"ASC 350" means the FASB Accounting Standards Codification relating to "Intangibles - Goodwill and Other."

"ASC 360" means the FASB Accounting Standards Codification relating to "Property, Plant, and Equipment."

"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" means air traffic control.

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

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

"Base Indenture" means the indenture, dated as of June 25, 2020, between AAG and the Convertible Notes Trustee.

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

"CARES Act" means the Coronavirus Air, 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 Base Indenture and the Convertible Notes Supplemental Indenture.

"Convertible Notes Guarantee" means the full and unconditional guarantee of the Convertible Notes by American.

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

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

“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 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.

“Delayed Draw Term Loan Credit Facility” means the Credit and Guaranty Agreement dated as of March 18, 2020, among American, AAG, the lenders from time to time party thereto, Citibank N.A., as administrative agent, and certain other parties thereto, as amended.

“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.

“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.

“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.

“Exercise Price” means $12.51 per share, pursuant to the PSP Warrant Agreement and the Treasury Loan Warrant Agreement.

“FAA” means Federal Aviation Administration.

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

“GDSs” means global distribution systems.

“GHG” means greenhouse gas.

“Guarantors” means the Subsidiaries as guarantors pursuant to the PSP Promissory Note.

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

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

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

“IP Collateral” means the certain intellectual property of American, including the “American Airlines” trademark and the “aa.com” domain name in the United States and certain foreign jurisdictions, to which American has given a first lien security interest to secure the IP Notes.

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

“IP 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 IP Notes were issued.

“Installment” means the financial assistance payment, in installments, by Treasury pursuant to the PSP agreement.

“JBAs” means joint business agreements.

“JFK” means John F. Kennedy International Airport.

“LAX” means Los Angeles International Airport.

“LGA/DCA Collateral” means certain slots related to American’s operations at LGA and DCA and certain other assets that are used as (a) a first-lien security interest to secure the December 2016 Credit Facilities, (b) a first lien security interest to secure the LGA/DCA Notes and (c) a second lien security interest to secure the IP Notes.

“LGA/DCA Notes” means American’s $200 million in initial principal amount of PIK senior secured 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 Program Revenues” means the revenues received by American and AAG from the AAdvantage loyalty program.

“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.

“NYTDC” means the New York Transportation Development Corporation.

“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.

“Payroll Support Program” means the payroll support program under the CARES Act.

“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.

“PSP Agreement” means the Payroll Support Program Agreement entered into by the Subsidiaries with Treasury on the PSP Closing Date.

“PSP Closing Date” means April 20, 2020.

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

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

“PSP Promissory Note” means the promissory note issued to Treasury in connection with the Payroll Support Program.

“PSP Warrant Agreement” means the agreement entered into between AAG and Treasury in connection with the PSP Agreement, pursuant to which AAG issued PSP Warrants to Treasury to purchase up to an aggregate of approximately 14.1 million shares of AAG common stock.

“PSP Warrant Shares” means up to approximately 14.1 million shares of AAG common stock which Treasury will have the right to purchase pursuant to PSP Warrants issued by AAG in accordance with the PSP Warrant Agreement.

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

“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.

“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.

“Subsidiaries” means each of AAG's wholly-owned subsidiaries, PSA, American, Envoy and Piedmont.

“Terminal” means the passenger terminal facility used by American at JFK.

“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 Collateral” means American's rights under U.S. co-branded credit card agreements and certain other loyalty program partner participation agreements (including rights to receive cash flows thereunder), documents, deposit accounts, securities accounts, books and records and intellectual property related to American's AAdvantage loyalty program and all proceeds, accessions, rents or profits related to the foregoing.

“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 Closing Date” means September 25, 2020.

“Treasury Loan Restatement Agreement” means the Restatement Agreement, dated as of October 21, 2020, to the Term Loan Agreement.

“Treasury Loan Warrant Agreement” means the warrant agreement, dated as of September 25, 2020, between AAG and Treasury entered into in connection with the Treasury Loan Agreement, pursuant to which AAG will issue Treasury Loan Warrants to Treasury to purchase shares of AAG common stock.

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

“Treasury Loan Warrant Shares” means shares of AAG common stock which Treasury will have the right to purchase pursuant to Treasury Loan Warrants issued by AAG in accordance with the Treasury Loan Warrant Agreement.

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

“Treasury Term Loan Maturity Date” means June 30, 2025.

“TWU-IAM Association” means Transport Workers Union and International Association of Machinists & Aerospace Workers.

“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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Operating revenues:				
Passenger	$ 2,540	$ 10,995	$ 11,328	$ 31,663
Cargo	207	208	484	647
Other	426	708	1,497	2,145
Total operating revenues	3,173	11,911	13,309	34,455
Operating expenses:				
Aircraft fuel and related taxes	453	1,989	2,065	5,710
Salaries, wages and benefits	2,705	3,219	8,384	9,509
Regional expenses	914	1,933	3,638	5,582
Maintenance, materials and repairs	337	610	1,253	1,745
Other rent and landing fees	367	530	1,149	1,568
Aircraft rent	336	335	1,004	996
Selling expenses	70	424	418	1,194
Depreciation and amortization	498	499	1,557	1,469
Special items, net	(295)	228	(657)	487
Other	659	1,336	2,404	3,859
Total operating expenses	6,044	11,103	21,215	32,119
Operating income (loss)	(2,871)	808	(7,906)	2,336
Nonoperating income (expense):				
Interest income	5	34	36	103
Interest expense, net	(340)	(284)	(851)	(830)
Other income (expense), net	111	(1)	77	76
Total nonoperating expense, net	(224)	(251)	(738)	(651)
Income (loss) before income taxes	(3,095)	557	(8,644)	1,685
Income tax provision (benefit)	(696)	132	(1,937)	413
Net income (loss)	$ (2,399)	$ 425	$ (6,707)	$ 1,272
Earnings (loss) per common share:				
Basic	$ (4.71)	$ 0.96	$ (14.76)	$ 2.85
Diluted	$ (4.71)	$ 0.96	$ (14.76)	$ 2.84
Weighted average shares outstanding (in thousands):				
Basic	509,049	441,915	454,523	446,291
Diluted	509,049	442,401	454,523	447,139
Cash dividends declared per common share	$ —	$ 0.10	$ 0.10	$ 0.30

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income (loss)	$ (2,399)	$ 425	$ (6,707)	$ 1,272
Other comprehensive income (loss), net of tax:				
Pension, retiree medical and other postretirement benefits	(14)	(19)	(145)	(53)
Investments	1	—	—	3
Total other comprehensive loss, net of tax	(13)	(19)	(145)	(50)
Total comprehensive income (loss)	$ (2,412)	$ 406	$ (6,852)	$ 1,222

See accompanying notes to condensed consolidated financial statements.

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

	September 30, 2020 (Unaudited)	December 31, 2019
ASSETS		
Current assets		
Cash	$ 253	$ 280
Short-term investments	8,031	3,546
Restricted cash and short-term investments	508	158
Accounts receivable, net	1,135	1,750
Aircraft fuel, spare parts and supplies, net	1,633	1,851
Prepaid expenses and other	780	621
Total current assets	12,340	8,206
Operating property and equipment		
Flight equipment	37,576	42,537
Ground property and equipment	9,451	9,443
Equipment purchase deposits	1,899	1,674
Total property and equipment, at cost	48,926	53,654
Less accumulated depreciation and amortization	(16,670)	(18,659)
Total property and equipment, net	32,256	34,995
Operating lease right-of-use assets	7,979	8,737
Other assets		
Goodwill	4,091	4,091
Intangibles, net of accumulated amortization of $734 and $704, respectively	2,039	2,084
Deferred tax asset	2,425	645
Other assets	1,643	1,237
Total other assets	10,198	8,057
Total assets	$ 62,773	$ 59,995
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Current maturities of long-term debt and finance leases	$ 2,710	$ 2,861
Accounts payable	1,077	2,062
Accrued salaries and wages	1,919	1,541
Air traffic liability	4,903	4,808
Loyalty program liability	2,051	3,193
Operating lease liabilities	1,736	1,708
Other accrued liabilities	2,188	2,138
Total current liabilities	16,584	18,311
Noncurrent liabilities		
Long-term debt and finance leases, net of current maturities	30,076	21,454
Pension and postretirement benefits	6,310	6,052
Loyalty program liability	7,043	5,422
Operating lease liabilities	6,683	7,421
Other liabilities	1,605	1,453
Total noncurrent liabilities	51,717	41,802
Commitments and contingencies		
Stockholders' equity (deficit)		
Common stock, $0.01 par value; 1,750,000,000 shares authorized, 508,603,895 shares issued and outstanding at September 30, 2020; 428,202,506 shares issued and outstanding at December 31, 2019	5	4
Additional paid-in capital	5,430	3,945
Accumulated other comprehensive loss	(6,476)	(6,331)
Retained earnings (deficit)	(4,487)	2,264
Total stockholders' deficit	(5,528)	(118)
Total liabilities and stockholders' equity (deficit)	$ 62,773	$ 59,995

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2020	2019
Net cash provided by (used in) operating activities	$ (3,680)	$ 3,215
Cash flows from investing activities:		
Capital expenditures and aircraft purchase deposits	(1,810)	(3,129)
Proceeds from sale-leaseback transactions	433	629
Proceeds from sale of property and equipment	251	42
Purchases of short-term investments	(7,086)	(2,878)
Sales of short-term investments	2,603	2,524
Increase in restricted short-term investments	(317)	(2)
Other investing activities	(112)	(68)
Net cash used in investing activities	(6,038)	(2,882)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	11,564	3,550
Payments on long-term debt and finance leases	(3,018)	(2,835)
Proceeds from issuance of equity	1,527	—
Deferred financing costs	(132)	(51)
Treasury stock repurchases	(173)	(825)
Dividend payments	(43)	(135)
Net cash provided by (used in) financing activities	9,725	(296)
Net increase in cash and restricted cash	7	37
Cash and restricted cash at beginning of period	290	286
Cash and restricted cash at end of period (1)	$ 297	$ 323
Non-cash transactions:		
Right-of-use (ROU) assets acquired through operating leases	$ 468	$ 854
Payroll Support Program Warrants	63	—
Settlement of bankruptcy obligations	56	7
Treasury Loan Warrants	25	—
Deferred financing costs paid through issuance of debt	17	—
Property and equipment acquired through finance leases	—	46
Supplemental information:		
Interest paid, net	715	817
Income taxes paid	2	5

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

Cash	$ 253	$ 312
Restricted cash included in restricted cash and short-term investments	44	11
Total cash and restricted cash	$ 297	$ 323

See accompanying notes to condensed consolidated financial statements.

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

	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)
Net loss	—	—	—	(2,067)	(2,067)
Other comprehensive income, net	—	—	17	—	17
Payroll Support Program Warrants	—	55	—	—	55
Equity component of convertible debt issued, net of tax and offering costs	—	320	—	—	320
Issuance of 85,215,000 shares of AAG common stock pursuant to a public stock offering, net of offering costs	1	1,112	—	—	1,113
Issuance of 454,621 shares of AAG common stock pursuant to employee stock plans net of shares withheld for cash taxes	—	(2)	—	—	(2)
Share-based compensation expense	—	31	—	—	31
Balance at June 30, 2020	5	5,377	(6,463)	(2,088)	(3,169)
Net loss	—	—	—	(2,399)	(2,399)
Other comprehensive loss, net	—	—	(13)	—	(13)
Payroll Support Program Warrants	—	8	—	—	8
Treasury Loan Warrants	—	25	—	—	25
Issuance of 47,741 shares of AAG common stock pursuant to employee stock plans net of shares withheld for cash taxes	—	—	—	—	—
Share-based compensation expense	—	20	—	—	20
Balance at September 30, 2020	$ 5	$ 5,430	$ (6,476)	$ (4,487)	$ (5,528)

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

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance at December 31, 2018	$ 5	$ 4,964	$ (5,896)	$ 758	$ (169)
Net income	—	—	—	185	185
Other comprehensive loss, net	—	—	(13)	—	(13)
Purchase and retirement of 16,947,393 shares of AAG common stock	—	(610)	—	—	(610)
Dividends declared on AAG common stock ($0.10 per share)	—	—	—	(46)	(46)
Issuance of 552,752 shares of AAG common stock pursuant to employee stock plans net of shares withheld for cash taxes	—	(8)	—	—	(8)
Share-based compensation expense	—	25	—	—	25
Balance at March 31, 2019	5	4,371	(5,909)	897	(636)
Net income	—	—	—	662	662
Other comprehensive loss, net	—	—	(18)	—	(18)
Dividends declared on AAG common stock ($0.10 per share)	—	—	—	(45)	(45)
Issuance of 1,046,122 shares of AAG common stock pursuant to employee stock plans net of shares withheld for cash taxes	—	(17)	—	—	(17)
Settlement of single-dip unsecured claims held in Disputed Claims Reserve	—	7	—	—	7
Share-based compensation expense	—	25	—	—	25
Balance at June 30, 2019	5	4,386	(5,927)	1,514	(22)
Net income	—	—	—	425	425
Other comprehensive loss, net	—	—	(19)	—	(19)
Purchase and retirement of 7,275,610 shares of AAG common stock	(1)	(200)	—	—	(201)
Dividends declared on AAG common stock ($0.10 per share)	—	—	—	(45)	(45)
Issuance of 48,547 shares of AAG common stock pursuant to employee stock plans net of shares withheld for cash taxes	—	—	—	—	—
Share-based compensation expense	—	22	—	—	22
Balance at September 30, 2019	$ 4	$ 4,208	$ (5,946)	$ 1,894	$ 160

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, 2019. 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, as well as pension and retiree medical and other postretirement benefits.

(b) Impact of Coronavirus (COVID-19)

COVID-19 has been declared a global health pandemic by the World Health Organization. COVID-19 has surfaced in nearly all regions of the world, which has driven the implementation of significant, government-imposed measures to prevent or reduce its spread, including travel restrictions, closing of borders, "shelter in place" 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 our business performed largely as expected in January and February of 2020, a severe reduction in air travel starting in March 2020 resulted in our total operating revenues decreasing approximately 20% in the first quarter of 2020, 86% in the second quarter of 2020 and 73% in the third quarter of 2020 as compared to the first, second and third quarters of 2019, respectively. While the length and severity of the reduction in demand due to COVID-19 is uncertain, we expect our results of operations for the remainder of 2020 to be severely impacted.

We have taken aggressive actions to mitigate the effect of COVID-19 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 (CARES) Act.

Capacity Reductions

We have significantly reduced our capacity (as measured by available seat miles), with the third quarter of 2020 flying decreased by 59% year-over-year and fourth quarter of 2020 flying expected to decrease by more than 50% year-over-year, with long-haul international capacity down approximately 75% year-over-year. The demand environment continues to be uncertain as COVID-19 cases have continued to fluctuate in jurisdictions to which we fly and travel restrictions have generally remained in place. Due to this uncertainty, we will continue to adjust our future capacity to match developing trends in bookings for future travel and make further adjustments to our capacity as needed.

Fleet

To better align our network with lower passenger demand, we accelerated the retirement of Airbus A330-200, Boeing 757, Boeing 767, Airbus A330-300 and Embraer 190 fleets as well as certain regional aircraft, including certain Embraer 140 and Bombardier CRJ200 aircraft. These retirements remove complexity from our operation and bring forward cost savings and efficiencies associated with operating fewer aircraft types. See Note 13 for further information on the accounting for our fleet retirements. Due to the inherent uncertainties of the current operating environment, we will continue to evaluate our current fleet and may decide to permanently retire additional aircraft. In addition, we have placed a number of Boeing 737-800 and certain regional aircraft into temporary storage.

Cost Reductions

We are moving quickly to better align our costs with our reduced schedule. In aggregate, we estimate that we have reduced our 2020 operating and capital expenditures by approximately $17.0 billion. These savings have been achieved primarily through capacity reductions. In addition, we have implemented a series of actions, including the accelerated fleet retirements discussed above as well as reductions in maintenance expense and non-aircraft capital expenditures through less fleet modification work, the elimination of ground service equipment purchases and pausing all non-critical facility investments and information technology projects. We have also suspended all non-essential hiring, paused non-contractual pay rate increases, reduced executive and board of director compensation, implemented voluntary leave and early retirement programs, decreased our management and support staff team, including officers, by approximately 5,100 positions, or 30%, and, as necessary, undertaken furloughs, to reduce our labor costs consistent with our obligations under the CARES Act. In total, more than 20,000 team members have opted for an early retirement or long-term paid leave and approximately 19,000 team members were furloughed starting October 1, 2020. Additionally, we have made reductions in marketing, contractor, event and training expenses as well as consolidated space at airport facilities.

Liquidity

At September 30, 2020, we had $13.6 billion in total available liquidity, consisting of $8.3 billion in unrestricted cash and short-term investments, $4.9 billion in an undrawn term loan facility under the CARES Act and $400 million in an undrawn short-term revolving facility.

During the first nine months of 2020, we completed the following financing transactions (see Note 6 for further information):

- refinanced the $1.2 billion 2014 Term Loan Facility at a lower interest rate and extended the maturity from 2021 to 2027;
- raised $1.0 billion from a senior secured delayed draw term loan credit facility;
- issued $500 million in aggregate principal amount of 3.75% unsecured senior notes due 2025 and repaid $500 million of 4.625% unsecured senior notes that matured in March 2020;
- borrowed $750 million under the 2013 Revolving Facility, $1.6 billion under the 2014 Revolving Facility and $450 million under the April 2016 Revolving Facility;
- issued $1.0 billion in aggregate principal amount of 6.50% convertible senior notes due 2025;
- issued 85.2 million shares of AAG common stock at a price of $13.50 per share pursuant to a public offering of common stock for net proceeds of $1.1 billion;
- issued $2.5 billion in aggregate principal amount of 11.75% senior secured notes due 2025 and repaid the $1.0 billion senior secured delayed draw term loan credit facility that we borrowed in March 2020;
- issued approximately $360 million in special facility revenue bonds, of which $47 million was used to fund the redemption of certain outstanding bonds;
- entered into a $5.5 billion secured term loan facility with the U.S. Department of Treasury (Treasury), of which we borrowed $550 million (see below for additional information on the Treasury Loan Agreement);
- issued $1.2 billion in aggregate principal amount of two series of 10.75% senior secured notes due 2026 secured by various collateral;
- raised $392 million from aircraft sale-leaseback transactions; and
- raised $323 million from enhanced equipment trust certificates (EETCs) and other aircraft and flight equipment financings, of which $17 million was used to repay existing indebtedness.

In addition to the foregoing financings, we were initially approved to receive an aggregate of $5.8 billion in financial assistance to be paid in installments through the payroll support program (Payroll Support Program) under the CARES Act, all of which was received by the end of July 2020. On September 30, 2020, we received an additional installment of $168 million for a total aggregate of $6.0 billion of such financial assistance and, as a result, the promissory note (the PSP Promissory Note) previously issued to Treasury for $1.7 billion was revised upwards to $1.8 billion in aggregate principal amount and warrants to purchase up to an aggregate of approximately 13.7 million shares of AAG common stock were revised upwards to 14.1 million shares (the PSP Warrant Shares) of AAG common stock. See below for further discussion on the Payroll Support Program.

Also, we are permitted to, and will, defer payment of the employer portion of Social Security taxes through the end of 2020 (with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022). This deferral is expected to provide approximately $300 million in additional liquidity during 2020. Additionally, we have suspended our capital return program, including share repurchases and the payment of future dividends for at least the period that the restrictions imposed by the CARES Act are applicable.

We continue to evaluate future financing opportunities and work with third-party appraisers on valuations of our remaining unencumbered assets.

Certain 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 and debt service coverage ratio covenants.

Given the above actions and our assumptions about the future impact of COVID-19 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 obtained pursuant to the CARES Act) and projected cash flows from operations.

Payroll Support Program

On April 20, 2020 (the PSP 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), each our wholly-owned subsidiary, entered into a Payroll Support Program Agreement (the PSP Agreement) with Treasury, with respect to the Payroll Support Program provided pursuant to the CARES Act. In connection with our entry into the PSP Agreement, on the PSP Closing Date, we also entered into a warrant agreement (the PSP Warrant Agreement) with Treasury, and we issued the PSP Promissory Note to Treasury, with the Subsidiaries as guarantors (the Guarantors).

Payroll Support Program Agreement

In connection with the Payroll Support Program, we are required to comply with the relevant provisions of the CARES Act, including the requirement that funds provided pursuant to the PSP Agreement be used exclusively for the continuation of payment of employee wages, salaries and benefits, the requirement against involuntary furloughs and reductions in employee pay rates and benefits, which expired on September 30, 2020, the requirement that certain levels of commercial air service be maintained and the provisions that prohibit the repurchase of AAG common stock, and the payment of common stock dividends through September 30, 2021, as well as those that restrict the payment of certain executive compensation until March 24, 2022. The PSP Agreement also imposes substantial reporting obligations on us. As of September 30, 2020, we also received a secured loan from Treasury under the loan program that is due June 2025 and, as a result, the stock repurchase, dividend and executive compensation restrictions will remain in place through the date that is one year after such secured loan is fully repaid. See below for additional information on the Treasury Loan Agreement.

Pursuant to the PSP Agreement, Treasury provided us financial assistance which was paid in installments (each, an Installment) and totaled an aggregate of approximately $5.8 billion initially and was subsequently increased to $6.0 billion, and all of which has been received as of September 30, 2020. As partial compensation to the U.S. Government for the provision of financial assistance under the Payroll Support Program, we issued a total aggregate principal amount of approximately $1.8 billion under the PSP Promissory Note and issued warrants (each a PSP Warrant and, collectively, the PSP Warrants) to Treasury to purchase up to an aggregate of approximately 14.1 million PSP Warrant Shares. See Note 6 for further information on the PSP Promissory Note and below for more information on the PSP Warrant Agreement and the PSP Warrants.

For accounting purposes, the $6.0 billion of aggregate financial assistance we received pursuant to the PSP Agreement is allocated to the PSP Promissory Note, the PSP Warrants and other Payroll Support Program financial assistance (the PSP Financial Assistance). The aggregate principal amount of approximately $1.8 billion of PSP Promissory Note was recorded as unsecured long-term debt, and the total fair value of the PSP Warrants of $63 million, estimated using a

Black-Scholes option pricing model, was recorded in stockholders' equity in the condensed consolidated balance sheet. The remaining amount of approximately $4.2 billion of PSP Financial Assistance was recognized as a credit to special items, net in the condensed consolidated statement of operations in the second and third quarters of 2020, the period over which the continuation of payment of employee wages, salaries and benefits was required. For the three and nine months ended September 30, 2020, approximately $2.1 billion and $4.2 billion, respectively, was recognized as a credit to special items, net in the condensed consolidated statement of operations.

PSP Warrant Agreement and PSP Warrants

As partial compensation to the U.S. Government for the provision of financial assistance under the PSP Agreement, and pursuant to the PSP Warrant Agreement, we agreed to issue warrants to Treasury to purchase up to an aggregate of approximately 14.1 million PSP Warrant Shares of AAG common stock. The exercise price of the PSP Warrant Shares is $12.51 per share (which was the closing price of AAG common stock on The Nasdaq Global Select Market on April 9, 2020) (the Exercise Price) subject to certain anti-dilution provisions provided for in the PSP Warrant.

Pursuant to the PSP Warrant Agreement, on the PSP Closing Date, May 29, 2020, June 30, 2020, July 30, 2020 and September 30, 2020, we issued to Treasury a PSP Warrant to purchase up to an aggregate of approximately 6.7 million shares, 2.8 million shares, 2.8 million shares, 1.4 million shares and 0.4 million shares, respectively, of AAG common stock based on the terms described herein.

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

Treasury Loan Agreement

On September 25, 2020 (the Treasury Loan Closing Date), AAG and American entered into a Loan and Guarantee Agreement (the Treasury Loan Agreement) with Treasury which provides 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, AAG and American entered into an amendment to the Treasury Loan Agreement that permits American to borrow up to $7.5 billion. The Treasury Loan Agreement will involve the issuance of additional warrants to purchase up to an aggregate of approximately 60.0 million shares of AAG common stock, assuming the Treasury Term Loan Facility is fully drawn. As of September 30, 2020, American borrowed $ 550 million under the Treasury Term Loan Facility, which is scheduled to mature on June 30, 2025, and issued warrants to Treasury to purchase up to an aggregate of approximately 4.4 million shares of AAG common stock. See Note 6 for further information on the Treasury Loan Agreement and below for more information on the Treasury Loan Warrant Agreement and Treasury Loan Warrants.

Treasury Loan Warrant Agreement and Warrants

In connection with the Treasury Loan Agreement, AAG also entered into a warrant agreement (the Treasury Loan Warrant Agreement) with Treasury. Pursuant to the Treasury Loan Warrant Agreement, AAG agreed to issue warrants (each a Treasury Loan Warrant and, collectively, the Treasury Loan Warrants) to Treasury to purchase up to an aggregate of approximately 60.0 million shares (the Treasury Loan Warrant Shares) of AAG's common stock based on the $7.5 billion commitment amount under the Treasury Term Loan Facility. The exercise price of the Treasury Loan Warrant Shares is $12.51 per share (the Exercise Price) subject to certain anti-dilution provisions provided for in the Treasury Loan Warrant Agreement. For accounting purposes, the fair value for the Treasury Loan Warrant Shares is estimated using a Black-Scholes option pricing model and recorded in stockholders' equity with an offsetting debt discount to the Treasury Term Loan Facility in the condensed consolidated balance sheet.

Pursuant to the Treasury Loan Warrant Agreement, on the Treasury Loan Closing Date, AAG issued to Treasury a Treasury Loan Warrant to purchase up to an aggregate of approximately 4.4 million Treasury Loan Warrant Shares based on the terms described herein. On the date of each additional borrowing under the Treasury Loan Agreement, AAG will issue to Treasury an additional Treasury Loan Warrant for a number of Treasury Loan Warrant Shares equal to 10% of such borrowing, divided by the Exercise Price.

The Treasury Loan Warrants do not have any voting rights and are freely transferrable, with registration rights. Each Treasury Loan Warrant expires on the fifth anniversary of the date of issuance of such Treasury Loan Warrant. The

Treasury Loan Warrants will be exercisable either through net share settlement or cash, at AAG's option. The Treasury Loan Warrants were issued solely as compensation to the U.S. Government related to entry into the Treasury Loan Agreement. No separate proceeds were received upon issuance of the Treasury Loan Warrants or will be received upon exercise thereof.

(c) Recent Accounting Pronouncements

Accounting Standards Update (ASU) 2016-13: Measurement of Credit Losses on Financial Instruments

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

ASU 2020-06: Accounting for Convertible Instruments and Contracts In An Entity's Own Equity

This ASU simplifies the accounting for certain convertible instruments by removing the separation models for convertible debt with a cash conversion feature or 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, this ASU 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 this ASU 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. This ASU is applicable to our 6.50% convertible senior notes due 2025, and we are assessing the impact the adoption of this ASU will have 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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
PSP Financial Assistance (1)	$ (1,908)	$ —	$ (3,710)	$ —
Severance expenses (2)	871	—	1,408	—
Fleet impairment (3)	742	201	1,484	201
Labor contract expenses (4)	—	—	228	—
Mark-to-market adjustments on bankruptcy obligations, net (5)	—	(22)	(49)	(18)
Fleet restructuring expenses (6)	—	72	—	232
Litigation reserve adjustments	—	(53)	—	(53)
Merger integration expenses	—	29	—	106
Other operating special items, net	—	1	(18)	19
Mainline operating special items, net	(295)	228	(657)	487
PSP Financial Assistance (1)	(228)	—	(444)	—
Severance expenses (2)	4	—	18	—
Fleet impairment (3)	—	—	117	—
Other operating special items, net	—	6	—	6
Regional operating special items, net	(224)	6	(309)	6
Operating special items, net	(519)	234	(966)	493
Mark-to-market adjustments on equity and other investments, net (7)	(21)	45	159	37
Debt refinancing, extinguishment and other charges	—	(1)	48	6
Nonoperating special items, net	(21)	44	207	43

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

(2) Severance expenses principally include salary and medical costs associated with certain team members who opted in to voluntary early retirement programs offered as a result of reductions to our operation due to COVID-19. These expenses in the three months ended September 30, 2020 also include salary and medical costs associated with team members who were notified in the third quarter of 2020 they were being involuntarily furloughed starting October 1, 2020, subsequent to the expiration of the Payroll Support Program requirement against involuntary furloughs. Cash payments related to these charges for the three and nine months ended September 30, 2020 were approximately $120 million and $170 million, respectively.

(3) Fleet impairment resulted from our decision to retire certain aircraft earlier than planned driven by the decline in air travel due to COVID-19. Aircraft retired include Airbus A330-200, Boeing 757, Boeing 767, Airbus A330-300, Embraer 190, certain Embraer 140 and Bombardier CRJ200 aircraft. See Note 13 for further information related to these charges.

The three months ended September 30, 2020 included a $709 million non-cash write-down of Airbus A330-200 aircraft and spare parts and $33 million in cash charges primarily for lease return and other costs.

The nine months ended September 30, 2020 included a $1.5 billion non-cash write-down of mainline and regional aircraft and spare parts and $109 million in cash charges primarily for impairment of ROU assets and lease return costs.

(4) Labor contract expenses primarily relate 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.

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

(6) Fleet restructuring expenses principally included accelerated depreciation and rent expense for aircraft and related equipment expected to be retired earlier than planned.

(7) Mark-to-market adjustments on equity and other investments, net primarily relates 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. Earnings (Loss) Per Common Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Basic EPS:				
Net income (loss)	$ (2,399)	$ 425	$ (6,707)	$ 1,272
Weighted average common shares outstanding (in thousands)	509,049	441,915	454,523	446,291
Basic EPS	$ (4.71)	$ 0.96	$ (14.76)	$ 2.85
Diluted EPS:				
Net income (loss) for purposes of computing diluted EPS	$ (2,399)	$ 425	$ (6,707)	$ 1,272
Share computation for diluted EPS (in thousands):				
Basic weighted average common shares outstanding	509,049	441,915	454,523	446,291
Dilutive effect of stock awards	—	486	—	848
Diluted weighted average common shares outstanding	509,049	442,401	454,523	447,139
Diluted EPS	$ (4.71)	$ 0.96	$ (14.76)	$ 2.84

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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Restricted stock unit awards	4,559	2,590	5,091	2,648
PSP Warrants	25	—	2,131	—
Treasury Loan Warrants	1	—	—	—
6.50% convertible senior notes	61,728	—	21,933	—

4. Share Repurchase Programs and Cash Dividends

During the nine months ended September 30, 2020, we repurchased 6.4 million shares of AAG common stock for $145 million at a weighted average cost per share of $22.77, all of which were purchased in the first quarter of 2020.

In January 2020, our Board of Directors declared a cash dividend of $0.10 per share for stockholders of record as of February 5, 2020 and paid on February 19, 2020, totaling $43 million.

We have suspended our capital return program, including share repurchases and the payment of future dividends. In connection with our receipt of financial assistance under the Payroll Support Program, we agreed not to repurchase shares of or make dividend payments in respect of AAG common stock through September 30, 2021. As of September 30, 2020, we also entered into the Treasury Loan Agreement and, as a result, we will be prohibited from repurchasing shares of AAG common stock and paying dividends on AAG common stock through the date that is one year after the secured loan provided under the Treasury Loan Agreement is fully repaid.

5. Revenue Recognition

Revenue

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Passenger revenue:				
Passenger travel	$ 2,407	$ 10,226	$ 10,491	$ 29,215
Loyalty revenue - travel [(1)]	133	769	837	2,448
Total passenger revenue	2,540	10,995	11,328	31,663
Cargo	207	208	484	647
Other:				
Loyalty revenue - marketing services	389	570	1,317	1,742
Other revenue	37	138	180	403
Total other revenue	426	708	1,497	2,145
Total operating revenues	$ 3,173	$ 11,911	$ 13,309	$ 34,455

(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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Domestic	$ 2,296	$ 7,814	$ 9,102	$ 23,048
Latin America	172	1,218	1,386	3,829
Atlantic	56	1,596	621	3,677
Pacific	16	367	219	1,109
Total passenger revenue	$ 2,540	$ 10,995	$ 11,328	$ 31,663

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.

	September 30, 2020	December 31, 2019
	(In millions)	
Loyalty program liability	$ 9,094	$ 8,615
Air traffic liability	4,903	4,808
Total	$ 13,997	$ 13,423

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, 2019	$	8,615
Deferral of revenue		1,456
Recognition of revenue [1]		(977)
Balance at September 30, 2020 [2]	$	9,094

(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 COVID-19, we suspended the expiration of mileage credits through December 31, 2020. As of September 30, 2020, our current loyalty program liability was $2.1 billion and represents our current estimate of revenue expected to be recognized in the next 12 months based on historical as well as projected trends, with the balance reflected in long-term loyalty program liability expected to be recognized as revenue in periods thereafter. Given the inherent uncertainty of the current operating environment due to COVID-19, 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 nine months ended September 30, 2020, $2.8 billion of revenue was recognized in passenger revenue that was included in our air traffic liability at December 31, 2019. In response to COVID-19, we extended the contract duration for certain tickets to December 31, 2021, principally those with travel scheduled March 1, 2020 through December 31, 2020. As of September 30, 2020, the air traffic liability included approximately $2.5 billion of travel credits related to these unused tickets for travel prior to September 30, 2020. Accordingly, any revenue associated with these tickets will be recognized within the next 15 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.

6. Debt

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

	September 30, 2020	December 31, 2019
Secured		
2013 Term Loan Facility, variable interest rate of 1.89%, installments through 2025	$ 1,788	$ 1,807
2013 Revolving Facility, variable interest rate of 2.16%, due 2024	750	—
2014 Term Loan Facility, variable interest rate of 1.90%, installments through 2027	1,220	1,202
2014 Revolving Facility, variable interest rate of 2.16%, due 2024	1,643	—
April 2016 Term Loan Facility, variable interest rate of 2.15%, installments through 2023	960	970
April 2016 Revolving Facility, variable interest rate of 2.16%, due 2024	450	—
December 2016 Term Loan Facility, variable interest rate of 2.15%, installments through 2023	1,213	1,213
11.75% senior secured notes, interest only payments until due in July 2025	2,500	—
Treasury Term Loan Facility, variable interest rate of 3.73%, due June 2025	550	—
10.75% senior secured IP notes, interest only payments until due in February 2026	1,000	—
10.75% senior secured LGA/DCA notes, interest only payments until due in February 2026	200	—
Enhanced equipment trust certificates (EETCs), fixed interest rates ranging from 3.00% to 8.39%, averaging 3.99%, maturing from 2021 to 2032	11,146	11,933
Equipment loans and other notes payable, fixed and variable interest rates ranging from 1.33% to 5.83%, averaging 1.88%, maturing from 2020 to 2032	4,484	4,727
Special facility revenue bonds, fixed interest rates ranging from 5.00% to 8.00%, maturing from 2021 to 2036	1,064	754
	28,968	22,606
Unsecured		
PSP Promissory Note	1,765	—
6.50% convertible senior notes, interest only payments until due in July 2025	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	—
4.625% senior notes	—	500
	4,015	1,250
Total long-term debt	32,983	23,856
Less: Total unamortized debt discount, premium and issuance costs	780	211
Less: Current maturities	2,610	2,749
Long-term debt, net of current maturities	$ 29,593	$ 20,896

The table below shows the maximum availability under our credit facilities, as of September 30, 2020 (in millions):

Treasury Term Loan Facility	$	4,927
Other Short-term Revolving Facility		400
Total	$	5,327

Pursuant to the Treasury Loan Agreement (as defined below), at September 30, 2020, we had a $5.5 billion Treasury Term Loan Facility (as defined below) of which we have drawn $550 million. In addition, we have an undrawn $400 million short-term revolving credit facility we entered into in December 2019, which was set to expire at the end of December 2020 but which we have extended through the beginning of July 2021. 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, primarily 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.

2020 Financing Activities

2014 Credit Facilities

In January 2020, American and AAG entered into the eighth amendment to the Amended and Restated Credit and Guaranty Agreement, amending the Amended and Restated Credit and Guaranty Agreement dated as of April 20, 2015 (as previously amended, the 2014 Credit Agreement; the revolving credit facility established thereunder, the 2014 Revolving Facility; the term loan facility established thereunder, the 2014 Term Loan Facility; and collectively, the 2014 Credit Facilities), pursuant to which American refinanced the 2014 Term Loan Facility, increasing the total aggregate principal amount outstanding to $1.2 billion, reducing the LIBOR margin from 2.00% to 1.75%, with a LIBOR floor of 0%, and reducing the base rate margin from 1.00% to 0.75%. In addition, the maturity date for the 2014 Term Loan Facility was extended to January 2027 from October 2021.

In April and May 2020, American borrowed $1.6 billion under the 2014 Revolving Facility. The 2014 Revolving Facility bears interest at LIBOR plus a margin of 2.00% and has a final maturity date of October 2024. Following the April and May draws, American had no remaining borrowing capacity available under the 2014 Revolving Facility.

2013 Revolving Facility and April 2016 Revolving Facility

In April 2020, American borrowed $750 million under the 2013 Revolving Facility. The 2013 Revolving Facility bears interest at LIBOR plus a margin of 2.00% and has a final maturity date of October 2024. Following the April draw, American had no remaining borrowing capacity available under the 2013 Revolving Facility.

In April 2020, American borrowed $450 million under the April 2016 Revolving Facility. The April 2016 Revolving Facility bears interest at LIBOR plus a margin of 2.00% and has a final maturity date of October 2024. Following the April draw, American had no remaining borrowing capacity available under the April 2016 Revolving Facility.

Delayed Draw Term Loan Credit Facility

In March 2020, American and AAG entered into a Credit and Guaranty Agreement which provided for a $ 1.0 billion senior secured delayed draw term loan credit facility (the Delayed Draw Term Loan Credit Facility), which was scheduled to be due and payable in a single installment on the maturity date in March 2021. In connection with the issuance of the 11.75% senior secured notes due 2025, as described below, the Delayed Draw Term Loan Credit Facility was repaid and the Delayed Draw Term Loan Credit Facility and all of the security documents and other loan documents related thereto were terminated as of June 30, 2020.

11.75% Senior Secured Notes

In June 2020, American issued $2.5 billion aggregate principal amount of 11.75% senior secured notes due 2025 (the 11.75% Senior Secured Notes) at a price equal to 99% of their aggregate principal amount. The 11.75% Senior Secured Notes bear interest at a rate of 11.75% per annum (subject to increase if a certain collateral coverage ratio is not met). Interest on the 11.75% Senior Secured Notes is payable semiannually in arrears on January 15 and July 15 of each year, beginning on January 15, 2021. The 11.75% Senior Secured Notes will mature on July 15, 2025. The obligations of American under the 11.75% Senior Secured Notes are fully and unconditionally guaranteed on a senior unsecured basis by AAG. The proceeds from the 11.75% Senior Secured Notes were used to repay and terminate the Delayed Draw Term

Loan Credit Facility (and to terminate all security documents and all other loan documents related thereto) with the remaining amount for general corporate purposes and to enhance our liquidity position.

American may redeem the 11.75% Senior Secured Notes, 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 notes being redeemed plus a make whole premium, together with accrued and unpaid interest, if any, to (but not including) the redemption date.

The 11.75% Senior Secured Notes are American's senior secured obligations. Subject to certain limitations and exceptions, the 11.75% Senior Secured Notes are secured on a first-lien basis by security interests in certain assets, rights and properties utilized by American in providing its scheduled air carrier services to and from certain airports in the United States and certain airports in Australia, Canada, the Caribbean, Central America, China, Hong Kong, Japan, Mexico, South Korea, and Switzerland. American's obligations with respect to the 11.75% Senior Secured Notes are also secured on a second-lien basis by security interests in certain assets, rights and properties utilized by American in providing its scheduled air carrier services to and from certain airports in the United States and certain airports in the European Union and the United Kingdom. American may be required to pledge additional collateral in the future under the terms of the 11.75% Senior Secured Notes, and in certain circumstances may elect to pledge additional collateral as a replacement for existing collateral. The collateral that secures the 11.75% Senior Secured Notes on a second-lien basis presently secures the 2014 Credit Facilities, on a first-lien basis.

Special Facility Revenue Bonds

In January 2020, American and British Airways announced the start of construction on a $344 million investment to upgrade New York's John F. Kennedy International Airport (JFK) Terminal 8.

In June 2020, the New York Transportation Development Corporation (NYTDC) issued approximately $360 million of special facility revenue bonds (the 2020 JFK Bonds) on behalf of American. A portion of the net proceeds from the 2020 JFK Bonds have been or will be used to fund costs of issuance of the 2020 JFK Bonds, to fund a substantial portion of the cost of the renovation and expansion of a passenger terminal facility (the Terminal) leased and utilized by American at JFK and to fund the August 2020 maturity of the outstanding bonds issued by NYTDC on behalf of American in 2016 (the 2016 JFK Bonds).

American is required to pay debt service on the 2020 JFK Bonds through payments under a loan agreement with NYTDC (as amended), and American and AAG guarantee the 2020 JFK Bonds. American continues to pay debt service on the outstanding 2016 JFK Bonds and American and AAG continue to guarantee the 2016 JFK Bonds. American's and AAG's obligations under these guarantees are secured by a leasehold mortgage on American's lease of the Terminal and related property from the Port Authority of New York and New Jersey.

The 2020 JFK Bonds, in aggregate, were priced at approximately 98% of par value. The gross proceeds from the issuance of the 2020 JFK Bonds were approximately $353 million. Of this amount, approximately $8 million was used to fund the costs of issuance of the 2020 JFK Bonds, approximately $47 million was used to fund the redemption of the 2016 JFK Bonds due August 2020 and approximately $17 million was reimbursed to American for the Terminal construction costs incurred, with the remaining amount of proceeds received to be held in restricted cash and short-term investments on the condensed consolidated balance sheet and to be used to finance a substantial portion of the cost of the renovation and expansion of the Terminal. The 2020 JFK Bonds are comprised of term bonds, $214 million of which bear interest at 5.25% per annum and mature on August 1, 2031, and $146 million of which bear interest at 5.375% per annum and mature on August 1, 2036.

PSP Promissory Note

In April 2020, as partial compensation to the U.S. Government for the provision of financial assistance under the PSP Agreement, we issued the PSP Promissory Note to Treasury, which provides for our unconditional promise to pay to Treasury 30% of the total amount of financial assistance disbursed under the PSP Agreement, and the guarantee of our obligations by the Guarantors. The total financial assistance we received pursuant to the PSP Agreement is approximately $6.0 billion. As of September 30, 2020, the principal amount of the PSP Promissory Note was approximately $1.8 billion.

The PSP Promissory Note bears interest on the outstanding principal amount at a rate equal to 1.00% per annum until the fifth anniversary of the PSP 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 PSP Closing Date (the PSP 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

September 30, 2020. The aggregate principal amount outstanding under the PSP Promissory Note, together with all accrued and unpaid interest thereon and all other amounts payable under the PSP Promissory Note, will be due and payable on the PSP Maturity Date.

We may, at any time and from time to time, voluntarily prepay amounts outstanding under the PSP 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 PSP Promissory Note at such time, together with any accrued interest or other amounts owing under the PSP Promissory Note at such time.

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

The PSP 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 PSP Promissory Note may, and in certain circumstances will automatically, be accelerated and become due and payable immediately.

6.50% Convertible Senior Notes

In June 2020, AAG completed the public offering of $1.0 billion aggregate principal amount of AAG's 6.50% convertible senior notes due 2025 (the Convertible Notes). The Convertible Notes are fully and unconditionally guaranteed by American (the Convertible Notes Guarantee). The net proceeds to us from the Convertible Notes were approximately $970 million, after deducting the underwriters' discounts and commissions and our estimated offering expenses. The net proceeds from the Convertible Notes are being used for general corporate purposes and to enhance our liquidity position.

The Convertible Notes were issued pursuant to an indenture, dated as of June 25, 2020 (the Base Indenture), between AAG and Wilmington Trust, National Association as trustee (the Convertible Notes Trustee), as supplemented by that certain first supplemental indenture, dated as of June 25, 2020, among AAG, American and the Convertible Notes Trustee (the Convertible Notes Supplemental Indenture and, together with the Base Indenture, the Convertible Notes Indenture). The Convertible Notes bear interest at a rate of 6.50% per annum. Interest on the Convertible Notes is payable semiannually in arrears on January 1 and July 1 of each year, beginning on January 1, 2021. The Convertible Notes will mature on July 1, 2025, unless earlier converted or redeemed or repurchased by us.

The Convertible Notes were priced to investors in the offering at 100% of their principal amount. The Convertible Notes and the Convertible Notes Guarantee will rank pari passu in right of payment with all of AAG's and American's respective existing and future senior indebtedness and senior in right of payment to all of AAG's and American's respective future subordinated indebtedness. The Convertible Notes and the Convertible Notes Guarantee will be effectively subordinated to all of AAG's and American's respective existing and future secured indebtedness to the extent of the value of the assets pledged to secure those obligations. The Convertible Notes will also be structurally subordinated to all existing and future indebtedness of AAG's non-guarantor subsidiaries.

Upon conversion, AAG will pay or deliver, as the case may be, cash, shares of AAG common stock or a combination of cash and shares of AAG common stock, at AAG's election. The initial conversion rate is 61.7284 shares of AAG common stock per $1,000 principal amount of Convertible Notes (equivalent to an initial conversion price of approximately $16.20 per share of AAG common stock). The conversion rate is subject to adjustment in some events as described in the Convertible Notes Indenture.

Holders may convert their Convertible Notes at their option only in the following circumstances: (1) during any calendar quarter (and only during such calendar quarter) commencing after the calendar quarter ending on September 30, 2020, if the last reported sale price per share of AAG common stock exceeds 130% of the conversion price for each of at least 20 trading days (whether or not consecutive) during the 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter; (2) during the five consecutive business days immediately after any 10 consecutive trading day period (such 10 consecutive trading day period, the measurement period) in which the trading price per $1,000 principal amount of Convertible Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price per share of AAG common stock on such trading day and the conversion rate on such trading day; (3) upon the occurrence of certain corporate events or distributions on AAG common stock; (4) if AAG calls such Convertible Notes for redemption; and (5) at any time from, and including, April 1, 2025 until the close of business on the scheduled trading day immediately before the maturity date of the Convertible Notes.

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

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

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

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

As the Convertible Notes can be settled in cash upon conversion, for accounting purposes, the Convertible Notes were bifurcated into a debt component that was recorded at fair value and an equity component. The following table details the debt and equity components recognized related to the Convertible Notes as of September 30, 2020 (in millions):

	September 30, 2020
Principal amount of 6.50% convertible senior notes	$ 1,000
Unamortized debt discount	(430)
Net carrying amount of 6.50% convertible senior notes	570
Additional paid-in capital	415

The effective interest rate on the liability component for the third quarter of 2020 approximated 20%. We recognized $30 million of interest expense in the third quarter of 2020 including $14 million of non-cash amortization of the debt discount as well as $16 million of contractual coupon interest. The remaining period over which the unamortized debt discount will be recognized as non-cash interest expense is five years as follows: $13 million in 2020, $63 million in 2021, $77 million in 2022, $95 million in 2023, $116 million in 2024 and $66 million in 2025.

At September 30, 2020, the if-converted value of the Convertible Notes did not exceed the principal amount.

Treasury Loan Agreement

On September 25, 2020, American and AAG entered into a Loan and Guarantee Agreement (the Treasury Loan Agreement) with Treasury which provides 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 that permits American to borrow up to $7.5 billion.

As of September 30, 2020, American borrowed $550 million under the Treasury Term Loan Facility and may, at its option, borrow additional amounts in up to two subsequent borrowings until March 26, 2021. The proceeds from the Treasury Term Loan Facility will be used for certain general corporate purposes and operating expenses in accordance with the terms and conditions of the Treasury Loan Agreement and the applicable provisions of the CARES Act.

The Treasury Term Loan Facility will bear interest at a variable rate per annum equal to (a)(i) the LIBOR rate divided by (ii) one minus the Eurodollar Reserve Percentage plus (b) 3.50%. Accrued interest on the loans will be payable in arrears on the first business day following the 14th day of each March, June, September and December, beginning with September 15, 2021, and on June 30, 2025 (the Treasury Term Loan Maturity Date). As of September 30, 2020, the applicable interest rate for the $550 million loan drawn under the Treasury Term Loan Facility will be 3.73% per annum through September 15, 2021 at which time the interest rate will reset.

All advances under the Treasury Term Loan Facility will be in the form of term loans, all of which will mature and be due and payable in a single installment on the Treasury Term Loan Maturity Date. American may, at any time and from time to time, voluntarily prepay amounts outstanding under the Treasury Loan Agreement, in whole or in part, without penalty or premium. Amounts prepaid may not be reborrowed. Mandatory prepayments of loans under the Treasury Term Loan Facility are required, without penalty or premium, to the extent necessary to comply with American's covenants regarding the expiry of certain agreements constituting Treasury Collateral (as defined below), the debt service coverage ratio, certain dispositions of Treasury Collateral, certain debt issuances secured by liens on the Treasury Collateral and certain indemnity, termination, liquidated damages or insurance payments related to the Treasury Collateral, in addition to the occurrence of a change in control of AAG.

American's obligations under the Treasury Loan Agreement are secured by a first priority security interest on American's rights under U.S. co-branded credit card agreements and certain other loyalty program partner participation agreements (including rights to receive cash flows thereunder), documents, deposit accounts, securities accounts, books and records and intellectual property related to American's AAdvantage loyalty program and all proceeds, accessions, rents or profits related to the foregoing (collectively, the Treasury Collateral). American is permitted under the Treasury Loan Agreement to add certain types of assets to the Treasury Collateral and, subject to certain conditions, release Treasury Collateral, in each case from time to time at its discretion.

The Treasury Loan Agreement requires American, under certain circumstances, including within 10 business days prior to the last business day of March and September of each year, beginning March 2021, to appraise the value of the Treasury Collateral and recalculate the collateral coverage ratio. If the calculated collateral coverage ratio is less than 1.6 to 1.0, American will be required either to provide additional Treasury Collateral (which may include cash collateral) to secure its obligations under the Treasury Loan Agreement or repay the term loans under the Treasury Term Loan Facility, in such amounts that the recalculated collateral coverage ratio, after giving effect to any such additional Treasury Collateral or repayment, is at least 1.6 to 1.0. Based on the appraisal American submitted in connection with the execution of the Treasury Loan Agreement, the appraised value of the Treasury Collateral is presently significantly in excess of the 2.0 to 1.0 collateral coverage ratio necessary to access the amount under the Treasury Term Loan Facility, including any contemplated increase.

The Treasury Loan Agreement also requires American to calculate the debt service coverage ratio on a quarterly basis. If the calculated debt service coverage ratio is less than 1.75 to 1.00, then AAG and its subsidiaries will be required to place an amount equal to at least 50% of certain revenues received from the AAdvantage loyalty program (the Loyalty Program Revenues) into a blocked account to be held for the benefit of the lenders who may choose to use such funds to prepay the outstanding term loans until the debt service coverage ratio is recalculated to be greater than or equal to 1.75 to 1.00. If the calculated debt service coverage ratio is less than or equal to 1.50 to 1.00, but greater than 1.25 to 1.00, then all amounts previously deposited into the blocked account will be used to prepay outstanding term loans and an amount equal to at least 50% of all future Loyalty Program Revenues will be transferred into the payment account and used to prepay outstanding term loans until the debt service coverage ratio is recalculated to be greater than 1.50 to 1.00. If the calculated debt service coverage ratio is less than or equal to 1.25 to 1.00, then all amounts previously deposited into the blocked account will be used to prepay outstanding term loans and an amount equal to at least 75% of all future Loyalty Program Revenues will be transferred into the payment account and used to prepay outstanding term loans until the debt service coverage ratio is recalculated to be greater than 1.25 to 1.00.

The Treasury Loan Agreement also includes affirmative, negative and financial covenants that, among other things, limit AAG's ability to pay dividends, repurchase common stock of AAG or make certain other payments, make certain investments, incur liens on the Treasury Collateral, dispose of the Treasury Collateral, amend material AAdvantage loyalty program agreements, enter into certain affiliate transactions and engage in certain business activities, in each case subject to certain exceptions. In addition, under the Treasury Loan Agreement, AAG must maintain a minimum aggregate liquidity of $2.0 billion.

The Treasury Loan Agreement requires AAG and American to comply with the relevant provisions of the CARES Act, including, but not limited to, the provisions that prohibit the repurchase of AAG's common stock, the payment of common stock dividends and those that restrict the payment of certain executive compensation, in each case, through the date that is 12 months after the date on which all amounts of loan outstanding under the Treasury Term Loan Facility have been repaid in full.

The Treasury Loan Agreement 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 Treasury Loan Agreement may be accelerated and become due and payable immediately.

10.75% Senior Secured Notes

On September 25, 2020 (the 10.75% Senior Secured Notes Closing Date), American completed its previously announced sale of $1.0 billion in initial principal amount of PIK senior secured IP notes (the IP Notes) and $200 million in initial principal amount of PIK senior secured notes (the LGA/DCA Notes and together with the IP Notes, the 10.75% Senior Secured Notes). The obligations of American under the 10.75% Senior Secured Notes are fully and unconditionally guaranteed (the 10.75% Senior Secured Notes Guarantees) on a senior unsecured basis by AAG. The 10.75% Senior Secured Notes bear interest at a rate of 10.75% per annum in cash. For any interest period on or prior to September 1, 2022, American may, at its election, pay interest at a rate of 12.00% per annum payable one-half in cash and one-half in kind.

American expects to use the proceeds from the 10.75% Senior Secured Notes to pay transaction-related fees and expenses and for general corporate purposes.

The 10.75% Senior Secured Notes were each issued pursuant to a separate indenture, dated as of September 25, 2020 (individually, the IP Notes Indenture and the LGA/DCA Notes Indenture and collectively, the 10.75% Senior Secured Notes Indentures), by and among American, AAG and Wilmington Trust, National Association, as trustee and as collateral trustee (the 10.75% Senior Secured Notes Trustee). The IP Notes are secured by a first lien security interest on certain intellectual property of American, including the "American Airlines" trademark and the "aa.com" domain name in the United States and certain foreign jurisdictions (the IP Collateral), and a second lien on certain slots related to American's operations at New York LaGuardia and Ronald Reagan Washington National airports and certain other assets (the LGA/DCA Collateral and together with the IP Collateral, the 10.75% Senior Secured Notes Collateral). Subject to certain conditions, American will be permitted to incur up to $4.0 billion of additional pari passu debt and unlimited second lien debt secured by the IP Collateral securing the IP Notes. The LGA/DCA Notes are secured by a first lien security interest in the LGA/DCA Collateral. American may be required to pledge additional collateral in the future under the terms of the 10.75% Senior Secured Notes, and in certain circumstances may elect to pledge additional collateral including as a replacement for existing collateral. The LGA/DCA Collateral presently secures (and will continue to secure), on a first-lien basis the December 2016 Credit Facilities.

Interest on the 10.75% Senior Secured Notes is payable semiannually in arrears on September 1 and March 1 of each year, beginning on March 1, 2021. The 10.75% Senior Secured Notes will mature on February 15, 2026.

On or prior to the fourth anniversary of the 10.75% Senior Secured Notes Closing Date, American may redeem all or any part of the 10.75% Senior Secured Notes, at its option, at a redemption price equal to 100% of the principal amount of the 10.75% Senior Secured Notes redeemed plus a make whole premium, together with accrued and unpaid interest. After the fourth anniversary of the 10.75% Senior Secured Notes Closing Date and on or prior to the fifth anniversary of the 10.75% Senior Secured Notes Closing Date, American may redeem all or any part of the 10.75% Senior Secured Notes, at its option, at a redemption price equal to 105.375% of the principal amount of the 10.75% Senior Secured Notes redeemed, together with accrued and unpaid interest. After the fifth anniversary of the 10.75% Senior Secured Notes Closing Date, American may redeem all or any part of the 10.75% Senior Secured Notes, at its option, at par, together with accrued and unpaid interest.

In the event of a specified change of control, each holder of 10.75% Senior Secured Notes may require American to repurchase its 10.75% Senior Secured Notes, in whole or in part, at a repurchase price of 101% of the aggregate principal amount of the 10.75% Senior Secured Notes so repurchased, plus accrued and unpaid interest, if any, to (but not including) the repurchase date.

The 10.75% Senior Secured Notes Indentures contain covenants that, among other things, restrict the ability of AAG and the ability of its restricted subsidiaries (including American) to: (i) pay dividends, redeem or repurchase stock or make other distributions or restricted payments, (ii) incur liens on the 10.75% Senior Secured Notes Collateral and dispose of or release the 10.75% Senior Secured Notes Collateral, (iii) repay subordinated indebtedness, (iv) make certain loans and investments, (v) incur indebtedness or issue preferred stock, (vi) merge, consolidate or sell assets, and (vii) designate subsidiaries as unrestricted. These covenants are subject to a number of important exceptions and qualifications set forth in the 10.75% Senior Secured Notes Indentures.

Upon the occurrence of any event of default (other than certain bankruptcy or insolvency or reorganization events affecting AAG or certain of its subsidiaries, including American), the 10.75% Senior Secured Notes may be declared to be due and payable immediately. Upon the occurrence of certain bankruptcy, insolvency or reorganization events affecting AAG or certain of its subsidiaries (including American), all outstanding 10.75% Senior Secured Notes will become due and payable immediately without further action or notice on the part of the 10.75% Senior Secured Notes Trustee or any holder of the 10.75% Senior Secured Notes.

2019-1 Aircraft EETCs

In August 2019, American created three pass-through trusts which issued approximately $1.1 billion aggregate face amount of Series 2019-1 Class AA, Class A and Class B EETCs (the 2019-1 Aircraft EETCs) in connection with the financing of 35 aircraft previously delivered or scheduled to be delivered to American through September 2020 (the 2019-1 Aircraft). In 2019, $804 million of the proceeds had been used to purchase equipment notes issued by American in connection with the financing of 28 aircraft under the 2019-1 Aircraft EETCs, of which $608 million was used to repay existing indebtedness. During the third quarter of 2020, $126 million of the proceeds had been used to purchase equipment notes issued by American in connection with the financing of three aircraft under the 2019-1 Aircraft EETCs. Interest and principal payments on equipment notes issued in connection with the 2019-1 Aircraft EETCs are payable semiannually in February and August of each year, which interest payments began in February 2020 and which principal payments began or are scheduled to begin (i) in the case of equipment notes with respect to any 2019-1 Aircraft owned by American at the time of issuance of the 2019-1 Aircraft EETCs, in February 2020 and (ii) in the case of equipment notes with respect to the Embraer E175 aircraft and the Airbus A321neo aircraft scheduled to be delivered after the issuance of the 2019-1 Aircraft EETCs, in August 2020 and August 2021, respectively. The remaining proceeds of approximately $168 million as of September 30, 2020 were being held in escrow with a depositary for the benefit of the holders of the 2019-1 Aircraft EETCs until such time as American issues additional equipment notes with respect to the remaining 2019-1 Aircraft to the pass-through trusts, which will purchase such additional equipment notes with the escrowed funds. These escrowed funds are not guaranteed by American and are not reported as debt on its condensed consolidated balance sheet because the proceeds held by the depositary for the benefit of the holders of the 2019-1 Aircraft EETCs are not American’s assets.

Certain information regarding the 2019-1 Aircraft EETC equipment notes and remaining escrowed proceeds, as of September 30, 2020, is set forth in the table below.

	2019-1 Aircraft EETCs		
	Series AA	Series A	Series B
Aggregate principal issued	$579	$289	$229
Remaining escrowed proceeds	$89	$44	$35
Fixed interest rate per annum	3.15%	3.50%	3.85%
Maturity date	February 2032	February 2032	February 2028

3.75% Senior Notes

In February 2020, AAG issued $500 million aggregate principal amount of 3.75% senior notes due 2025 (the 3.75% Senior Notes). These notes bear interest at a rate of 3.75% per annum, payable semiannually in arrears in March and September of each year, beginning in September 2020. The 3.75% Senior Notes are senior unsecured obligations of AAG and are fully and unconditionally guaranteed by American. The 3.75% Senior Notes mature in March 2025.

Equipment Notes and Other Notes Payable Issued in 2020

In the nine months ended September 30, 2020, American entered into agreements under which it borrowed $197 million in connection with the financing or refinancing, as the case may be, of certain aircraft, of which $17 million was used to repay existing indebtedness. Debt incurred under these agreements matures in 2029 through 2032 and bears interest at variable rates (comprised of LIBOR plus an applicable margin) averaging 1.88% at September 30, 2020.

7. Income Taxes

At December 31, 2019, we had approximately $9.1 billion of federal net operating losses (NOLs) carried over from prior taxable years (NOL Carryforwards) to reduce future federal taxable income. The federal NOL Carryforwards will expire beginning in 2023 if unused. We also had approximately $3.0 billion of NOL Carryforwards to reduce future state taxable income at December 31, 2019, which will expire in years 2020 through 2039 if unused. Our ability to use our NOL Carryforwards depends on the amount of taxable income generated in future periods. We presently do not have a valuation allowance on our net deferred tax assets. There can be no assurance that a valuation allowance on our net deferred tax assets will not be required in the future. Such valuation allowance could be material.

At December 31, 2019, we had an Alternative Minimum Tax (AMT) credit carryforward of approximately $170 million available for federal income tax purposes, which was fully refunded as of September 30, 2020 as a result of the CARES Act enacted in March of 2020.

During the three and nine months ended September 30, 2020, we recorded an income tax benefit of $696 million and $1.9 billion, respectively.

8. 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 nine months ended September 30, 2020.

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

	Fair Value Measurements as of September 30, 2020			
	Total	Level 1	Level 2	Level 3
Short-term investments (1), (2):				
Money market funds	$ 2,828	$ 2,828	$ —	$ —
Corporate obligations	2,454	—	2,454	—
Bank notes/certificates of deposit/time deposits	1,974	—	1,974	—
Repurchase agreements	775	—	775	—
	8,031	2,828	5,203	—
Restricted cash and short-term investments (1), (4)	508	385	123	—
Long-term investments (3)	146	146	—	—
Total	$ 8,685	$ 3,359	$ 5,326	$ —

(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 except for $286 million of bank notes/certificates of deposit/time deposits and $70 million of corporate obligations.

(3) 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.

(4) Restricted cash and short-term investments primarily includes money market funds to be used to finance a substantial portion of the cost of the renovation and expansion of Terminal 8 at JFK and collateral held to support workers' compensation obligations.

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 $2.3 billion which would have been classified as Level 3 in the fair value hierarchy.

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

	September 30, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current maturities	$ 32,203	$ 28,047	$ 23,645	$ 24,508

9. 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 September 30,	**2020**	**2019**	**2020**	**2019**
Service cost	$ 1	$ 1	$ 2	$ 1
Interest cost	154	175	8	9
Expected return on assets	(253)	(204)	(3)	(4)
Special termination benefits	—	—	410	—
Settlements	—	—	—	—
Amortization of:				
Prior service cost (benefit)	7	7	(33)	(59)
Unrecognized net loss (gain)	41	37	(5)	(8)
Net periodic benefit cost (income)	$ (50)	$ 16	$ 379	$ (61)

	Pension Benefits		Retiree Medical and Other Postretirement Benefits	
Nine Months Ended September 30,	**2020**	**2019**	**2020**	**2019**
Service cost	$ 3	$ 2	$ 5	$ 3
Interest cost	461	527	22	26
Expected return on assets	(757)	(611)	(9)	(12)
Special termination benefits	—	—	410	—
Settlements	4	—	—	—
Amortization of:				
Prior service cost (benefit)	21	21	(139)	(177)
Unrecognized net loss (gain)	124	113	(17)	(24)
Net periodic benefit cost (income)	$ (144)	$ 52	$ 272	$ (184)

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 third quarter of 2020, 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 COVID-19. For the three months ended September 30, 2020, we recognized a $410 million special charge for these enhanced healthcare benefits and increased our postretirement benefits obligation by $410 million as of September 30, 2020.

Pursuant to the CARES Act, minimum required pension contributions to be made in the calendar year 2020 can be deferred to January 1, 2021, with interest accruing from the original due date to the new payment date. We expect to defer our $133 million 2020 minimum required contributions to January 1, 2021, which we intend to pay or otherwise satisfy on or prior to December 31, 2020.

10. Accumulated Other Comprehensive Loss

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

	Pension, Retiree Medical and Other Postretirement Benefits	Unrealized Loss on Investments	Income Tax Benefit (Provision) (1)	Total
Balance at December 31, 2019	$ (5,238)	$ (2)	$ (1,091)	$ (6,331)
Other comprehensive income (loss) before reclassifications	(180)	—	41	(139)
Amounts reclassified from AOCI	(7)	—	1 (2)	(6)
Net current-period other comprehensive income (loss)	(187)	—	42	(145)
Balance at September 30, 2020	$ (5,425)	$ (2)	$ (1,049)	$ (6,476)

(1) Relates principally to pension, retiree medical and other postretirement benefits obligations that will not be recognized in net income (loss) until the obligations are fully extinguished.

(2) Relates to pension, retiree medical and other postretirement benefits obligations and is recognized within the income tax provision (benefit) on the condensed consolidated statement of operations.

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

	Amounts reclassified from AOCI				
	Three Months Ended September 30,		Nine Months Ended September 30,		Affected line items on the condensed consolidated statements of operations
AOCI Components	2020	2019	2020	2019	
Amortization of pension, retiree medical and other postretirement benefits:					
Prior service benefit	$ (20)	$ (40)	$ (91)	$ (121)	Nonoperating other income (expense), net
Actuarial loss	28	22	85	69	Nonoperating other income (expense), net
Total reclassifications for the period, net of tax	$ 8	$ (18)	$ (6)	$ (52)	

11. Regional Expenses

Expenses associated with American Eagle operations are classified as regional expenses on the condensed consolidated statements of operations. Regional expenses consist of the following (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Aircraft fuel and related taxes	$ 158	$ 485	$ 638	$ 1,395
Salaries, wages and benefits	379	461	1,218	1,310
Capacity purchases from third-party regional carriers (1)	233	354	765	1,046
Maintenance, materials and repairs	72	108	244	303
Other rent and landing fees	112	167	369	495
Aircraft rent	3	8	11	23
Selling expenses	27	102	121	299
Depreciation and amortization	79	84	247	246
Special items, net	(224)	6	(309)	6
Other	75	158	334	459
Total regional expenses	$ 914	$ 1,933	$ 3,638	$ 5,582

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(1) During the three months ended September 30, 2020 and 2019, we recognized $102 million and $150 million, respectively, of expense under our capacity purchase agreement with Republic Airways Inc. (Republic). During the nine months ended September 30, 2020 and 2019, we recognized $313 million and $442 million, respectively, of expense under our capacity purchase agreement with Republic. We hold a 25% equity interest in Republic Airways Holdings Inc., the parent company of Republic.

12. 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. In February 2020, 2.2 million shares of AAG common stock were distributed from the Disputed Claims Reserve. After giving effect to this distribution, as of September 30, 2020, the Disputed Claims Reserve held 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. The parties submitted proposed findings of fact and conclusions of law and made closing arguments in April 2019, and we are awaiting the Bankruptcy Court's decision. We believe this lawsuit is without merit and intend to vigorously defend against the allegations.

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.

13. Impairment

Long-lived Assets

Accounting Standards Codification (ASC) 360 - Property, Plant, and Equipment (ASC 360) requires long-lived assets to be assessed for impairment when events and circumstances indicate that the assets may be impaired. Long-lived assets consist of owned flight and ground equipment, ROU assets and definite-lived intangible assets such as certain domestic airport slots and gate leasehold rights, customer relationships and marketing agreements.

As previously discussed, in the first nine months of 2020, our operations, liquidity and stock price were significantly impacted by decreased passenger demand and government travel restrictions due to COVID-19. Additionally, we decided to retire 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. As a result of these events and circumstances, in each of the first three quarters of 2020, we performed impairment tests on our long-lived assets in connection with the preparation of our financial statements.

In accordance with ASC 360, an impairment of a long-lived asset or group of long-lived assets exists only when the sum of the estimated undiscounted future cash flows expected to be generated directly by the assets are less than the carrying value of the assets. We group assets principally by fleet-type when estimating future cash flows, which is generally the lowest level for which identifiable cash flows exist. Estimates of future cash flows are based on historical results adjusted to reflect management's best estimate of future market and operating conditions, including our current fleet plan.

As a result of the impairment tests performed on our long-lived assets, we determined the sum of the estimated undiscounted future cash flows exceeded the $42.0 billion carrying value for our long-lived assets except for the aircraft being retired earlier than planned as discussed above. For those aircraft and certain related spare parts, we recorded impairment charges reflecting the difference between the carrying values of these assets and their fair values of $714 million and $1.5 billion for the three and nine months ended September 30, 2020, respectively. Fair value reflects management's best estimate including inputs from published pricing guides and bids from third parties as well as contracted sales agreements when applicable. Due to the inherent uncertainties of the current operating environment, we will continue to evaluate our current fleet (including aircraft in temporary storage) and may decide to permanently retire additional aircraft.

Goodwill and Indefinite-lived Intangible Assets

ASC 350 - Intangibles - Goodwill and Other (ASC 350) requires goodwill and indefinite-lived intangible assets to be assessed for impairment annually or more frequently if events or circumstances indicate that the fair values of goodwill and indefinite-lived intangible assets may be lower than their carrying values. Goodwill represents the purchase price in excess of the fair value of the net assets acquired and liabilities assumed in connection with the merger with US Airways Group, Inc. We have one reporting unit. Indefinite-lived intangible assets consist of certain domestic airport slots and international slots and route authorities.

In each of the first three quarters of 2020, we performed interim impairment tests on our goodwill and indefinite-lived intangible assets as a result of the events and circumstances previously discussed due to the impact of COVID-19 on our business. In accordance with ASC 350, for goodwill, we performed a quantitative analysis by using a market approach. Under the market approach, the fair value of the reporting unit was determined based on quoted market prices for equity and the fair value of debt as described in Note 8. The fair value exceeded the carrying value of the reporting unit, and our $4.1 billion of goodwill was not impaired.

Additionally, we performed interim qualitative impairment tests on our $1.8 billion of indefinite-lived intangible assets and determined there was no material impairment.

As discussed above, due to the inherent uncertainties of the current operating environment, we will continue to evaluate our goodwill and indefinite-lived intangible assets for events or circumstances that indicate that their fair values may be lower than their carrying values.

14. Subsequent Events

On October 21, 2020, we entered into a Restatement Agreement (the Treasury Loan Restatement Agreement) to the Treasury Loan Agreement. The Treasury Loan Restatement Agreement increased the commitment under the Treasury Term Loan Facility to $7.5 billion, representing an increase of approximately $2.0 billion beyond the approximately $5.5 billion of commitment under the Treasury Term Loan Facility as of the date of execution of the Treasury Loan Agreement. No additional borrowing was made by American on October 21, 2020 in connection with the entry into the Treasury Loan Restatement Agreement. Due to the increase in the commitment under the Treasury Term Loan Facility to $7.5 billion, AAG may now issue up to an aggregate of approximately 60.0 million Treasury Loan Warrant Shares, assuming the Treasury Term Loan Facility, as amended by the Restatement Agreement, is fully drawn.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
Operating revenues:				
Passenger	$ 2,540	$ 10,995	$ 11,328	$ 31,663
Cargo	207	208	484	647
Other	425	707	1,496	2,139
Total operating revenues	3,172	11,910	13,308	34,449
Operating expenses:				
Aircraft fuel and related taxes	453	1,989	2,065	5,710
Salaries, wages and benefits	2,704	3,217	8,380	9,503
Regional expenses	852	1,913	3,500	5,616
Maintenance, materials and repairs	337	610	1,253	1,745
Other rent and landing fees	367	530	1,149	1,568
Aircraft rent	336	335	1,004	996
Selling expenses	70	424	418	1,194
Depreciation and amortization	498	499	1,557	1,469
Special items, net	(295)	228	(657)	487
Other	659	1,337	2,425	3,860
Total operating expenses	5,981	11,082	21,094	32,148
Operating income (loss)	(2,809)	828	(7,786)	2,301
Nonoperating income (expense):				
Interest income	72	131	268	389
Interest expense, net	(310)	(281)	(825)	(835)
Other income (expense), net	111	(10)	78	69
Total nonoperating expense, net	(127)	(160)	(479)	(377)
Income (loss) before income taxes	(2,936)	668	(8,265)	1,924
Income tax provision (benefit)	(660)	160	(1,852)	472
Net income (loss)	$ (2,276)	$ 508	$ (6,413)	$ 1,452

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income (loss)	$ (2,276)	$ 508	$ (6,413)	$ 1,452
Other comprehensive income (loss), net of tax:				
Pension, retiree medical and other postretirement benefits	(15)	(19)	(146)	(53)
Investments	1	—	—	3
Total other comprehensive loss, net of tax	(14)	(19)	(146)	(50)
Total comprehensive income (loss)	$ (2,290)	$ 489	$ (6,559)	$ 1,402

See accompanying notes to condensed consolidated financial statements.

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

	September 30, 2020 (Unaudited)	December 31, 2019
ASSETS		
Current assets		
Cash	$ 243	$ 267
Short-term investments	8,029	3,543
Restricted cash and short-term investments	508	158
Accounts receivable, net	1,129	1,770
Receivables from related parties, net	9,183	12,451
Aircraft fuel, spare parts and supplies, net	1,535	1,754
Prepaid expenses and other	727	584
Total current assets	21,354	20,527
Operating property and equipment		
Flight equipment	37,252	42,213
Ground property and equipment	9,088	9,089
Equipment purchase deposits	1,899	1,674
Total property and equipment, at cost	48,239	52,976
Less accumulated depreciation and amortization	(16,318)	(18,335)
Total property and equipment, net	31,921	34,641
Operating lease right-of-use assets	7,942	8,694
Other assets		
Goodwill	4,091	4,091
Intangibles, net of accumulated amortization of $734 and $704, respectively	2,039	2,084
Deferred tax asset	2,450	689
Other assets	1,521	1,164
Total other assets	10,101	8,028
Total assets	$ 71,318	$ 71,890
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Current maturities of long-term debt and finance leases	$ 2,713	$ 2,358
Accounts payable	999	1,990
Accrued salaries and wages	1,859	1,461
Air traffic liability	4,903	4,808
Loyalty program liability	2,051	3,193
Operating lease liabilities	1,724	1,695
Other accrued liabilities	2,093	2,055
Total current liabilities	16,342	17,560
Noncurrent liabilities		
Long-term debt and finance leases, net of current maturities	26,478	20,684
Pension and postretirement benefits	6,267	6,008
Loyalty program liability	7,043	5,422
Operating lease liabilities	6,655	7,388
Other liabilities	1,545	1,406
Total noncurrent liabilities	47,988	40,908
Commitments and contingencies		
Stockholder's equity		
Common stock, $1.00 par value; 1,000 shares authorized, issued and outstanding	—	—
Additional paid-in capital	17,028	16,903
Accumulated other comprehensive loss	(6,569)	(6,423)
Retained earnings (deficit)	(3,471)	2,942
Total stockholder's equity	6,988	13,422
Total liabilities and stockholder's equity	$ 71,318	$ 71,890

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Net cash provided by (used in) operating activities	$ (90)	$ 2,910
Cash flows from investing activities:		
Capital expenditures and aircraft purchase deposits	(1,781)	(3,043)
Proceeds from sale-leaseback transactions	433	629
Proceeds from sale of property and equipment	251	42
Purchases of short-term investments	(7,086)	(2,878)
Sales of short-term investments	2,603	2,524
Increase in restricted short-term investments	(317)	(2)
Other investing activities	(112)	(68)
Net cash used in investing activities	(6,009)	(2,796)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	8,743	2,800
Payments on long-term debt and finance leases	(2,512)	(2,835)
Deferred financing costs	(122)	(41)
Net cash provided by (used in) financing activities	6,109	(76)
Net increase in cash and restricted cash	10	38
Cash and restricted cash at beginning of period	277	276
Cash and restricted cash at end of period [1]	$ 287	$ 314
Non-cash transactions:		
Right-of-use (ROU) assets acquired through operating leases	$ 459	$ 853
Settlement of bankruptcy obligations	56	7
Deferred financing costs paid through issuance of debt	17	—
Property and equipment acquired through finance leases	—	46
Supplemental information:		
Interest paid, net	668	772
Income taxes paid	2	5

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

	2020	2019
Cash	$ 243	$ 303
Restricted cash included in restricted cash and short-term investments	44	11
Total cash and restricted cash	$ 287	$ 314

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 Earnings (Deficit)	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
Net loss	—	—	—	(1,968)	(1,968)
Other comprehensive income, net	—	—	17	—	17
Share-based compensation expense	—	31	—	—	31
Balance at June 30, 2020	—	17,008	(6,555)	(1,195)	9,258
Net loss	—	—	—	(2,276)	(2,276)
Other comprehensive loss, net	—	—	(14)	—	(14)
Share-based compensation expense	—	20	—	—	20
Balance at September 30, 2020	$ —	$ 17,028	$ (6,569)	$ (3,471)	$ 6,988

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance at December 31, 2018	$ —	$ 16,802	$ (5,992)	$ 960	$ 11,770
Net income	—	—	—	230	230
Other comprehensive loss, net	—	—	(13)	—	(13)
Share-based compensation expense	—	25	—	—	25
Balance at March 31, 2019	—	16,827	(6,005)	1,190	12,012
Net income	—	—	—	714	714
Other comprehensive loss, net	—	—	(18)	—	(18)
Share-based compensation expense	—	25	—	—	25
Intercompany equity transfer	—	7	—	—	7
Balance at June 30, 2019	—	16,859	(6,023)	1,904	12,740
Net income	—	—	—	508	508
Other comprehensive loss, net	—	—	(19)	—	(19)
Share-based compensation expense	—	22	—	—	22
Intercompany equity transfer	—	—	—	9	9
Balance at September 30, 2019	$ —	$ 16,881	$ (6,042)	$ 2,421	$ 13,260

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, 2019. 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, as well as pension and retiree medical and other postretirement benefits.

(b) Impact of Coronavirus (COVID-19)

COVID-19 has been declared a global health pandemic by the World Health Organization. COVID-19 has surfaced in nearly all regions of the world, which has driven the implementation of significant, government-imposed measures to prevent or reduce its spread, including travel restrictions, closing of borders, "shelter in place" 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 American's business performed largely as expected in January and February of 2020, a severe reduction in air travel starting in March 2020 resulted in its total operating revenues decreasing approximately 20% in the first quarter of 2020, 86% in the second quarter of 2020 and 73% in the third quarter of 2020 as compared to the first, second and third quarters of 2019, respectively. While the length and severity of the reduction in demand due to COVID-19 is uncertain, American expects its results of operations for the remainder of 2020 to be severely impacted.

American has taken aggressive actions to mitigate the effect of COVID-19 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 (CARES) Act.

Capacity Reductions

American has significantly reduced its capacity (as measured by available seat miles), with the third quarter of 2020 flying decreased by 59% year-over-year and fourth quarter of 2020 flying expected to decrease by more than 50% year-over-year, with long-haul international capacity down approximately 75% year-over-year. The demand environment continues to be uncertain as COVID-19 cases have continued to fluctuate in jurisdictions to which American flies and travel restrictions have generally remained in place. Due to this uncertainty, American will continue to adjust its future capacity to match developing trends in bookings for future travel and make further adjustments to its capacity as needed.

Fleet

To better align American's network with lower passenger demand, American accelerated the retirement of Airbus A330-200, Boeing 757, Boeing 767, Airbus A330-300 and Embraer 190 fleets as well as certain regional aircraft, including certain Embraer 140 and Bombardier CRJ200 aircraft. These retirements remove complexity from its operation and bring forward cost savings and efficiencies associated with operating fewer aircraft types. See Note 12 for further information on the accounting for American's fleet retirements. Due to the inherent uncertainties of the current operating environment, American will continue to evaluate its current fleet and may decide to permanently retire additional aircraft. In addition, American has placed a number of Boeing 737-800 and certain regional aircraft into temporary storage.

Cost Reductions

American is moving quickly to better align its costs with its reduced schedule. In aggregate, American estimates that it has reduced its 2020 operating and capital expenditures by approximately $17.0 billion. These savings have been achieved primarily through capacity reductions. In addition, American has implemented a series of actions, including the accelerated fleet retirements discussed above as well as reductions in maintenance expense and non-aircraft capital expenditures through less fleet modification work, the elimination of ground service equipment purchases and pausing all non-critical facility investments and information technology projects. American has also suspended all non-essential hiring, paused non-contractual pay rate increases, reduced executive and board of director compensation, implemented voluntary leave and early retirement programs, decreased its management and support staff team, including officers, by approximately 5,100 positions, or 30%, and, as necessary, undertaken furloughs, to reduce its labor costs consistent with its obligations under the CARES Act. In total, more than 20,000 team members have opted for an early retirement or long-term paid leave and approximately 19,000 team members were furloughed starting October 1, 2020. Additionally, American has made reductions in marketing, contractor, event and training expenses as well as consolidated space at airport facilities.

Liquidity

At September 30, 2020, American had $13.6 billion in total available liquidity, consisting of $8.3 billion in unrestricted cash and short-term investments, $4.9 billion in an undrawn term loan facility under the CARES Act and $400 million in an undrawn short-term revolving facility.

During the first nine months of 2020, American completed the following financing transactions (see Note 4 for further information):

- refinanced the $1.2 billion 2014 Term Loan Facility at a lower interest rate and extended the maturity from 2021 to 2027;
- raised $1.0 billion from a senior secured delayed draw term loan credit facility;
- borrowed $750 million under the 2013 Revolving Facility, $1.6 billion under the 2014 Revolving Facility and $450 million under the April 2016 Revolving Facility;
- issued $2.5 billion in aggregate principal amount of 11.75% senior secured notes due 2025 and repaid the $1.0 billion senior secured delayed draw term loan credit facility that American borrowed in March 2020;
- issued approximately $360 million in special facility revenue bonds, of which $47 million was used to fund the redemption of certain outstanding bonds;
- entered into a $5.5 billion secured term loan facility with the U.S. Department of Treasury (Treasury), of which American borrowed $550 million (see below for additional information on the Treasury Loan Agreement);
- issued $1.2 billion in aggregate principal amount of two series of 10.75% senior secured notes due 2026 secured by various collateral;
- raised $392 million from aircraft sale-leaseback transactions; and
- raised $323 million from enhanced equipment trust certificates (EETCs) and other aircraft and flight equipment financings, of which $17 million was used to repay existing indebtedness.

In addition to the foregoing financings, AAG and the Subsidiaries (as defined below) were initially approved to receive an aggregate of $5.8 billion in financial assistance to be paid in installments through the payroll support program (Payroll Support Program) under the CARES Act, all of which was received by the end of July 2020. On September 30, 2020, AAG and the Subsidiaries received an additional installment of $168 million for a total aggregate of $6.0 billion of such financial assistance and, as a result, the promissory note (the PSP Promissory Note) previously issued to Treasury for $1.7 billion was revised upwards to $1.8 billion in aggregate principal amount and warrants to purchase up to an aggregate of approximately 13.7 million shares of AAG common stock were revised upwards to 14.1 million shares (the PSP Warrant Shares) of AAG common stock. See below for further discussion on the Payroll Support Program.

Also, American is permitted to, and will, defer payment of the employer portion of Social Security taxes through the end of 2020 (with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022). This deferral is expected to provide approximately $300 million in additional liquidity during 2020. Additionally, AAG has suspended its capital return program, including share repurchases and the payment of future dividends for at least the period that the restrictions imposed by the CARES Act are applicable.

American continues to evaluate future financing opportunities and work with third-party appraisers on valuations of its remaining unencumbered assets.

Certain 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 and debt service coverage ratio covenants.

Given the above actions and American's assumptions about the future impact of COVID-19 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 obtained pursuant to the CARES Act) and projected cash flows from operations.

Payroll Support Program

On April 20, 2020 (the PSP 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), each a wholly-owned subsidiary of AAG, entered into a Payroll Support Program Agreement (the PSP Agreement) with Treasury, with respect to the Payroll Support Program provided pursuant to the CARES Act. In connection with the Subsidiaries' entry into the PSP Agreement, on the PSP Closing Date, AAG also entered into a warrant agreement (the PSP Warrant Agreement) with Treasury, and AAG issued the PSP Promissory Note to Treasury, with the Subsidiaries as guarantors (the Guarantors).

Payroll Support Program Agreement

In connection with the Payroll Support Program, AAG and the Subsidiaries are required to comply with the relevant provisions of the CARES Act, including the requirement that funds provided pursuant to the PSP Agreement be used exclusively for the continuation of payment of employee wages, salaries and benefits, the requirement against involuntary furloughs and reductions in employee pay rates and benefits, which expired on September 30, 2020, the requirement that certain levels of commercial air service be maintained and the provisions that prohibit the repurchase of AAG common stock, and the payment of common stock dividends through September 30, 2021, as well as those that restrict the payment of certain executive compensation until March 24, 2022. The PSP Agreement also imposes substantial reporting obligations on AAG and the Subsidiaries. As of September 30, 2020, AAG and the Subsidiaries received a secured loan from Treasury under the loan program that is due June 2025 and, as a result, the stock repurchase, dividend and executive compensation restrictions will remain in place through the date that is one year after such secured loan is fully repaid. See below for additional information on the Treasury Loan Agreement.

Pursuant to the PSP Agreement, Treasury provided to AAG and the Subsidiaries financial assistance which was paid in installments (each, an Installment) and totaled an aggregate of approximately $5.8 billion initially and was subsequently increased to $6.0 billion, and all of which has been received as of September 30, 2020. As partial compensation to the U.S. Government for the provision of financial assistance under the Payroll Support Program, AAG issued a total aggregate principal amount of approximately $1.8 billion under the PSP Promissory Note and issued warrants (each a PSP Warrant and, collectively, the PSP Warrants) to Treasury to purchase up to an aggregate of approximately 14.1 million PSP Warrant Shares. See Note 6 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A for further information on the PSP Promissory Note and below for more information on the PSP Warrant Agreement and the PSP Warrants.

For accounting purposes, the $6.0 billion of aggregate financial assistance AAG and the Subsidiaries received pursuant to the PSP Agreement is allocated to the PSP Promissory Note, the PSP Warrants and other Payroll Support Program financial assistance (the PSP Financial Assistance). The aggregate principal amount of approximately $1.8 billion of PSP Promissory Note was recorded as unsecured long-term debt, and the total fair value of the PSP Warrants of $63 million, estimated using a Black-Scholes option pricing model, was recorded in stockholders' equity in AAG's condensed consolidated balance sheet. The remaining amount of approximately $4.2 billion of PSP Financial Assistance was recognized as a credit to special items, net in the condensed consolidated statement of operations in the second and third quarters of 2020, the period over which the continuation of payment of employee wages, salaries and benefits was required. For the three and nine months ended September 30, 2020, approximately $2.1 billion and $4.2 billion, respectively, was recognized as a credit to special items, net in the condensed consolidated statement of operations.

PSP Warrant Agreement and PSP Warrants

As partial compensation to the U.S. Government for the provision of financial assistance under the PSP Agreement, and pursuant to the PSP Warrant Agreement, AAG has agreed to issue warrants to Treasury to purchase up to an aggregate of approximately 14.1 million PSP Warrant Shares of AAG common stock. The exercise price of the PSP Warrant Shares is $12.51 per share (which was the closing price of AAG common stock on The Nasdaq Global Select Market on April 9, 2020) (the Exercise Price) subject to certain anti-dilution provisions provided for in the PSP Warrant.

Pursuant to the PSP Warrant Agreement, on the PSP Closing Date, May 29, 2020, June 30, 2020, July 30, 2020 and September 30, 2020, AAG issued to Treasury a PSP Warrant to purchase up to an aggregate of approximately 6.7 million shares, 2.8 million shares, 2.8 million shares, 1.4 million shares and 0.4 million shares, respectively, of AAG common stock based on the terms described herein.

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

Treasury Loan Agreement

On September 25, 2020 (the Treasury Loan Closing Date), AAG and American entered into a Loan and Guarantee Agreement (the Treasury Loan Agreement) with Treasury which provides 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, AAG and American entered into an amendment to the Treasury Loan Agreement that permits American to borrow up to $7.5 billion. The Treasury Loan Agreement will involve the issuance of additional warrants to purchase up to an aggregate of approximately 60.0 million shares of AAG common stock, assuming the Treasury Term Loan Facility is fully drawn. As of September 30, 2020, American borrowed $ 550 million under the Treasury Term Loan Facility, which is scheduled to mature on June 30, 2025, and issued warrants to Treasury to purchase up to an aggregate of approximately 4.4 million shares of AAG common stock. See Note 4 for further information on the Treasury Loan Agreement and below for more information on the Treasury Loan Warrant Agreement and Treasury Loan Warrants.

Treasury Loan Warrant Agreement and Warrants

In connection with the Treasury Loan Agreement, AAG also entered into a warrant agreement (the Treasury Loan Warrant Agreement) with Treasury. Pursuant to the Treasury Loan Warrant Agreement, AAG agreed to issue warrants (each a Treasury Loan Warrant and, collectively, the Treasury Loan Warrants) to Treasury to purchase up to an aggregate of approximately 60.0 million shares (the Treasury Loan Warrant Shares) of AAG's common stock based on the $7.5 billion commitment amount under the Treasury Term Loan Facility. The exercise price of the Treasury Loan Warrant Shares is $12.51 per share (the Exercise Price) subject to certain anti-dilution provisions provided for in the Treasury Loan Warrant Agreement. For accounting purposes, the fair value for the Treasury Loan Warrant Shares is estimated using a Black-Scholes option pricing model and recorded in stockholders' equity in AAG's condensed consolidated balance sheet with an offsetting debt discount to the Treasury Term Loan Facility in American's condensed consolidated balance sheet.

Pursuant to the Treasury Loan Warrant Agreement, on the Treasury Loan Closing Date, AAG issued to Treasury a Treasury Loan Warrant to purchase up to an aggregate of approximately 4.4 million Treasury Loan Warrant Shares based on the terms described herein. On the date of each additional borrowing under the Treasury Loan Agreement, AAG will issue to Treasury an additional Treasury Loan Warrant for a number of Treasury Loan Warrant Shares equal to 10% of such borrowing, divided by the Exercise Price.

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

(c) Recent Accounting Pronouncements

Accounting Standards Update (ASU) 2016-13: Measurement of Credit Losses on Financial Instruments

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

ASU 2020-06: Accounting for Convertible Instruments and Contracts In An Entity's Own Equity

This ASU simplifies the accounting for certain convertible instruments by removing the separation models for convertible debt with a cash conversion feature or 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, this ASU 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 this ASU 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. This ASU is applicable to AAG's 6.50% convertible senior notes due 2025, and AAG is assessing the impact the adoption of this ASU will have on its 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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
PSP Financial Assistance (1)	$ (1,908)	$ —	$ (3,710)	$ —
Severance expenses (2)	871	—	1,408	—
Fleet impairment (3)	742	201	1,484	201
Labor contract expenses (4)	—	—	228	—
Mark-to-market adjustments on bankruptcy obligations, net (5)	—	(22)	(49)	(18)
Fleet restructuring expenses (6)	—	72	—	232
Litigation reserve adjustments	—	(53)	—	(53)
Merger integration expenses	—	29	—	106
Other operating special items, net	—	1	(18)	19
Mainline operating special items, net	(295)	228	(657)	487
PSP Financial Assistance (1)	(228)	—	(444)	—
Fleet impairment (3)	—	—	106	—
Regional operating special items, net	(228)	—	(338)	—
Operating special items, net	(523)	228	(995)	487
Mark-to-market adjustments on equity and other investments, net (7)	(21)	45	159	37
Debt refinancing, extinguishment and other charges	—	7	48	14
Nonoperating special items, net	(21)	52	207	51

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

(2) Severance expenses principally include salary and medical costs 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 COVID-19.

These expenses in the three months ended September 30, 2020 also include salary and medical costs associated with team members who were notified in the third quarter of 2020 they were being involuntarily furloughed starting October 1, 2020, subsequent to the expiration of the Payroll Support Program requirement against involuntary furloughs. Cash payments related to these charges for the three and nine months ended September 30, 2020 were approximately $120 million and $170 million, respectively.

(3) Fleet impairment resulted from American's decision to retire certain aircraft earlier than planned driven by the decline in air travel due to COVID-19. Aircraft retired include Airbus A330-200, Boeing 757, Boeing 767, Airbus A330-300, Embraer 190, certain Embraer 140 and Bombardier CRJ200 aircraft. See Note 12 for further information related to these charges.

The three months ended September 30, 2020 included a $709 million non-cash write-down of Airbus A330-200 aircraft and spare parts and $33 million in cash charges primarily for lease return and other costs.

The nine months ended September 30, 2020 included a $1.5 billion non-cash write-down of mainline and regional aircraft and spare parts and $109 million in cash charges primarily for impairment of ROU assets and lease return costs.

(4) Labor contract expenses primarily relate 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.

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

(6) Fleet restructuring expenses principally included accelerated depreciation and rent expense for aircraft and related equipment expected to be retired earlier than planned.

(7) Mark-to-market adjustments on equity and other investments, net primarily relates 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 September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
Passenger revenue:				
Passenger travel	$ 2,407	$ 10,226	$ 10,491	$ 29,215
Loyalty revenue - travel (1)	133	769	837	2,448
Total passenger revenue	2,540	10,995	11,328	31,663
Cargo	207	208	484	647
Other:				
Loyalty revenue - marketing services	389	570	1,317	1,742
Other revenue	36	137	179	397
Total other revenue	425	707	1,496	2,139
Total operating revenues	$ 3,172	$ 11,910	$ 13,308	$ 34,449

(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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Domestic	$ 2,296	$ 7,814	$ 9,102	$ 23,048
Latin America	172	1,218	1,386	3,829
Atlantic	56	1,596	621	3,677
Pacific	16	367	219	1,109
Total passenger revenue	$ 2,540	$ 10,995	$ 11,328	$ 31,663

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.

	September 30, 2020	December 31, 2019
	(In millions)	
Loyalty program liability	$ 9,094	$ 8,615
Air traffic liability	4,903	4,808
Total	$ 13,997	$ 13,423

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, 2019	$ 8,615
Deferral of revenue	1,456
Recognition of revenue (1)	(977)
Balance at September 30, 2020 (2)	$ 9,094

(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 COVID-19, American suspended the expiration of mileage credits through December 31, 2020. As of September 30, 2020, American's current loyalty program liability was $2.1 billion and represents American's current estimate of revenue expected to be recognized in the next 12 months based on historical as well as projected trends, with the balance reflected in long-term loyalty program liability expected to be recognized as revenue in periods thereafter. Given the inherent uncertainty of the current operating environment due to COVID-19, 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 nine months ended September 30, 2020, $2.8 billion of revenue was recognized in passenger revenue that was included in American's air traffic liability at December 31, 2019. In response to COVID-19, American extended the contract duration for certain tickets to December 31, 2021, principally those with travel scheduled March 1, 2020 through December 31, 2020. As of September 30, 2020, the air traffic liability included approximately $2.5 billion of travel credits related to these unused tickets for travel prior to September 30, 2020. Accordingly, any revenue associated with these tickets will be recognized within the next 15 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):

	September 30, 2020	December 31, 2019
Secured		
2013 Term Loan Facility, variable interest rate of 1.89%, installments through 2025	$ 1,788	$ 1,807
2013 Revolving Facility, variable interest rate of 2.16%, due 2024	750	—
2014 Term Loan Facility, variable interest rate of 1.90%, installments through 2027	1,220	1,202
2014 Revolving Facility, variable interest rate of 2.16%, due 2024	1,643	—
April 2016 Term Loan Facility, variable interest rate of 2.15%, installments through 2023	960	970
April 2016 Revolving Facility, variable interest rate of 2.16%, due 2024	450	—
December 2016 Term Loan Facility, variable interest rate of 2.15%, installments through 2023	1,213	1,213
11.75% senior secured notes, interest only payments until due in July 2025	2,500	—
Treasury Term Loan Facility, variable interest rate of 3.73%, due June 2025	550	—
10.75% senior secured IP notes, interest only payments until due in February 2026	1,000	—
10.75% senior secured LGA/DCA notes, interest only payments until due in February 2026	200	—
Enhanced equipment trust certificates (EETCs), fixed interest rates ranging from 3.00% to 8.39%, averaging 3.99%, maturing from 2021 to 2032	11,146	11,933
Equipment loans and other notes payable, fixed and variable interest rates ranging from 1.33% to 5.83%, averaging 1.88%, maturing from 2020 to 2032	4,484	4,727
Special facility revenue bonds, fixed interest rates ranging from 5.00% to 5.38%, maturing from 2021 to 2036	1,040	725
Total long-term debt	28,944	22,577
Less: Total unamortized debt discount, premium and issuance costs	337	205
Less: Current maturities	2,612	2,246
Long-term debt, net of current maturities	$ 25,995	$ 20,126

The table below shows the maximum availability under American's credit facilities, as of September 30, 2020 (in millions):

Treasury Term Loan Facility	$	4,927
Other Short-term Revolving Facility		400
Total	$	5,327

Pursuant to the Treasury Loan Agreement (as defined below), at September 30, 2020, American had a $5.5 billion Treasury Term Loan Facility (as defined below) of which it has drawn $550 million. In addition, 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 American has extended through the beginning of July 2021. 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, primarily 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.

2020 Financing Activities

2014 Credit Facilities

In January 2020, American and AAG entered into the eighth amendment to the Amended and Restated Credit and Guaranty Agreement, amending the Amended and Restated Credit and Guaranty Agreement dated as of April 20, 2015 (as previously amended, the 2014 Credit Agreement; the revolving credit facility established thereunder, the 2014 Revolving Facility; the term loan facility established thereunder, the 2014 Term Loan Facility; and collectively, the 2014 Credit Facilities), pursuant to which American refinanced the 2014 Term Loan Facility, increasing the total aggregate principal amount outstanding to $1.2 billion, reducing the LIBOR margin from 2.00% to 1.75%, with a LIBOR floor of 0%, and reducing the base rate margin from 1.00% to 0.75%. In addition, the maturity date for the 2014 Term Loan Facility was extended to January 2027 from October 2021.

In April and May 2020, American borrowed $1.6 billion under the 2014 Revolving Facility. The 2014 Revolving Facility bears interest at LIBOR plus a margin of 2.00% and has a final maturity date of October 2024. Following the April and May draws, American had no remaining borrowing capacity available under the 2014 Revolving Facility.

2013 Revolving Facility and April 2016 Revolving Facility

In April 2020, American borrowed $750 million under the 2013 Revolving Facility. The 2013 Revolving Facility bears interest at LIBOR plus a margin of 2.00% and has a final maturity date of October 2024. Following the April draw, American had no remaining borrowing capacity available under the 2013 Revolving Facility.

In April 2020, American borrowed $450 million under the April 2016 Revolving Facility. The April 2016 Revolving Facility bears interest at LIBOR plus a margin of 2.00% and has a final maturity date of October 2024. Following the April draw, American had no remaining borrowing capacity available under the April 2016 Revolving Facility.

Delayed Draw Term Loan Credit Facility

In March 2020, American and AAG entered into a Credit and Guaranty Agreement which provided for a $ 1.0 billion senior secured delayed draw term loan credit facility (the Delayed Draw Term Loan Credit Facility), which was scheduled to be due and payable in a single installment on the maturity date in March 2021. In connection with the issuance of the 11.75% senior secured notes due 2025, as described below, the Delayed Draw Term Loan Credit Facility was repaid and the Delayed Draw Term Loan Credit Facility and all of the security documents and other loan documents related thereto were terminated as of June 30, 2020.

11.75% Senior Secured Notes

In June 2020, American issued $2.5 billion aggregate principal amount of 11.75% senior secured notes due 2025 (the 11.75% Senior Secured Notes) at a price equal to 99% of their aggregate principal amount. The 11.75% Senior Secured Notes bear interest at a rate of 11.75% per annum (subject to increase if a certain collateral coverage ratio is not met). Interest on the 11.75% Senior Secured Notes is payable semiannually in arrears on January 15 and July 15 of each year, beginning on January 15, 2021. The 11.75% Senior Secured Notes will mature on July 15, 2025. The obligations of American under the 11.75% Senior Secured Notes are fully and unconditionally guaranteed on a senior unsecured basis by AAG. The proceeds from the 11.75% Senior Secured Notes were used to repay and terminate the Delayed Draw Term Loan Credit Facility (and to terminate all security documents and all other loan documents related thereto) with the remaining amount for general corporate purposes and to enhance American's liquidity position.

American may redeem the 11.75% Senior Secured Notes, 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 notes being redeemed plus a make whole premium, together with accrued and unpaid interest, if any, to (but not including) the redemption date.

The 11.75% Senior Secured Notes are American's senior secured obligations. Subject to certain limitations and exceptions, the 11.75% Senior Secured Notes are secured on a first-lien basis by security interests in certain assets, rights and properties utilized by American in providing its scheduled air carrier services to and from certain airports in the United States and certain airports in Australia, Canada, the Caribbean, Central America, China, Hong Kong, Japan, Mexico, South Korea, and Switzerland. American's obligations with respect to the 11.75% Senior Secured Notes are also secured on a second-lien basis by security interests in certain assets, rights and properties utilized by American in providing its scheduled air carrier services to and from certain airports in the United States and certain airports in the European Union and the United Kingdom. American may be required to pledge additional collateral in the future under the terms of the 11.75% Senior Secured Notes, and in certain circumstances may elect to pledge additional collateral as a replacement for existing collateral. The collateral that secures the 11.75% Senior Secured Notes on a second-lien basis presently secures the 2014 Credit Facilities, on a first-lien basis.

Special Facility Revenue Bonds

In January 2020, American and British Airways announced the start of construction on a $344 million investment to upgrade New York's John F. Kennedy International Airport (JFK) Terminal 8.

In June 2020, the New York Transportation Development Corporation (NYTDC) issued approximately $360 million of special facility revenue bonds (the 2020 JFK Bonds) on behalf of American. A portion of the net proceeds from the 2020 JFK Bonds have been or will be used to fund costs of issuance of the 2020 JFK Bonds, to fund a substantial portion of the cost of the renovation and expansion of a passenger terminal facility (the Terminal) leased and utilized by American at JFK and to fund the August 2020 maturity of the outstanding bonds issued by NYTDC on behalf of American in 2016 (the 2016 JFK Bonds).

American is required to pay debt service on the 2020 JFK Bonds through payments under a loan agreement with NYTDC (as amended), and American and AAG guarantee the 2020 JFK Bonds. American continues to pay debt service on the outstanding 2016 JFK Bonds and American and AAG continue to guarantee the 2016 JFK Bonds. American's and AAG's obligations under these guarantees are secured by a leasehold mortgage on American's lease of the Terminal and related property from the Port Authority of New York and New Jersey.

The 2020 JFK Bonds, in aggregate, were priced at approximately 98% of par value. The gross proceeds from the issuance of the 2020 JFK Bonds were approximately $353 million. Of this amount, approximately $8 million was used to fund the costs of issuance of the 2020 JFK Bonds, approximately $47 million was used to fund the redemption of the 2016 JFK Bonds due August 2020 and approximately $17 million was reimbursed to American for the Terminal construction costs incurred, with the remaining amount of proceeds received to be held in restricted cash and short-term investments on the condensed consolidated balance sheet and to be used to finance a substantial portion of the cost of the renovation and expansion of the Terminal. The 2020 JFK Bonds are comprised of term bonds, $214 million of which bear interest at 5.25% per annum and mature on August 1, 2031, and $146 million of which bear interest at 5.375% per annum and mature on August 1, 2036.

Treasury Loan Agreement

On September 25, 2020, American and AAG entered into a Loan and Guarantee Agreement (the Treasury Loan Agreement) with Treasury which provides 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 that permits American to borrow up to $7.5 billion.

As of September 30, 2020, American borrowed $550 million under the Treasury Term Loan Facility and may, at its option, borrow additional amounts in up to two subsequent borrowings until March 26, 2021. The proceeds from the Treasury Term Loan Facility will be used for certain general corporate purposes and operating expenses in accordance with the terms and conditions of the Treasury Loan Agreement and the applicable provisions of the CARES Act.

The Treasury Term Loan Facility will bear interest at a variable rate per annum equal to (a)(i) the LIBOR rate divided by (ii) one minus the Eurodollar Reserve Percentage plus (b) 3.50%. Accrued interest on the loans will be payable in arrears on the first business day following the 14^{th} day of each March, June, September and December, beginning with September 15, 2021, and on June 30, 2025 (the Treasury Term Loan Maturity Date). As of September 30, 2020, the applicable interest rate for the $550 million loan drawn under the Treasury Term Loan Facility will be 3.73% per annum through September 15, 2021 at which time the interest rate will reset.

All advances under the Treasury Term Loan Facility will be in the form of term loans, all of which will mature and be due and payable in a single installment on the Treasury Term Loan Maturity Date. American may, at any time and from time to time, voluntarily prepay amounts outstanding under the Treasury Loan Agreement, in whole or in part, without penalty or premium. Amounts prepaid may not be reborrowed. Mandatory prepayments of loans under the Treasury Term Loan Facility are required, without penalty or premium, to the extent necessary to comply with American's covenants regarding the expiry of certain agreements constituting Treasury Collateral (as defined below), the debt service coverage ratio, certain dispositions of Treasury Collateral, certain debt issuances secured by liens on the Treasury Collateral and certain indemnity, termination, liquidated damages or insurance payments related to the Treasury Collateral, in addition to the occurrence of a change in control of AAG.

American's obligations under the Treasury Loan Agreement are secured by a first priority security interest on American's rights under U.S. co-branded credit card agreements and certain other loyalty program partner participation agreements (including rights to receive cash flows thereunder), documents, deposit accounts, securities accounts, books and records and intellectual property related to American's AAdvantage loyalty program and all proceeds, accessions, rents or profits related to the foregoing (collectively, the Treasury Collateral). American is permitted under the Treasury Loan Agreement to add certain types of assets to the Treasury Collateral and, subject to certain conditions, release Treasury Collateral, in each case from time to time at its discretion.

The Treasury Loan Agreement requires American, under certain circumstances, including within 10 business days prior to the last business day of March and September of each year, beginning March 2021, to appraise the value of the Treasury Collateral and recalculate the collateral coverage ratio. If the calculated collateral coverage ratio is less than 1.6 to 1.0, American will be required either to provide additional Treasury Collateral (which may include cash collateral) to secure its obligations under the Treasury Loan Agreement or repay the term loans under the Treasury Term Loan Facility, in such amounts that the recalculated collateral coverage ratio, after giving effect to any such additional Treasury Collateral or repayment, is at least 1.6 to 1.0. Based on the appraisal American submitted in connection with the execution of the Treasury Loan Agreement, the appraised value of the Treasury Collateral is presently significantly in excess of the 2.0 to 1.0 collateral coverage ratio necessary to access the amount under the Treasury Term Loan Facility, including any contemplated increase.

The Treasury Loan Agreement also requires American to calculate the debt service coverage ratio on a quarterly basis. If the calculated debt service coverage ratio is less than 1.75 to 1.00, then AAG and its subsidiaries will be required to place an amount equal to at least 50% of certain revenues received from the AAdvantage loyalty program (the Loyalty Program Revenues) into a blocked account to be held for the benefit of the lenders who may choose to use such funds to prepay the outstanding term loans until the debt service coverage ratio is recalculated to be greater than or equal to 1.75 to 1.00. If the calculated debt service coverage ratio is less than or equal to 1.50 to 1.00, but greater than 1.25 to 1.00, then all amounts previously deposited into the blocked account will be used to prepay outstanding term loans and an amount equal to at least 50% of all future Loyalty Program Revenues will be transferred into the payment account and used to prepay outstanding term loans until the debt service coverage ratio is recalculated to be greater than 1.50 to 1.00. If the calculated debt service coverage ratio is less than or equal to 1.25 to 1.00, then all amounts previously deposited into the blocked account will be used to prepay outstanding term loans and an amount equal to at least 75% of all future Loyalty Program Revenues will be transferred into the payment account and used to prepay outstanding term loans until the debt service coverage ratio is recalculated to be greater than 1.25 to 1.00.

The Treasury Loan Agreement also includes affirmative, negative and financial covenants that, among other things, limit AAG's ability to pay dividends, repurchase common stock of AAG or make certain other payments, make certain investments, incur liens on the Treasury Collateral, dispose of the Treasury Collateral, amend material AAdvantage loyalty program agreements, enter into certain affiliate transactions and engage in certain business activities, in each case subject to certain exceptions. In addition, under the Treasury Loan Agreement, AAG must maintain a minimum aggregate liquidity of $2.0 billion.

The Treasury Loan Agreement requires AAG and American to comply with the relevant provisions of the CARES Act, including, but not limited to, the provisions that prohibit the repurchase of AAG's common stock, the payment of common stock dividends and those that restrict the payment of certain executive compensation, in each case, through the date that is 12 months after the date on which all amounts of loan outstanding under the Treasury Term Loan Facility have been repaid in full.

The Treasury Loan Agreement 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 Treasury Loan Agreement may be accelerated and become due and payable immediately.

10.75% Senior Secured Notes

On September 25, 2020 (the 10.75% Senior Secured Notes Closing Date), American completed its previously announced sale of $1.0 billion in initial principal amount of PIK senior secured IP notes (the IP Notes) and $200 million in initial principal amount of PIK senior secured notes (the LGA/DCA Notes and together with the IP Notes, the 10.75% Senior Secured Notes). The obligations of American under the 10.75% Senior Secured Notes are fully and unconditionally guaranteed (the 10.75% Senior Secured Notes Guarantees) on a senior unsecured basis by AAG. The 10.75% Senior Secured Notes bear interest at a rate of 10.75% per annum in cash. For any interest period on or prior to September 1, 2022, American may, at its election, pay interest at a rate of 12.00% per annum payable one-half in cash and one-half in kind.

American expects to use the proceeds from the 10.75% Senior Secured Notes to pay transaction-related fees and expenses and for general corporate purposes.

The 10.75% Senior Secured Notes were each issued pursuant to a separate indenture, dated as of September 25, 2020 (individually, the IP Notes Indenture and the LGA/DCA Notes Indenture and collectively, the 10.75% Senior Secured Notes Indentures), by and among American, AAG and Wilmington Trust, National Association, as trustee and as collateral trustee (the 10.75% Senior Secured Notes Trustee). The IP Notes are secured by a first lien security interest on certain intellectual property of American, including the “American Airlines” trademark and the “aa.com” domain name in the United States and certain foreign jurisdictions (the IP Collateral), and a second lien on certain slots related to American’s operations at New York LaGuardia and Ronald Reagan Washington National airports and certain other assets (the LGA/DCA Collateral and together with the IP Collateral, the 10.75% Senior Secured Notes Collateral). Subject to certain conditions, American will be permitted to incur up to $4.0 billion of additional pari passu debt and unlimited second lien debt secured by the IP Collateral securing the IP Notes. The LGA/DCA Notes are secured by a first lien security interest in the LGA/DCA Collateral. American may be required to pledge additional collateral in the future under the terms of the 10.75% Senior Secured Notes, and in certain circumstances may elect to pledge additional collateral including as a replacement for existing collateral. The LGA/DCA Collateral presently secures (and will continue to secure), on a first-lien basis the December 2016 Credit Facilities.

Interest on the 10.75% Senior Secured Notes is payable semiannually in arrears on September 1 and March 1 of each year, beginning on March 1, 2021. The 10.75% Senior Secured Notes will mature on February 15, 2026.

On or prior to the fourth anniversary of the 10.75% Senior Secured Notes Closing Date, American may redeem all or any part of the 10.75% Senior Secured Notes, at its option, at a redemption price equal to 100% of the principal amount of the 10.75% Senior Secured Notes redeemed plus a make whole premium, together with accrued and unpaid interest. After the fourth anniversary of the 10.75% Senior Secured Notes Closing Date and on or prior to the fifth anniversary of the 10.75% Senior Secured Notes Closing Date, American may redeem all or any part of the 10.75% Senior Secured Notes, at its option, at a redemption price equal to 105.375% of the principal amount of the 10.75% Senior Secured Notes redeemed, together with accrued and unpaid interest. After the fifth anniversary of the 10.75% Senior Secured Notes Closing Date, American may redeem all or any part of the 10.75% Senior Secured Notes, at its option, at par, together with accrued and unpaid interest.

In the event of a specified change of control, each holder of 10.75% Senior Secured Notes may require American to repurchase its 10.75% Senior Secured Notes, in whole or in part, at a repurchase price of 101% of the aggregate principal amount of the 10.75% Senior Secured Notes so repurchased, plus accrued and unpaid interest, if any, to (but not including) the repurchase date.

The 10.75% Senior Secured Notes Indentures contain covenants that, among other things, restrict the ability of AAG and the ability of its restricted subsidiaries (including American) to: (i) pay dividends, redeem or repurchase stock or make other distributions or restricted payments, (ii) incur liens on the 10.75% Senior Secured Notes Collateral and dispose of or release the 10.75% Senior Secured Notes Collateral, (iii) repay subordinated indebtedness, (iv) make certain loans and investments, (v) incur indebtedness or issue preferred stock, (vi) merge, consolidate or sell assets, and (vii) designate subsidiaries as unrestricted. These covenants are subject to a number of important exceptions and qualifications set forth in the 10.75% Senior Secured Notes Indentures.

Upon the occurrence of any event of default (other than certain bankruptcy or insolvency or reorganization events affecting AAG or certain of its subsidiaries, including American), the 10.75% Senior Secured Notes may be declared to be due and payable immediately. Upon the occurrence of certain bankruptcy, insolvency or reorganization events affecting AAG or certain of its subsidiaries (including American), all outstanding 10.75% Senior Secured Notes will become due and payable immediately without further action or notice on the part of the 10.75% Senior Secured Notes Trustee or any holder of the 10.75% Senior Secured Notes.

2019-1 Aircraft EETCs

In August 2019, American created three pass-through trusts which issued approximately $1.1 billion aggregate face amount of Series 2019-1 Class AA, Class A and Class B EETCs (the 2019-1 Aircraft EETCs) in connection with the financing of 35 aircraft previously delivered or scheduled to be delivered to American through September 2020 (the 2019-1 Aircraft). In 2019, $804 million of the proceeds had been used to purchase equipment notes issued by American in connection with the financing of 28 aircraft under the 2019-1 Aircraft EETCs, of which $608 million was used to repay existing indebtedness. During the third quarter of 2020, $126 million of the proceeds had been used to purchase equipment notes issued by American in connection with the financing of three aircraft under the 2019-1 Aircraft EETCs. Interest and principal payments on equipment notes issued in connection with the 2019-1 Aircraft EETCs are payable semiannually in February and August of each year, which interest payments began in February 2020 and which principal payments began or are scheduled to begin (i) in the case of equipment notes with respect to any 2019-1 Aircraft owned by American at the time of issuance of the 2019-1 Aircraft EETCs, in February 2020 and (ii) in the case of equipment notes with respect to the Embraer E175 aircraft and the Airbus A321neo aircraft scheduled to be delivered after the issuance of the 2019-1 Aircraft EETCs, in August 2020 and August 2021, respectively. The remaining proceeds of approximately $168 million as of September 30, 2020 were being held in escrow with a depositary for the benefit of the holders of the 2019-1 Aircraft EETCs until such time as American issues additional equipment notes with respect to the remaining 2019-1 Aircraft to the pass-through trusts, which will purchase such additional equipment notes with the escrowed funds. These escrowed funds are not guaranteed by American and are not reported as debt on its condensed consolidated balance sheet because the proceeds held by the depositary for the benefit of the holders of the 2019-1 Aircraft EETCs are not American's assets.

Certain information regarding the 2019-1 Aircraft EETC equipment notes and remaining escrowed proceeds, as of September 30, 2020, is set forth in the table below.

	2019-1 Aircraft EETCs		
	Series AA	Series A	Series B
Aggregate principal issued	$579	$289	$229
Remaining escrowed proceeds	$89	$44	$35
Fixed interest rate per annum	3.15%	3.50%	3.85%
Maturity date	February 2032	February 2032	February 2028

Equipment Notes and Other Notes Payable Issued in 2020

In the nine months ended September 30, 2020, American entered into agreements under which it borrowed $197 million in connection with the financing or refinancing, as the case may be, of certain aircraft, of which $17 million was used to repay existing indebtedness. Debt incurred under these agreements matures in 2029 through 2032 and bears interest at variable rates (comprised of LIBOR plus an applicable margin) averaging 1.88% at September 30, 2020.

5. Income Taxes

At December 31, 2019, American had approximately $9.2 billion of federal net operating losses (NOLs) carried over from prior taxable years (NOL Carryforwards) to reduce future federal taxable income. 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 $9.1 billion to reduce AAG's future federal taxable income. The federal NOL Carryforwards will expire beginning in 2023 if unused. American also had approximately $2.9 billion of NOL Carryforwards to reduce future state taxable income at December 31, 2019, which will expire in years 2020 through 2039 if unused. American's ability to use its NOL Carryforwards depends on the amount of taxable income generated in future periods. American presently does not have a valuation allowance on its net deferred tax assets. There can be no assurance that a valuation allowance on American's net deferred tax assets will not be required in the future. Such valuation allowance could be material.

At December 31, 2019, American had an Alternative Minimum Tax (AMT) credit carryforward of approximately $ 226 million available for federal income tax purposes, which was fully refunded as of September 30, 2020 as a result of the CARES Act enacted in March of 2020.

During the three and nine months ended September 30, 2020, American recorded an income tax benefit of $660 million and $1.9 billion, 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 nine months ended September 30, 2020.

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

	Fair Value Measurements as of September 30, 2020			
	Total	Level 1	Level 2	Level 3
Short-term investments (1), (2):				
Money market funds	$ 2,827	$ 2,827	$ —	$ —
Corporate obligations	2,454	—	2,454	—
Bank notes/certificates of deposit/time deposits	1,973	—	1,973	—
Repurchase agreements	775	—	775	—
	8,029	2,827	5,202	—
Restricted cash and short-term investments (1), (4)	508	385	123	—
Long-term investments (3)	146	146	—	—
Total	$ 8,683	$ 3,358	$ 5,325	$ —

(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 except for $286 million of bank notes/certificates of deposit/time deposits and $70 million of corporate obligations.

(3) 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.

(4) Restricted cash and short-term investments primarily includes money market funds to be used to finance a substantial portion of the cost of the renovation and expansion of Terminal 8 at JFK and collateral held to support workers' compensation obligations.

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 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):

	September 30, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current maturities	$ 28,607	$ 24,585	$ 22,372	$ 23,196

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 September 30,	**2020**	**2019**	**2020**	**2019**
Service cost	$ 1	$ 1	$ 2	$ 1
Interest cost	153	174	8	9
Expected return on assets	(252)	(203)	(3)	(4)
Special termination benefits	—	—	410	—
Settlements	—	—	—	—
Amortization of:				
Prior service cost (benefit)	7	7	(33)	(59)
Unrecognized net loss (gain)	41	37	(5)	(8)
Net periodic benefit cost (income)	$ (50)	$ 16	$ 379	$ (61)

	Pension Benefits		Retiree Medical and Other Postretirement Benefits	
Nine Months Ended September 30,	**2020**	**2019**	**2020**	**2019**
Service cost	$ 2	$ 2	$ 5	$ 3
Interest cost	459	524	22	26
Expected return on assets	(754)	(609)	(9)	(12)
Special termination benefits	—	—	410	—
Settlements	4	—	—	—
Amortization of:				
Prior service cost (benefit)	21	21	(139)	(177)
Unrecognized net loss (gain)	123	113	(17)	(24)
Net periodic benefit cost (income)	$ (145)	$ 51	$ 272	$ (184)

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 third quarter of 2020, 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 COVID-19. For the three months ended September 30, 2020, American recognized a $410 million special charge for these enhanced healthcare benefits and increased its postretirement benefits obligation by $410 million as of September 30, 2020.

Pursuant to the CARES Act, minimum required pension contributions to be made in the calendar year 2020 can be deferred to January 1, 2021, with interest accruing from the original due date to the new payment date. American expects to defer its $130 million 2020 minimum required contributions to January 1, 2021, which American intends to pay or otherwise satisfy on or prior to December 31, 2020.

8. Accumulated Other Comprehensive Loss

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

	Pension, Retiree Medical and Other Postretirement Benefits	Unrealized Loss on Investments	Income Tax Benefit (Provision) [(1)]	Total
Balance at December 31, 2019	$ (5,218)	$ (2)	$ (1,203)	$ (6,423)
Other comprehensive income (loss) before reclassifications	(180)	—	41	(139)
Amounts reclassified from AOCI	(8)	—	1 [(2)]	(7)
Net current-period other comprehensive income (loss)	(188)	—	42	(146)
Balance at September 30, 2020	$ (5,406)	$ (2)	$ (1,161)	$ (6,569)

(1) Relates principally to pension, retiree medical and other postretirement benefits obligations that will not be recognized in net income (loss) until the obligations are fully extinguished.

(2) Relates to pension, retiree medical and other postretirement benefits obligations and is recognized within the income tax provision (benefit) on the condensed consolidated statement of operations.

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

	Amounts reclassified from AOCI				
	Three Months Ended September 30,		Nine Months Ended September 30,		
AOCI Components	2020	2019	2020	2019	Affected line items on the condensed consolidated statements of operations
Amortization of pension, retiree medical and other postretirement benefits:					
Prior service benefit	$ (20)	$ (40)	$ (91)	$ (121)	Nonoperating other income (expense), net
Actuarial loss	27	22	84	69	Nonoperating other income (expense), net
Total reclassifications for the period, net of tax	$ 7	$ (18)	$ (7)	$ (52)	

9. Regional Expenses

Expenses associated with American Eagle operations are classified as regional expenses on the condensed consolidated statements of operations. Regional expenses consist of the following (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Aircraft fuel and related taxes	$ 158	$ 485	$ 638	$ 1,395
Salaries, wages and benefits	59	76	214	241
Capacity purchases from third-party regional carriers [1]	622	900	2,105	2,665
Maintenance, materials and repairs	(4)	14	2	23
Other rent and landing fees	106	159	347	472
Aircraft rent	3	8	11	23
Selling expenses	27	102	121	299
Depreciation and amortization	66	72	207	210
Special items, net	(228)	—	(338)	—
Other	43	97	193	288
Total regional expenses	$ 852	$ 1,913	$ 3,500	$ 5,616

(1) During the three months ended September 30, 2020 and 2019, American recognized $102 million and $150 million, respectively, of expense under its capacity purchase agreement with Republic Airways Inc. (Republic). During the nine months ended September 30, 2020 and 2019, American recognized $313 million and $442 million, respectively, of expense under its capacity purchase agreement with Republic. American holds a 25% equity interest in Republic Airways Holdings Inc., the parent company of Republic.

10. Transactions with Related Parties

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

	September 30, 2020	December 31, 2019
AAG [1]	$ 11,212	$ 14,597
AAG's wholly-owned subsidiaries [2]	(2,029)	(2,146)
Total	$ 9,183	$ 12,451

(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 PSP Promissory Note, the 6.50% convertible senior notes and the issuance of 85.2 million shares of AAG common stock pursuant to a public stock 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. In February 2020, 2.2 million shares of AAG common stock were distributed from the Disputed Claims Reserve. After giving effect to this distribution, as of September 30, 2020, the Disputed Claims Reserve held 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. The parties submitted proposed findings of fact and conclusions of law and made closing arguments in April 2019, and they are awaiting the Bankruptcy Court's decision. American believes this lawsuit is without merit and intends to vigorously defend against the allegations.

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.

12. Impairment

Long-lived Assets

Accounting Standards Codification (ASC) 360 - Property, Plant, and Equipment (ASC 360) requires long-lived assets to be assessed for impairment when events and circumstances indicate that the assets may be impaired. Long-lived assets consist of owned flight and ground equipment, ROU assets and definite-lived intangible assets such as certain domestic airport slots and gate leasehold rights, customer relationships and marketing agreements.

As previously discussed, in the first nine months of 2020, American's operations, liquidity and stock price were significantly impacted by decreased passenger demand and government travel restrictions due to COVID-19. Additionally, American decided to retire 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. As a result of these events and circumstances, in each of the first three quarters of 2020, American performed impairment tests on its long-lived assets in connection with the preparation of American's financial statements.

In accordance with ASC 360, an impairment of a long-lived asset or group of long-lived assets exists only when the sum of the estimated undiscounted future cash flows expected to be generated directly by the assets are less than the carrying value of the assets. American groups assets principally by fleet-type when estimating future cash flows, which is generally the lowest level for which identifiable cash flows exist. Estimates of future cash flows are based on historical results adjusted to reflect management’s best estimate of future market and operating conditions, including American's current fleet plan.

As a result of the impairment tests performed on American's long-lived assets, American determined the sum of the estimated undiscounted future cash flows exceeded the $41.5 billion carrying value for its long-lived assets except for the aircraft being retired earlier than planned as discussed above. For those aircraft and certain related spare parts, American recorded impairment charges reflecting the difference between the carrying values of these assets and their fair values of $714 million and $1.5 billion for the three and nine months ended September 30, 2020, respectively. Fair value reflects management’s best estimate including inputs from published pricing guides and bids from third parties as well as contracted sales agreements when applicable. Due to the inherent uncertainties of the current operating environment, American will continue to evaluate its current fleet (including aircraft in temporary storage) and may decide to permanently retire additional aircraft.

Goodwill and Indefinite-lived Intangible Assets

ASC 350 - Intangibles - Goodwill and Other (ASC 350) requires goodwill and indefinite-lived intangible assets to be assessed for impairment annually or more frequently if events or circumstances indicate that the fair values of goodwill and indefinite-lived intangible assets may be lower than their carrying values. Goodwill represents the purchase price in excess of the fair value of the net assets acquired and liabilities assumed in connection with the merger of AAG with US Airways Group, Inc. American has one reporting unit. Indefinite-lived intangible assets consist of certain domestic airport slots and international slots and route authorities.

In each of the first three quarters of 2020, American performed interim impairment tests on its goodwill and indefinite-lived intangible assets as a result of the events and circumstances previously discussed due to the impact of COVID-19 on its business. In accordance with ASC 350, for goodwill, American performed a quantitative analysis by using a market approach. Under the market approach, the fair value of the reporting unit was determined based on quoted market prices for equity and the fair value of debt as described in Note 6. The fair value exceeded the carrying value of the reporting unit, and American's $4.1 billion of goodwill was not impaired.

Additionally, American performed interim qualitative impairment tests on its $1.8 billion of indefinite-lived intangible assets and determined there was no material impairment.

As discussed above, due to the inherent uncertainties of the current operating environment, American will continue to evaluate its goodwill and indefinite-lived intangible assets for events or circumstances that indicate that their fair values may be lower than their carrying values.

13. Subsequent Events

On October 21, 2020, American and AAG entered into a Restatement Agreement (the Treasury Loan Restatement Agreement) to the Treasury Loan Agreement. The Treasury Loan Restatement Agreement increased the commitment under the Treasury Term Loan Facility to $7.5 billion, representing an increase of approximately $2.0 billion beyond the approximately $5.5 billion of commitment under the Treasury Term Loan Facility as of the date of execution of the Treasury Loan Agreement. No additional borrowing was made by American on October 21, 2020 in connection with the entry into the Treasury Loan Restatement Agreement. Due to the increase in the commitment under the Treasury Term Loan Facility to $7.5 billion, AAG may now issue up to an aggregate of approximately 60.0 million Treasury Loan Warrant Shares, assuming the Treasury Term Loan Facility, as amended by the Restatement Agreement, is fully drawn.

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, 2019 (the 2019 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 2019 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, closing of borders, "shelter in place" 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 our business performed largely as expected in January and February of 2020, a severe reduction in air travel starting in March 2020 resulted in our total operating revenues decreasing approximately 20% in the first quarter of 2020, 86% in the second quarter of 2020 and 73% in the third quarter of 2020 as compared to the first, second and third quarters of 2019, respectively. While the length and severity of the reduction in demand due to COVID-19 is uncertain, we expect our results of operations for the remainder of 2020 to be severely impacted.

We have taken aggressive actions to mitigate the effect of COVID-19 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 (CARES) Act.

<u>Capacity Reductions</u>

We have significantly reduced our capacity (as measured by available seat miles), with the third quarter of 2020 flying decreased by 59% year-over-year and fourth quarter of 2020 flying expected to decrease by more than 50% year-over-year, with long-haul international capacity down approximately 75% year-over-year. The demand environment continues to be uncertain as COVID-19 cases have continued to fluctuate in jurisdictions to which we fly and travel restrictions have generally remained in place. Due to this uncertainty, we will continue to adjust our future capacity to match developing trends in bookings for future travel and make further adjustments to our capacity as needed.

We also announced changes to our international schedule for winter 2020 through summer 2021. We expect our summer 2021 long-haul international capacity to be down 25% compared to 2019, and also plan to exit 19 international routes from six hubs. These changes will allow us to reset our international network for future growth as demand returns.

<u>Fleet</u>

To better align our network with lower passenger demand, we accelerated the retirement of Airbus A330-200, Boeing 757, Boeing 767, Airbus A330-300 and Embraer 190 fleets as well as certain regional aircraft, including certain Embraer 140 and Bombardier CRJ200 aircraft. These retirements remove complexity from our operation and bring forward cost savings and efficiencies associated with operating fewer aircraft types. See Note 13 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A for further information on the accounting for our fleet retirements. Due to the inherent uncertainties of the current operating environment, we will continue to evaluate our current fleet and may decide to permanently retire additional aircraft. In addition, we have placed a number of Boeing 737-800 and certain regional aircraft into temporary storage.

<u>Cost Reductions</u>

We are moving quickly to better align our costs with our reduced schedule. In aggregate, we estimate that we have reduced our 2020 operating and capital expenditures by approximately $17.0 billion. These savings have been achieved primarily through capacity reductions. In addition, we have implemented a series of actions, including the accelerated fleet retirements discussed above as well as reductions in maintenance expense and non-aircraft capital expenditures through less fleet modification work, the elimination of ground service equipment purchases and pausing all non-critical facility investments and information technology projects. We have also suspended all non-essential hiring, paused non-contractual pay rate increases, reduced executive and board of director compensation, implemented voluntary leave and early retirement programs, decreased our management and support staff team, including officers, by approximately 5,100 positions, or 30%, and, as necessary, undertaken furloughs, to reduce our labor costs consistent with our obligations under the CARES Act. In total, more than 20,000 team members have opted for an early retirement or long-term paid leave and approximately 19,000 team members were furloughed starting October 1, 2020. Additionally, we have made reductions in marketing, contractor, event and training expenses as well as consolidated space at airport facilities.

Liquidity

At September 30, 2020, we had $13.6 billion in total available liquidity, consisting of $8.3 billion in unrestricted cash and short-term investments, $4.9 billion in an undrawn term loan facility under the CARES Act and $400 million in an undrawn short-term revolving facility.

During the first nine months of 2020, we completed the following financing transactions (see Note 6 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A for further information):

- refinanced the $1.2 billion 2014 Term Loan Facility at a lower interest rate and extended the maturity from 2021 to 2027;
- raised $1.0 billion from a senior secured delayed draw term loan credit facility;
- issued $500 million in aggregate principal amount of 3.75% unsecured senior notes due 2025 and repaid $500 million of 4.625% unsecured senior notes that matured in March 2020;
- borrowed $750 million under the 2013 Revolving Facility, $1.6 billion under the 2014 Revolving Facility and $450 million under the April 2016 Revolving Facility;
- issued $1.0 billion in aggregate principal amount of 6.50% convertible senior notes due 2025;
- issued 85.2 million shares of AAG common stock at a price of $13.50 per share pursuant to a public offering of common stock for net proceeds of $1.1 billion;
- issued $2.5 billion in aggregate principal amount of 11.75% senior secured notes due 2025 and repaid the $1.0 billion senior secured delayed draw term loan credit facility that we borrowed in March 2020;
- issued approximately $360 million in special facility revenue bonds, of which $47 million was used to fund the redemption of certain outstanding bonds;
- entered into a $5.5 billion secured term loan facility with the U.S. Department of Treasury (Treasury) (the Treasury Loan Agreement), of which we borrowed $550 million;
- issued $1.2 billion in aggregate principal amount of two series of 10.75% senior secured notes due 2026 secured by various collateral;
- raised $392 million from aircraft sale-leaseback transactions; and
- raised $323 million from enhanced equipment trust certificates (EETCs) and other aircraft and flight equipment financings, of which $17 million was used to repay existing indebtedness.

In addition to the foregoing financings, we were initially approved to receive an aggregate of $5.8 billion in financial assistance to be paid in installments through the payroll support program (Payroll Support Program) under the CARES Act, all of which was received by the end of July 2020. On September 30, 2020, we received an additional installment of $168 million for a total aggregate of $6.0 billion of such financial assistance and, as a result, the promissory note (the PSP Promissory Note) previously issued to Treasury for $1.7 billion was revised upwards to $1.8 billion in aggregate principal amount and warrants to purchase up to an aggregate of approximately 13.7 million shares of AAG common stock were revised upwards to 14.1 million shares (the PSP 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 the Payroll Support Program.

Also, we are permitted to, and will, defer payment of the employer portion of Social Security taxes through the end of 2020 (with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022). This deferral is expected to provide approximately $300 million in additional liquidity during 2020. Additionally, we have suspended our capital return program, including share repurchases and the payment of future dividends for at least the period that the restrictions imposed by the CARES Act are applicable.

We continue to evaluate future financing opportunities and work with third-party appraisers on valuations of our remaining unencumbered assets.

Certain 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 and debt service coverage ratio covenants.

Given the above actions and our assumptions about the future impact of COVID-19 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 obtained pursuant to the CARES Act) and projected cash flows from operations.

AAG's Third Quarter 2020 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 September 30,			
	2020	2019	Decrease	Percent Decrease
	(In millions, except percentage changes)			
Passenger revenue	$ 2,540	$ 10,995	$ (8,455)	(76.9)
Cargo revenue	207	208	(1)	(0.4)
Other operating revenue	426	708	(282)	(39.9)
Total operating revenues	3,173	11,911	(8,738)	(73.4)
Mainline and regional aircraft fuel and related taxes	611	2,474	(1,863)	(75.3)
Salaries, wages and benefits	2,705	3,219	(514)	(16.0)
Total operating expenses	6,044	11,103	(5,059)	(45.6)
Operating income (loss)	(2,871)	808	(3,679)	nm (2)
Pre-tax income (loss)	(3,095)	557	(3,652)	nm
Income tax provision (benefit)	(696)	132	(828)	nm
Net income (loss)	(2,399)	425	(2,824)	nm
Pre-tax income (loss) – GAAP	$ (3,095)	$ 557	$ (3,652)	nm
Adjusted for: Pre-tax net special items (1)	(540)	278	(818)	nm
Pre-tax income (loss) excluding net special items	$ (3,635)	$ 835	$ (4,470)	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 Income (Loss) and Net Income (Loss)

Pre-tax loss and net loss were $3.1 billion and $2.4 billion, respectively, in the third quarter of 2020. This compares to third quarter 2019 pre-tax income and net income of $557 million and $425 million, respectively. The quarter-over-quarter decrease in our pre-tax income was principally driven by lower revenues as a result of a decline in passenger demand and government travel restrictions related to the outbreak and spread of COVID-19. This decline in revenues was offset in part by a decrease in expenses due to our reduced schedule and cost reduction actions described above. Additionally, we recognized $540 million of net special credits during the third quarter of 2020 driven principally by the Payroll Support Program financial assistance (the PSP Financial Assistance), offset in part by severance expenses and fleet impairment charges. See Notes 1 and 2 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A for further information on the PSP Financial Assistance and net special items, respectively.

Excluding the effects of pre-tax net special items, pre-tax loss was $3.6 billion in the third quarter of 2020 and pre-tax income was $835 million in the third quarter of 2019. The quarter-over-quarter decrease in our pre-tax income excluding pre-tax net special items was principally driven by lower revenues and decreased expenses due to our reduced schedule and cost reduction actions as described above.

Revenue

In the third quarter of 2020, we reported total operating revenues of $3.2 billion, a decrease of $8.7 billion, or 73.4%, as compared to the third quarter of 2019. Passenger revenue was $2.5 billion in the third quarter of 2020, a decrease of $8.5 billion, or 76.9%, as compared to the third quarter of 2019. The decrease in passenger revenue in the third quarter of 2020 was due to a decline in passenger demand and government travel restrictions related to COVID-19, resulting in a 72.1% quarter-over-quarter decrease in revenue passenger miles (RPMs) and a 26.7 point decrease in passenger load factor.

Cargo revenue decreased $1 million, or 0.4%, as compared to the third quarter of 2019, primarily due to an 83.6% increase in yield as a result of rate increases which was offset by a 45.8% decrease in cargo ton miles reflecting declines in freight volumes, principally as a result of international schedule reductions.

Other operating revenue decreased $282 million, or 39.9%, as compared to the third quarter of 2019, driven primarily by lower revenue associated with our loyalty program and airport clubs.

Our total revenue per available seat mile (TRASM) was 10.31 cents in the third quarter of 2020, a 34.4% decrease as compared to 15.71 cents in the third quarter of 2019.

Fuel

Our mainline and regional fuel expense totaled $611 million in the third quarter of 2020, which was $1.9 billion, or 75.3%, lower as compared to the third quarter of 2019. This decrease was primarily driven by a 58.7% decrease in gallons of fuel consumed as a result of lower capacity and a 40.1% decrease in the average price per gallon of aircraft fuel including related taxes to $1.23 in the third quarter of 2020 from $2.05 in the third quarter of 2019.

As of September 30, 2020, 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. Although spot prices for oil and jet fuel are presently very low by historical standards, we do not currently view the market opportunities to hedge fuel prices as attractive because, among other things, the forward curve for the purchase of such products, or hedges related to such products, is very steep, any hedging would potentially require significant capital or collateral to be placed at risk, and our future fuel needs remain unclear due to uncertainties regarding air travel demand. 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 2020 third quarter total cost per available seat mile (CASM) was 19.64 cents, an increase of 34.2%, from 14.64 cents in the third quarter of 2019. Lower than planned capacity in the third quarter of 2020 due to decreased passenger demand and government travel restrictions related to COVID-19 drove the increase in our CASM, offset in part by the PSP Financial Assistance recognized in the third quarter of 2020.

Our 2020 third quarter CASM excluding net special items and fuel was 19.34 cents, as compared to 11.07 cents in the third quarter of 2019. The increase was primarily driven by lower capacity in the third quarter of 2020 as described above.

For a reconciliation of CASM to total 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 income (loss) (GAAP measure) to pre-tax income (loss) excluding net special items (non-GAAP measure). Management uses this non-GAAP financial measure to evaluate our current operating performance and to allow for period-to-period comparisons. As net special items may vary from period-to-period in nature and amount, the adjustment to exclude net special items allows management an additional tool to understand our core operating performance.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In millions)			
Reconciliation of Pre-Tax Income (Loss) Excluding Net Special Items:				
Pre-tax income (loss) - GAAP	$ (3,095)	$ 557	$ (8,644)	$ 1,685
Pre-tax net special items (1):				
Operating special items, net	(519)	234	(966)	493
Nonoperating special items, net	(21)	44	207	43
Total pre-tax net special items	(540)	278	(759)	536
Pre-tax income (loss) excluding net special items	$ (3,635)	$ 835	$ (9,403)	$ 2,221

(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 aircraft 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 aircraft 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 September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
Reconciliation of Total Operating Costs per Available Seat Mile (CASM) Excluding Net Special Items and Fuel:				
(In millions)				
Total operating expenses - GAAP	$ 6,044	$ 11,103	$ 21,215	$ 32,119
Operating net special items [1]:				
Mainline operating special items, net	295	(228)	657	(487)
Regional operating special items, net	224	(6)	309	(6)
Fuel:				
Aircraft fuel and related taxes - mainline	(453)	(1,989)	(2,065)	(5,710)
Aircraft fuel and related taxes - regional	(158)	(485)	(638)	(1,395)
Total operating expenses, excluding net special items and fuel	$ 5,952	$ 8,395	$ 19,478	$ 24,521
Total Available Seat Miles (ASM)	30,768	75,820	109,948	214,816
(In cents)				
Total operating CASM	19.64	14.64	19.30	14.95
Operating net special items per ASM [1]:				
Mainline operating special items, net	0.96	(0.30)	0.60	(0.23)
Regional operating special items, net	0.73	(0.01)	0.28	—
Fuel per ASM:				
Aircraft fuel and related taxes - mainline	(1.47)	(2.62)	(1.88)	(2.66)
Aircraft fuel and related taxes - regional	(0.51)	(0.64)	(0.58)	(0.65)
Total operating CASM, excluding net special items and fuel	19.34	11.07	17.72	11.41

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

AAG's Results of Operations

Operating Statistics

The table below sets forth selected operating data for the three and nine months ended September 30, 2020 and 2019. Amounts may not recalculate due to rounding.

	Three Months Ended September 30,		Increase (Decrease)		Nine Months Ended September 30,		Increase (Decrease)	
	2020	2019			2020	2019		
Revenue passenger miles (millions) [a]	18,121	64,874	(72.1)	%	70,523	182,334	(61.3)	%
Available seat miles (millions) [b]	30,768	75,820	(59.4)	%	109,948	214,816	(48.8)	%
Passenger load factor (percent) [c]	58.9	85.6	(26.7)	pts	64.1	84.9	(20.8)	pts
Yield (cents) [d]	14.01	16.95	(17.3)	%	16.06	17.37	(7.5)	%
Passenger revenue per available seat mile (cents) [e]	8.25	14.50	(43.1)	%	10.30	14.74	(30.1)	%
Total revenue per available seat mile (cents) [f]	10.31	15.71	(34.4)	%	12.11	16.04	(24.5)	%
Aircraft at end of period [g]	1,381	1,552	(11.0)	%	1,381	1,552	(11.0)	%
Fuel consumption (gallons in millions)	499	1,209	(58.7)	%	1,745	3,420	(49.0)	%
Average aircraft fuel price including related taxes (dollars per gallon)	1.23	2.05	(40.1)	%	1.55	2.08	(25.4)	%
Full-time equivalent employees at end of period	110,500	131,900	(16.2)	%	110,500	131,900	(16.2)	%
Operating cost per available seat mile (cents) [h]	19.64	14.64	34.2	%	19.30	14.95	29.1	%

(a) Revenue passenger mile (RPM) – A basic measure of sales volume. One RPM represents one passenger flown one mile.

(b) Available seat mile (ASM) – A basic measure of production. One ASM represents one seat flown one mile.

(c) Passenger load factor – The percentage of available seats that are filled with revenue passengers.

(d) Yield – A measure of airline revenue derived by dividing passenger revenue by RPMs.

(e) Passenger revenue per available seat mile (PRASM) – Passenger revenue divided by ASMs.

(f) Total revenue per available seat mile (TRASM) – Total revenues divided by ASMs.

(g) Includes aircraft owned and leased by American as well as aircraft operated by third-party regional carriers under capacity purchase agreements. Excludes 12 mainline and 29 regional aircraft that are in temporary storage as follows: 13 Embraer 175, 12 Boeing 737-800, seven Embraer 140, six Embraer 145 and three Bombardier CRJ900 aircraft.

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

Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019

As discussed above, our results of operations for the three months ended September 30, 2020 were significantly impacted by COVID-19. As a result, the comparison of these results to the three months ended September 30, 2019 are largely not meaningful. Refer to the "Financial Overview" above for discussion of our third quarter of 2020 financial results and the impact of COVID-19 on our business.

Operating Revenues

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Decrease	Percent Decrease
	(In millions, except percentage changes)			
Passenger	$ 2,540	$ 10,995	$ (8,455)	(76.9)
Cargo	207	208	(1)	(0.4)
Other	426	708	(282)	(39.9)
Total operating revenues	$ 3,173	$ 11,911	$ (8,738)	(73.4)

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

	Three Months Ended September 30, 2020	Decrease vs. Three Months Ended September 30, 2019: RPMs	ASMs	Load Factor	Passenger Yield	PRASM
	(In millions)					
Passenger revenue	$ 2,540	(72.1)%	(59.4)%	(26.7)pts	(17.3) %	(43.1)%

Total operating revenues in the third quarter of 2020 decreased $8.7 billion, or 73.4%, from the third quarter of 2019, primarily due to a decline in passenger demand and government travel restrictions related to COVID-19.

Operating Expenses

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Aircraft fuel and related taxes	$ 453	$ 1,989	$ (1,536)	(77.2)
Salaries, wages and benefits	2,705	3,219	(514)	(16.0)
Maintenance, materials and repairs	337	610	(273)	(44.7)
Other rent and landing fees	367	530	(163)	(30.8)
Aircraft rent	336	335	1	0.2
Selling expenses	70	424	(354)	(83.5)
Depreciation and amortization	498	499	(1)	(0.3)
Mainline operating special items, net	(295)	228	(523)	nm
Other	659	1,336	(677)	(50.7)
Regional expenses:				
Aircraft fuel and related taxes	158	485	(327)	(67.4)
Other	756	1,448	(692)	(47.8)
Total operating expenses	$ 6,044	$ 11,103	$ (5,059)	(45.6)

Total operating expenses decreased $5.1 billion, or 45.6%, in the third quarter of 2020 from the third quarter of 2019 due to our reduced schedule and cost reduction actions as described in the "Financial Overview" above.

Operating Special Items, Net

	Three Months Ended September 30,	
	2020	2019
	(In millions)	
PSP Financial Assistance [1]	$ (1,908)	$ —
Severance expenses [2]	871	—
Fleet impairment [3]	742	201
Fleet restructuring expenses [4]	—	72
Litigation reserve adjustments	—	(53)
Merger integration expenses	—	29
Mark-to-market adjustments on bankruptcy obligations, net [5]	—	(22)
Other operating special items, net	—	1
Mainline operating special items, net	(295)	228
PSP Financial Assistance [1]	(228)	—
Severance expenses [2]	4	—
Other operating special items, net	—	6
Regional operating special items, net	(224)	6
Operating special items, net	$ (519)	$ 234

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

(2) Severance expenses principally include salary and medical costs associated with certain team members who opted in to voluntary early retirement programs offered as a result of reductions to our operation due to COVID-19. These expenses in the three months ended September 30, 2020 also include salary and medical costs associated with team members who were notified in the third quarter of 2020 they were being involuntarily furloughed starting October 1, 2020, subsequent to the expiration of the Payroll Support Program requirement against involuntary furloughs. Cash payments related to these charges for the three months ended September 30, 2020 were approximately $120 million.

(3) Fleet impairment resulted from our decision to retire certain aircraft earlier than planned driven by the decline in air travel due to COVID-19. See Note 13 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A for further information related to these charges.

The three months ended September 30, 2020 included a $709 million non-cash write-down of Airbus A330-200 aircraft and spare parts and $33 million in cash charges primarily for lease return and other costs.

(4) Fleet restructuring expenses principally included accelerated depreciation and rent expense for aircraft and related equipment expected to be retired earlier than planned.

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

Nonoperating Results

	Three Months Ended September 30, 2020	2019	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Interest income	$ 5	$ 34	$ (29)	(84.9)
Interest expense, net	(340)	(284)	(56)	19.6
Other income (expense), net	111	(1)	112	nm
Total nonoperating expense, net	$ (224)	$ (251)	$ 27	(10.8)

Interest income decreased in the third quarter of 2020 compared to the third quarter of 2019 primarily as a result of lower returns on our short-term investments. Interest expense, net increased in the third quarter of 2020 compared to the third quarter of 2019 primarily due to the issuance of debt.

In the third quarter of 2020, other nonoperating income, net included $84 million of non-service related pension and other postretirement benefit plan income and $21 million of net special credits principally for mark-to-market unrealized gains associated with our equity investment in China Southern Airlines Company Limited (China Southern Airlines).

In the third quarter of 2019, other nonoperating expense, net included $44 million of net special charges principally for mark-to-market unrealized losses associated with our equity investment in China Southern Airlines and certain treasury rate lock derivative instruments, offset in part by $47 million of non-service related pension and other postretirement benefit plan income.

The increase in non-service related pension and other postretirement benefit plan income in the third quarter of 2020 as compared to the third quarter of 2019 is principally due to an increase in the expected return on pension plan assets.

Income Taxes

In the third quarter of 2020, we recorded an income tax benefit of $696 million. Substantially all of our income or loss before income taxes is attributable to the United States.

See Note 7 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A for additional information on income taxes.

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019

As discussed above, our results of operations for the nine months ended September 30, 2020 were significantly impacted by COVID-19. As a result, the comparison of these results to the nine months ended September 30, 2019 are largely not meaningful. Refer to the "Financial Overview" above for discussion of our first nine months of 2020 financial results and the impact of COVID-19 on our business.

Operating Revenues

	Nine Months Ended September 30, 2020	2019	Decrease	Percent Decrease
	(In millions, except percentage changes)			
Passenger	$ 11,328	$ 31,663	$ (20,335)	(64.2)
Cargo	484	647	(163)	(25.1)
Other	1,497	2,145	(648)	(30.2)
Total operating revenues	$ 13,309	$ 34,455	$ (21,146)	(61.4)

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

		Decrease vs. Nine Months Ended September 30, 2019				
	Nine Months Ended September 30, 2020	RPMs	ASMs	Load Factor	Passenger Yield	PRASM
	(In millions)					
Passenger revenue	$ 11,328	(61.3)%	(48.8)%	(20.8)pts	(7.5)%	(30.1)%

Total operating revenues in the first nine months of 2020 decreased $21.1 billion, or 61.4%, from the first nine months of 2019, primarily due to a decline in passenger demand and government travel restrictions related to COVID-19.

Operating Expenses

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Aircraft fuel and related taxes	$ 2,065	$ 5,710	$ (3,645)	(63.8)
Salaries, wages and benefits	8,384	9,509	(1,125)	(11.8)
Maintenance, materials and repairs	1,253	1,745	(492)	(28.2)
Other rent and landing fees	1,149	1,568	(419)	(26.7)
Aircraft rent	1,004	996	8	0.8
Selling expenses	418	1,194	(776)	(65.0)
Depreciation and amortization	1,557	1,469	88	6.0
Mainline operating special items, net	(657)	487	(1,144)	nm
Other	2,404	3,859	(1,455)	(37.7)
Regional expenses:				
Aircraft fuel and related taxes	638	1,395	(757)	(54.2)
Other	3,000	4,187	(1,187)	(28.3)
Total operating expenses	$ 21,215	$ 32,119	$ (10,904)	(33.9)

Total operating expenses decreased $10.9 billion, or 33.9%, in the first nine months of 2020 from the first nine months of 2019 due to our reduced schedule and cost reduction actions as described in the "Financial Overview" above.

Depreciation and amortization increased $88 million, or 6.0%, in the first nine months of 2020 from the first nine months of 2019 due in part to accelerated depreciation for certain aircraft and related equipment expected to be retired earlier than planned. Depreciation associated with facility improvements also contributed to the increase.

Operating Special Items, Net

	Nine Months Ended September 30,	
	2020	2019
	(In millions)	
PSP Financial Assistance (1)	$ (3,710)	$ —
Fleet impairment (2)	1,484	201
Severance expenses (3)	1,408	—
Labor contract expenses (4)	228	—
Mark-to-market adjustments on bankruptcy obligations, net (5)	(49)	(18)
Fleet restructuring expenses (6)	—	232
Litigation reserve adjustments	—	(53)
Merger integration expenses	—	106
Other operating special items, net	(18)	19
Mainline operating special items, net	(657)	487
PSP Financial Assistance (1)	(444)	—
Fleet impairment (2)	117	—
Severance expenses (3)	18	—
Other operating special items, net	—	6
Regional operating special items, net	(309)	6
Operating special items, net	$ (966)	$ 493

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

(2) Fleet impairment resulted from our decision to retire certain aircraft earlier than planned driven by the decline in air travel due to COVID-19. Aircraft retired include Airbus A330-200, Boeing 757, Boeing 767, Airbus A330-300, Embraer 190, certain Embraer 140 and Bombardier CRJ200 aircraft. See Note 13 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A for further information related to these charges.

The nine months ended September 30, 2020 included a $1.5 billion non-cash write-down of mainline and regional aircraft and spare parts and $109 million in cash charges primarily for impairment of right-of-use (ROU) assets and lease return costs.

(3) Severance expenses principally include salary and medical costs associated with certain team members who opted in to voluntary early retirement programs offered as a result of reductions to our operation due to COVID-19. These expenses also include salary and medical costs associated with team members who were notified in the third quarter of 2020 they were being involuntarily furloughed starting October 1, 2020, subsequent to the expiration of the Payroll Support Program requirement against involuntary furloughs. Cash payments related to these charges for the nine months ended September 30, 2020 were approximately $170 million.

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

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

(6) Fleet restructuring expenses principally included accelerated depreciation and rent expense for aircraft and related equipment expected to be retired earlier than planned.

Nonoperating Results

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Interest income	$ 36	$ 103	$ (67)	(64.9)
Interest expense, net	(851)	(830)	(21)	2.6
Other income, net	77	76	1	1.2
Total nonoperating expense, net	$ (738)	$ (651)	$ (87)	13.4

Interest income decreased in the first nine months of 2020 compared to the first nine months of 2019 primarily as a result of lower returns on our short-term investments. Interest expense, net increased in the first nine months of 2020 compared to the first nine months of 2019 primarily due to the issuance of debt and lower capitalized interest offset in part by lower interest expense on our variable-rate debt.

In the first nine months of 2020, other nonoperating income, net included $290 million of non-service related pension and other postretirement benefit plan income. This income was offset in part by $207 million of net special charges principally for mark-to-market unrealized losses associated with our equity investment in China Southern Airlines and certain treasury rate lock derivative instruments and $20 million of net foreign currency losses, primarily associated with losses from Latin American currencies.

In the first nine months of 2019, other nonoperating income, net principally included $137 million of non-service related pension and other postretirement benefit plan income. This income was offset in part by $43 million of net special charges principally for mark-to-market unrealized losses associated with our equity investment in China Southern Airlines and certain treasury rate lock derivative instruments and $24 million of net foreign currency losses, primarily associated with losses from Latin American currencies.

The increase in non-service related pension and other postretirement benefit plan income in the first nine months of 2020 as compared to the first nine months of 2019 is principally due to an increase in the expected return on pension plan assets.

Income Taxes

In the first nine months of 2020, we recorded an income tax benefit of $1.9 billion. Substantially all of our income or loss before income taxes is attributable to the United States.

See Note 7 to AAG's Condensed Consolidated Financial Statements in Part I, Item 1A for additional information on income taxes.

American's Results of Operations

Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019

As discussed above, American's results of operations for the three months ended September 30, 2020 were significantly impacted by COVID-19. As a result, the comparison of these results to the three months ended September 30, 2019 are largely not meaningful. Refer to the "Financial Overview" above for discussion of American's third quarter of 2020 financial results and the impact of COVID-19 on American's business.

Operating Revenues

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Decrease	Percent Decrease
	(In millions, except percentage changes)			
Passenger	$ 2,540	$ 10,995	$ (8,455)	(76.9)
Cargo	207	208	(1)	(0.4)
Other	425	707	(282)	(39.8)
Total operating revenues	$ 3,172	$ 11,910	$ (8,738)	(73.4)

Total operating revenues in the third quarter of 2020 decreased $8.7 billion, or 73.4%, from the third quarter of 2019, primarily due to a decline in passenger demand and government travel restrictions related to COVID-19.

Operating Expenses

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Aircraft fuel and related taxes	$ 453	$ 1,989	$ (1,536)	(77.2)
Salaries, wages and benefits	2,704	3,217	(513)	(16.0)
Maintenance, materials and repairs	337	610	(273)	(44.7)
Other rent and landing fees	367	530	(163)	(30.8)
Aircraft rent	336	335	1	0.2
Selling expenses	70	424	(354)	(83.5)
Depreciation and amortization	498	499	(1)	(0.3)
Mainline operating special items, net	(295)	228	(523)	nm
Other	659	1,337	(678)	(50.7)
Regional expenses:				
Aircraft fuel and related taxes	158	485	(327)	(67.4)
Other	694	1,428	(734)	(51.4)
Total operating expenses	$ 5,981	$ 11,082	$ (5,101)	(46.0)

Total operating expenses decreased $5.1 billion, or 46.0%, in the third quarter of 2020 from the third quarter of 2019 due to American's reduced schedule and cost reduction actions as described in the "Financial Overview" above.

Operating Special Items, Net

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019
	(In millions)	
PSP Financial Assistance (1)	$ (1,908)	$ —
Severance expenses (2)	871	—
Fleet impairment (3)	742	201
Fleet restructuring expenses (4)	—	72
Litigation reserve adjustments	—	(53)
Merger integration expenses	—	29
Mark-to-market adjustments on bankruptcy obligations, net (5)	—	(22)
Other operating special items, net	—	1
Mainline operating special items, net	(295)	228
PSP Financial Assistance (1)	(228)	—
Regional operating special items, net	(228)	—
Operating special items, net	$ (523)	$ 228

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

(2) Severance expenses principally include salary and medical costs 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 COVID-19. These expenses in the three months ended September 30, 2020 also include salary and medical costs associated

with team members who were notified in the third quarter of 2020 they were being involuntarily furloughed starting October 1, 2020, subsequent to the expiration of the Payroll Support Program requirement against involuntary furloughs. Cash payments related to these charges for the three months ended September 30, 2020 were approximately $120 million.

(3) Fleet impairment resulted from American's decision to retire certain aircraft earlier than planned driven by the decline in air travel due to COVID-19. See Note 12 to American's Condensed Consolidated Financial Statements in Part I, Item 1B for further information related to these charges.

The three months ended September 30, 2020 included a $709 million non-cash write-down of Airbus A330-200 aircraft and spare parts and $33 million in cash charges primarily for lease return and other costs.

(4) Fleet restructuring expenses principally included accelerated depreciation and rent expense for aircraft and related equipment expected to be retired earlier than planned.

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

Nonoperating Results

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Interest income	$ 72	$ 131	$ (59)	(44.9)
Interest expense, net	(310)	(281)	(29)	10.2
Other income (expense), net	111	(10)	121	nm
Total nonoperating expense, net	$ (127)	$ (160)	$ 33	(20.7)

Interest income decreased in the third quarter of 2020 compared to the third quarter of 2019 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 third quarter of 2020 compared to the third quarter of 2019 primarily due to the issuance of debt.

In the third quarter of 2020, other nonoperating income, net included $84 million of non-service related pension and other postretirement benefit plan income and $21 million of net special credits principally for mark-to-market unrealized gains associated with American's equity investment in China Southern Airlines.

In the third quarter of 2019, other nonoperating expense, net included $52 million of net special charges principally for mark-to-market unrealized losses associated with American's equity investment in China Southern Airlines and certain treasury rate lock derivative instruments, offset in part by $47 million of non-service related pension and other postretirement benefit plan income.

The increase in non-service related pension and other postretirement benefit plan income in the third quarter of 2020 as compared to the third quarter of 2019 is principally due to an increase in the expected return on pension plan assets.

Income Taxes

American is part of the AAG consolidated income tax return.

In the third quarter of 2020, American recorded an income tax benefit of $660 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.

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019

As discussed above, American's results of operations for the nine months ended September 30, 2020 were significantly impacted by COVID-19. As a result, the comparison of these results to the nine months ended September 30, 2019 are largely not meaningful. Refer to the "Financial Overview" above for discussion of American's first nine months of 2020 financial results and the impact of COVID-19 on American's business.

Operating Revenues

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019	Decrease	Percent Decrease
	(In millions, except percentage changes)			
Passenger	$ 11,328	$ 31,663	$ (20,335)	(64.2)
Cargo	484	647	(163)	(25.1)
Other	1,496	2,139	(643)	(30.0)
Total operating revenues	$ 13,308	$ 34,449	$ (21,141)	(61.4)

Total operating revenues in the first nine months of 2020 decreased $21.1 billion, or 61.4%, from the first nine months of 2019, primarily due to a decline in passenger demand and government travel restrictions related to COVID-19.

Operating Expenses

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Aircraft fuel and related taxes	$ 2,065	$ 5,710	$ (3,645)	(63.8)
Salaries, wages and benefits	8,380	9,503	(1,123)	(11.8)
Maintenance, materials and repairs	1,253	1,745	(492)	(28.2)
Other rent and landing fees	1,149	1,568	(419)	(26.7)
Aircraft rent	1,004	996	8	0.8
Selling expenses	418	1,194	(776)	(65.0)
Depreciation and amortization	1,557	1,469	88	6.0
Mainline operating special items, net	(657)	487	(1,144)	nm
Other	2,425	3,860	(1,435)	(37.2)
Regional expenses:				
Aircraft fuel and related taxes	638	1,395	(757)	(54.2)
Other	2,862	4,221	(1,359)	(32.2)
Total operating expenses	$ 21,094	$ 32,148	$ (11,054)	(34.4)

Total operating expenses decreased $11.1 billion, or 34.4%, in the first nine months of 2020 from the first nine months of 2019 due to American's reduced schedule and cost reduction actions as described in the "Financial Overview" above.

Depreciation and amortization increased $88 million, or 6.0%, in the first nine months of 2020 from the first nine months of 2019 due in part to accelerated depreciation for certain aircraft and related equipment expected to be retired earlier than planned. Depreciation associated with facility improvements also contributed to the increase.

Operating Special Items, Net

	Nine Months Ended September 30,	
	2020	2019
	(In millions)	
PSP Financial Assistance [1]	$ (3,710)	$ —
Fleet impairment [2]	1,484	201
Severance expenses [3]	1,408	—
Labor contract expenses [4]	228	—
Mark-to-market adjustments on bankruptcy obligations, net [5]	(49)	(18)
Fleet restructuring expenses [6]	—	232
Litigation reserve adjustments	—	(53)
Merger integration expenses	—	106
Other operating special items, net	(18)	19
Mainline operating special items, net	(657)	487
PSP Financial Assistance [1]	(444)	—
Fleet impairment [2]	106	—
Regional operating special items, net	(338)	—
Operating special items, net	$ (995)	$ 487

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

(2) Fleet impairment resulted from American's decision to retire certain aircraft earlier than planned driven by the decline in air travel due to COVID-19. Aircraft retired include Airbus A330-200, Boeing 757, Boeing 767, Airbus A330-300, Embraer 190, certain Embraer 140 and Bombardier CRJ200 aircraft. See Note 12 to American's Condensed Consolidated Financial Statements in Part I, Item 1B for further information related to these charges.

The nine months ended September 30, 2020 included a $1.5 billion non-cash write-down of mainline and regional aircraft and spare parts and $109 million in cash charges primarily for impairment of ROU assets and lease return costs.

(3) Severance expenses principally include salary and medical costs 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 COVID-19. These expenses also include salary and medical costs associated with team members who were notified in the third quarter of 2020 they were being involuntarily furloughed starting October 1, 2020, subsequent to the expiration of the Payroll Support Program requirement against involuntary furloughs. Cash payments related to these charges for the nine months ended September 30, 2020 were approximately $170 million.

(4) Labor contract expenses primarily relate to one-time charges resulting from the ratification of a new contract with the TWU-IAM Association for American's maintenance and fleet service team members, including signing bonuses and adjustments to vacation accruals resulting from pay rate increases.

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

(6) Fleet restructuring expenses principally included accelerated depreciation and rent expense for aircraft and related equipment expected to be retired earlier than planned.

Nonoperating Results

	Nine Months Ended September 30, 2020	2019	Increase (Decrease)	Percent Increase (Decrease)
	(In millions, except percentage changes)			
Interest income	$ 268	$ 389	$ (121)	(31.1)
Interest expense, net	(825)	(835)	10	(1.2)
Other income, net	78	69	9	13.2
Total nonoperating expense, net	$ (479)	$ (377)	$ (102)	26.9

Interest income decreased in the first nine months of 2020 compared to the first nine months of 2019 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 decreased in the first nine months of 2020 compared to the first nine months of 2019 primarily due to the issuance of debt and lower capitalized interest offset in part by lower interest expense on American's variable-rate debt.

In the first nine months of 2020, other nonoperating income, net included $290 million of non-service related pension and other postretirement benefit plan income. This income was offset in part by $207 million of net special charges principally for mark-to-market unrealized losses associated with American's equity investment in China Southern Airlines and certain treasury rate lock derivative instruments and $20 million of net foreign currency losses, primarily associated with losses from Latin American currencies.

In the first nine months of 2019, other nonoperating income, net principally included $138 million of non-service related pension and other postretirement benefit plan income. This income was offset in part by $51 million of net special charges principally for mark-to-market unrealized losses associated with American's equity investment in China Southern Airlines and certain treasury rate lock derivative instruments and $24 million of net foreign currency losses, primarily associated with losses from Latin American currencies.

The increase in non-service related pension and other postretirement benefit plan income in the first nine months of 2020 as compared to the first nine months of 2019 is principally due to an increase in the expected return on pension plan assets.

Income Taxes

American is part of the AAG consolidated income tax return.

In the first nine months of 2020, American recorded an income tax benefit of $1.9 billion. 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 September 30, 2020, AAG had approximately $13.6 billion in total available liquidity and $508 million in restricted cash and short-term investments. Additional detail regarding our available liquidity is provided in the table below (in millions):

	AAG		American	
	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
Cash	$ 253	$ 280	$ 243	$ 267
Short-term investments	8,031	3,546	8,029	3,543
Undrawn credit facilities	5,327	3,243	5,327	3,243
Total available liquidity	$ 13,611	$ 7,069	$ 13,599	$ 7,053

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

Share Repurchase Programs and Cash Dividends

During the nine months ended September 30, 2020, we repurchased 6.4 million shares of AAG common stock for $145 million at a weighted average cost per share of $22.77, all of which were purchased in the first quarter of 2020.

In January 2020, our Board of Directors declared a cash dividend of $0.10 per share for stockholders of record as of February 5, 2020 and paid on February 19, 2020, totaling $43 million.

We have suspended our capital return program, including share repurchases and the payment of future dividends. In connection with our receipt of financial assistance under the Payroll Support Program, we agreed not to repurchase shares of or make dividend payments in respect of AAG common stock through September 30, 2021. As of September 30, 2020, we also entered into the Treasury Loan Agreement, and, as a result, we will be prohibited from repurchasing shares of AAG common stock and paying dividends on AAG common stock through the date that is one year after the secured loan provided under the Treasury Loan Agreement is fully repaid.

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 ratio covenants and require us to appraise the related collateral annually or semiannually. Pursuant to such agreements, if the loan to value ratio exceeds a specified threshold or 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. As of the most recent applicable measurement dates, we were in compliance with each of the foregoing collateral coverage tests. Additionally, certain 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 Treasury Term Loan Facility contains a debt service coverage ratio, pursuant to which failure to comply with a certain threshold may result in mandatory prepayment of the Treasury Term Loan Facility.

Sources and Uses of Cash

<u>AAG</u>

Operating Activities

Our net cash used in operating activities was $3.7 billion for the first nine months of 2020 as compared to net cash provided by operating activities of $3.2 billion for the first nine months of 2019. The $6.9 billion period-over-period decrease in operating cash flows was primarily due to a net loss in the first nine months of 2020. The net loss was primarily driven by lower revenues as a result of a 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. Additionally, we received cash proceeds of $4.2 billion in the first nine months of 2020 associated with the PSP Financial Assistance. In the first nine months of 2020, we also recorded a $1.4 billion special charge for salary and medical costs associated with certain team members who opted in to voluntary early retirement programs as well as team members who were involuntarily furloughed starting October 1, 2020. Approximately $170 million of this charge has been paid to team members in the first nine months of 2020. We expect cash payments under these programs of approximately $200 million in the fourth quarter of 2020 and approximately $600 million in 2021 with the remaining payments in 2022 and beyond.

Investing Activities

Our net cash used in investing activities was $6.0 billion and $2.9 billion for the first nine months of 2020 and 2019, respectively.

Our principal investing activities in the first nine months of 2020 included $4.5 billion in net purchases of short-term investments, expenditures of $1.8 billion for property and equipment, including 10 Airbus 321neo aircraft, three Embraer 175 aircraft and three Bombardier CRJ900 aircraft as well as a $317 million increase in restricted short-term investments primarily related to cash proceeds from special facility revenue bonds. These cash outflows were offset in part by $433 million of proceeds primarily from aircraft sale-leaseback transactions and $251 million of proceeds from the sale of property and equipment.

Our principal investing activities in the first nine months of 2019 included expenditures of $3.1 billion for property and equipment, including 15 Embraer 175 aircraft, eight Bombardier CRJ900 aircraft, six Airbus 321neo aircraft, four Boeing 737 MAX aircraft and two Boeing 787 Family aircraft, and $354 million in net purchases of short-term investments. These cash outflows were offset in part by $629 million of proceeds primarily from aircraft sale-leaseback transactions.

Financing Activities

Our net cash provided by financing activities was $9.7 billion for the first nine months of 2020 as compared to net cash used in financing activities of $296 million for the first nine months of 2019.

Our principal financing activities in the first nine months of 2020 included $11.6 billion in proceeds from the issuance of debt and $1.5 billion in proceeds from the issuance of equity. These proceeds principally include $2.8 billion borrowed under the 2014 Revolving Facility, the 2013 Revolving Facility and the April 2016 Revolving Facility, $2.5 billion in aggregate principal amount of 11.75% senior secured notes, $1.8 billion in aggregate principal amount under the PSP Promissory Note, $1.2 billion in aggregate principal amount of two series of 10.75% senior secured notes due 2026, $1.0 billion in aggregate principal amount of AAG's 6.50% convertible senior notes, $1.0 billion under the Delayed Draw Term Loan Credit Facility, $550 million under the Treasury Term Loan Facility, $500 million in aggregate principal amount of 3.75% unsecured senior notes due 2025 and the $360 million issuance of special facility revenue bonds as well as $1.1 billion of net proceeds from a public offering of common stock. These cash inflows were offset in part by $3.0 billion in debt repayments, consisting of approximately $2.0 billion in scheduled debt repayments, including repayment of $500 million of 4.625% senior notes, and the prepayment of the $1.0 billion Delayed Draw Term Loan Credit Facility, as well as $173 million in share repurchases (which occurred in the first quarter of 2020), $132 million of deferred financing costs and $43 million in dividend payments (which occurred in the first quarter of 2020).

Our principal financing activities in the first nine months of 2019 included $2.8 billion in debt repayments, consisting of $1.7 billion in scheduled debt repayments and the prepayment of $1.1 billion of secured loans. We also had $825 million in share repurchases and $135 million in dividend payments. These cash outflows were offset in part by $3.6 billion in net proceeds from the issuance of debt, including the issuance of $750 million aggregate principal amount of 5.000% senior notes and the financing of certain aircraft and spare engines.

American

Operating Activities

American's net cash used in operating activities was $90 million for the first nine months of 2020 as compared to net cash provided by operating activities of $2.9 billion for the first nine months of 2019. The $3.0 billion period-over-period decrease in operating cash flows was primarily due to a net loss in the first nine months of 2020, offset in part by intercompany cash receipts from AAG's financing transactions. The net loss was primarily driven by lower revenues as a result of a 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. Additionally, American received cash proceeds of $3.7 billion in the first nine months of 2020 associated with the PSP Financial Assistance. In the first nine months of 2020, American also recorded a $1.4 billion special charge for salary and medical costs associated with certain team members who opted in to voluntary early retirement programs as well as team members who were involuntarily furloughed starting October 1, 2020. Approximately $170 million of this charge has been paid to team members in the first nine months of 2020. American expects cash payments under these programs of approximately $200 million in the fourth quarter of 2020 and approximately $600 million in 2021 with the remaining payments in 2022 and beyond.

Investing Activities

American's net cash used in investing activities was $6.0 billion and $2.8 billion for the first nine months of 2020 and 2019, respectively.

American's principal investing activities in the first nine months of 2020 included $4.5 billion in net purchases of short-term investments, expenditures of $1.8 billion for property and equipment, including 10 Airbus 321neo aircraft, three Embraer 175 aircraft and three Bombardier CRJ900 aircraft as well as a $317 million increase in restricted short-term investments primarily related to cash proceeds from special facility revenue bonds. These cash outflows were offset in part by $433 million of proceeds primarily from aircraft sale-leaseback transactions and $251 million of proceeds from the sale of property and equipment.

American's principal investing activities in the first nine months of 2019 included expenditures of $3.0 billion for property and equipment, including 15 Embraer 175 aircraft, eight Bombardier CRJ900 aircraft, six Airbus 321neo aircraft, four Boeing 737 MAX aircraft and two Boeing 787 Family aircraft, and $354 million in net purchases of short-term investments. These cash outflows were offset in part by $629 million of proceeds primarily from aircraft sale-leaseback transactions.

Financing Activities

American's net cash provided by financing activities was $6.1 billion for the first nine months of 2020 as compared to net cash used in financing activities of $76 million for the first nine months of 2019.

American's principal financing activities in the first nine months of 2020 included $8.7 billion in proceeds from the issuance of debt, including $2.8 billion borrowed under the 2014 Revolving Facility, the 2013 Revolving Facility and the April 2016 Revolving Facility, $2.5 billion in aggregate principal amount of 11.75% senior secured notes, $1.2 billion in aggregate principal amount of two series of 10.75% senior secured notes due 2026, $1.0 billion under the Delayed Draw Term Loan Credit Facility, $550 million under the Treasury Term Loan Facility and the $360 million issuance of special facility revenue bonds. These cash inflows were offset in part by $2.5 billion in debt repayments, consisting of approximately $1.5 billion in scheduled debt repayments and the prepayment of the $1.0 billion Delayed Draw Term Loan Credit Facility, as well as $122 million of deferred financing costs.

American's principal financing activities in the first nine months of 2019 included $2.8 billion in debt repayments, consisting of $1.7 billion in scheduled debt repayments and the prepayment of $1.1 billion of secured loans, offset in part by $2.8 billion in net proceeds from the issuance of debt for the financing of certain aircraft and spare engines.

Commitments

Significant Indebtedness

As of September 30, 2020, AAG had $33.0 billion in long-term debt, including current maturities of $2.6 billion. As of September 30, 2020, American had $28.9 billion in long-term debt, including current maturities of $2.6 billion. All material changes in our significant indebtedness since our 2019 Form 10-K are discussed in Note 6 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 September 30, 2020, we had definitive purchase agreements with Airbus, Boeing and Embraer for the acquisition of the following mainline and regional aircraft [1]:

	Remainder of 2020	2021	2022	2023	2024	2025 and Thereafter	Total
Airbus							
A320 Family [2]	6	16	26	8	22	20	98
Boeing							
737 MAX Family [3]	8	18	10	—	—	40	76
787 Family	7	13	—	6	6	13	45
Embraer							
E175	6	5	—	—	—	—	11
Total	27	52	36	14	28	73	230

(1) Delivery schedule represents our best estimate as of the date of this report. Actual delivery dates are subject to change based on many 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%. We continue to take every effort 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 March 13, 2019, a directive from the Federal Aviation Administration (FAA) grounded all U.S.-registered Boeing 737 MAX aircraft. Our fleet currently includes 24 Boeing 737 MAX aircraft with an additional 76 on order. We have removed all Boeing 737 MAX aircraft flying from our flight schedule through December 29, 2020 and continue to assess this timeline. In addition, we have not taken delivery of any Boeing 737 MAX Family aircraft since the grounding. The extent of the delay to the scheduled deliveries of the Boeing 737 MAX aircraft included in the table above is expected to be impacted by the length of time the FAA order remains in place, Boeing's production rate and the pace at which Boeing can deliver aircraft following the lifting of the FAA order, among other factors. The above table reflects our estimate of future Boeing 737 MAX aircraft deliveries based on information currently available to us; however, the actual delivery schedule may differ from the table above, potentially materially.

We also have agreements for 30 spare engines to be delivered in 2020 and beyond.

We currently have financing commitments in place for all aircraft on order and scheduled to be delivered through 2020. Additionally, we have financing commitments in place for 44 aircraft scheduled to be delivered in 2021: 16 Airbus A320 Family aircraft, 13 Boeing 787 Family aircraft, 10 Boeing 737 MAX Family aircraft and five Embraer 175 aircraft. Our ability to draw on the financing commitments we have in place is subject to (1) the satisfaction of various terms and conditions, including in some cases, on our acquisition of the aircraft by a certain date and the lifting of the grounding directive from the FAA of the Boeing 737 MAX aircraft by a certain date and (2) the performance by the counterparty providing such financing commitments of its obligations thereunder. We do not have financing commitments in place for the remaining eight Boeing 737 MAX Family aircraft scheduled to be delivered in 2021, however, we do have rights to defer these eight Boeing 737 MAX Family aircraft from 2021 to 2023. In addition, we also have rights to defer to 2023-2024 the 10 Boeing 737 MAX Family aircraft currently scheduled to be delivered in 2022. 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 2019 Form 10-K.

Labor Contracts

On March 26, 2020, a new five-year joint collective bargaining agreement was ratified between us and the TWU-IAM Association. The new agreement will significantly increase the cost of providing compensation and benefits to our mainline maintenance and fleet service team members.

Contractual Obligations

The following table provides details of our future cash contractual obligations as of September 30, 2020 (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 2020	2021	2022	2023	2024	2025 and Thereafter	Total
American							
Long-term debt:							
Principal amount [(a), (c)]	$ 614	$ 2,609	$ 1,653	$ 4,142	$ 4,381	$ 15,545	$ 28,944
Interest obligations [(b), (c)]	191	1,156	1,057	985	885	1,513	5,787
Finance lease obligations	36	128	132	110	116	171	693
Aircraft and engine purchase commitments [(d)]	441	866	1,669	1,518	2,531	4,768	11,793
Operating lease commitments	539	1,974	1,828	1,651	1,270	4,710	11,972
Regional capacity purchase agreements [(e)]	228	1,192	1,555	1,570	1,582	4,743	10,870
Minimum pension obligations [(f)]	130	564	607	618	654	413	2,986
Retiree medical and other postretirement benefits	6	18	18	17	29	265	353
Other purchase obligations [(g)]	674	2,134	1,223	895	260	1,104	6,290
Total American Contractual Obligations	2,859	10,641	9,742	11,506	11,708	33,232	79,688
AAG Parent and Other AAG Subsidiaries							
Long-term debt:							
Principal amount [(a)]	—	2	752	2	2	3,281	4,039
Interest obligations [(b)]	20	142	122	103	102	366	855
Operating lease commitments	3	14	13	10	7	20	67
Minimum pension obligations [(f)]	3	4	4	4	5	13	33
Total AAG Contractual Obligations	$ 2,885	$ 10,803	$ 10,633	$ 11,625	$ 11,824	$ 36,912	$ 84,682

(a) Amounts represent contractual amounts due. Excludes $337 million and $443 million of unamortized debt discount, premium and issuance costs as of September 30, 2020 for American and AAG Parent, respectively. For additional information, see Note 6 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 September 30, 2020.

(c) Includes $11.1 billion of future principal payments and $2.0 billion of future interest payments as of September 30, 2020, 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, including with respect to the delivery of Airbus A320 Family and Boeing 737 MAX aircraft; however, the actual delivery schedule may differ from the table above, potentially materially. Additionally, the amounts in the table exclude 20 787-8 aircraft to be delivered in 2020 and 2021 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) Includes minimum pension contributions based on actuarially determined estimates as of December 31, 2019 and is based on estimated payments through 2029. Pursuant to the CARES Act passed in March 2020, minimum required pension contributions to be made in the calendar year 2020 can be deferred to January 1, 2021, with interest accruing from the original due date to the new payment date. We expect to defer our $133 million 2020 minimum required contributions to January 1, 2021, which we intend to pay or otherwise satisfy on or prior to December 31, 2020.

(g) Includes purchase commitments for aircraft fuel, construction projects, flight equipment maintenance 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 COVID-19 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 6 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 2019 Form 10-K and Note 13 and Note 12 to AAG's and American's Condensed Consolidated Financial Statements in Part I, Items 1A and 1B, respectively.

Recent Accounting Pronouncements

Accounting Standards Update (ASU) 2016-13: Measurement of Credit Losses on Financial Instruments

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

ASU 2020-06: Accounting for Convertible Instruments and Contracts In An Entity's Own Equity

This ASU simplifies the accounting for certain convertible instruments by removing the separation models for convertible debt with a cash conversion feature or 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, this ASU 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 this ASU 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. This ASU is applicable to our 6.50% convertible senior notes due 2025, and we are assessing the impact the adoption of this ASU will have 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 2019 Form 10-K except as updated below.

Aircraft Fuel

As of September 30, 2020, 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. 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. Although spot prices for oil and jet fuel are presently very low by historical standards, we do not currently view the market opportunities to hedge fuel prices as attractive because, among other things, the forward curve for the purchase of such products, or hedges related to such products, is very steep, any hedging would potentially require significant capital or collateral to be placed at risk, and our future fuel needs remain unclear due to uncertainties regarding air travel demand. Based on our 2020 forecasted fuel consumption, we estimate that a one cent per gallon increase in the price of aircraft fuel would increase our 2020 annual fuel expense by $23 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 September 30, 2020 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 $80 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. 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, is considering replacing U.S. dollar LIBOR with a newly created index, calculated based on repurchase agreements backed by Treasury securities, we cannot currently predict whether 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 September 30, 2020, we had $12.8 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 September 30, 2020 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 September 30, 2020 at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

For the quarter ended September 30, 2020, 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 September 30, 2020.

PART II: OTHER INFORMATION

ITEM 1. 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. (US Airways Group) 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. In February 2020, 2.2 million shares of AAG common stock were distributed from the Disputed Claims Reserve. After giving effect to this distribution, as of September 30, 2020, the Disputed Claims Reserve held 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, US Airways, Inc. (US Airways), 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. The parties submitted proposed findings of fact and conclusions of law and made closing arguments in April 2019, and we are awaiting the Bankruptcy Court's decision. We believe this lawsuit is without merit and intend to vigorously defend against the allegations.

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. See Part II, Item 1A. Risk Factors – *"We may be a party to litigation in the normal course of business or otherwise, which could affect our financial position and liquidity"* for additional discussion.

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.

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, "shelter in place" 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 determined to retire 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 expenses, airport facilities expense, salaries and benefits expense, and other volume-related expense reductions, including fuel). Nonetheless, we incurred significant negative operating cash flow in the first nine months of 2020, 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 these actions will suffice to sustain our business and operations through this pandemic. We expect our results of operations for fiscal 2020 to be materially impacted.

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. We received approximately $6.0 billion in financial assistance from Treasury through the Payroll Support Program under the CARES Act as of September 30, 2020. In connection with the financial assistance we have received under the Payroll Support Program, we are required to comply with certain provisions of the CARES Act, including the requirement that funds provided pursuant to the Payroll Support Program be used exclusively for the continuation of payment of employee wages, salaries and benefits; the requirement against involuntary furloughs and reductions in employee pay rates and benefits through September 30, 2020; the requirement that certain levels of commercial air service be maintained; provisions prohibiting the repurchase of AAG's common stock and the payment of common stock dividends through September 30, 2021; and restrictions on the payment of certain executive compensation until March 24, 2022. Additionally, under the Payroll Support Program, we and certain of our subsidiaries are subject to substantial and continuing reporting obligations. In addition, we received a secured loan from Treasury under the loan program pursuant to the CARES Act that is due in June 2025 and, as a result, the stock repurchase, dividend and executive compensation restrictions will remain in place through the date that is one year after such secured loan is fully repaid. 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. 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 COVID-19 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, which could result in a material adverse effect on our business, operating results and financial condition.

The full extent of the ongoing impact of COVID-19 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 any recurrence of the pandemic, and related travel advisories and restrictions, the impact of COVID-19 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 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, if our employees are unable 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 "shelter in place" health orders or similar restrictions, the impact of COVID-19 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.

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-pandemic levels, if at all. Accordingly, we cannot predict the ultimate impact of COVID-19 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 September 30, 2020, our planned aggregate expenditures for aircraft purchase commitments and certain engines on a consolidated basis for calendar years 2020-2024 would be approximately $8.0 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

COVID-19. 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 COVID-19; 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 the Payroll Support Program, we are required to comply with the relevant provisions of the CARES Act, including the requirement that funds provided pursuant to the Payroll Support Program be used exclusively for the continuation of payment of employee wages, salaries and benefits; the requirement against involuntary furloughs and reductions in employee pay rates and benefits, which expired effective October 1, 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, 2021; and restrictions on the payment of certain executive compensation until March 24, 2022. In addition, we have entered into the Treasury Loan Agreement and, as a result, the stock repurchase, dividend and executive compensation restrictions will remain in place through the date that is one year after the secured loan provided under the Treasury Loan Agreement is fully repaid. Additionally, under the Payroll Support Program we and certain of our subsidiaries are subject to substantial and continuing reporting obligations. Moreover, as a result of the recent financing activities we have undertaken in response to the COVID-19 pandemic, the number of financings with respect to which such covenants and provisions apply has increased, thereby subjecting us to more substantial risk of cross-default and cross-acceleration in the event of breach, and additional covenants and provisions could become binding on us as we continue to seek additional liquidity.

The obligations discussed above, including those imposed as a result of the CARES Act and any additional financings we may be required to undertake as a result of the impact of COVID-19, 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. 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, is considering replacing U.S. dollar LIBOR with a newly created index, calculated based on repurchase agreements backed by treasury securities, we cannot currently predict whether 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 an agreement with our lenders on any such amendments. As of September 30, 2020, we had $12.8 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.

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

We believe that our future success will depend in large part on our ability to retain or attract highly qualified management, technical and other personnel. We may not be successful in retaining key personnel or in attracting other highly qualified personnel. Among other things, the CARES Act imposes significant restrictions on executive compensation, which will remain in place through the date that is one year after the secured loan provided under the Treasury Loan Agreement is fully repaid. Such restrictions, over time, will likely result in lower executive compensation in the airline industry than is prevailing in other industries which may present retention challenges in the case of executives presented with alternative, non-airline opportunities or with opportunities from airlines that are not subject to such restrictions because they never entered into such Treasury loans or have repaid their Treasury loans prior to us. Any inability to retain or attract significant numbers of qualified management and other personnel would have a material adverse effect on our business, results of operations and financial condition.

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, 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. 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 business, alliance, 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.

In providing international air transportation, we compete to provide scheduled passenger and cargo service between the U.S. and various overseas locations with U.S. airlines, foreign investor-owned airlines and foreign state-owned or state-affiliated airlines. Competition is increasing from foreign state-owned and state-affiliated airlines in the Gulf region. These carriers have large numbers of international widebody aircraft in service and on order and are increasing service to the U.S. from locations both in and outside the Middle East. Service to and from locations outside of the Middle East is provided by some of these carriers under so-called “fifth freedom” rights permitted under international treaties which allow service to and from stopover points between an airline’s home country and the ultimate destination. Such flights, such as a stopover in Europe on flights to the United States, allow the carrier to sell tickets for travel between the stopover point and the United States in competition with service provided by us. We believe these state-owned and state-affiliated carriers in the Gulf region, including their affiliated carriers, benefit from significant government subsidies, which have allowed them to grow quickly, reinvest in their product and expand their global presence.

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 agreement (JBA) with British Airways, Iberia and Finnair, a transpacific JBA with Japan Airlines and a JBA relating to Australia and New Zealand with Qantas Airways, each of which has been granted antitrust immunity. The transatlantic JBA relationship 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 JBA. 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 as a result of the uncertainty created by the COVID-19 pandemic. The CMA plans to complete its investigation before the interim measures expire. An application for antitrust immunity is also pending with the DOT to add Aer Lingus, which is owned by the parent company of British Airways and Iberia, to the transatlantic JBA. 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 agreements.

Additionally, on July 16, 2020, we announced our intention to enter into a strategic relationship with JetBlue Airways Corp. This arrangement, once finalized, includes an alliance agreement with reciprocal codesharing on domestic and international routes from New York (JFK, LGA and EWR) and Boston, and will provide for reciprocal loyalty program benefits. The arrangement does not include JetBlue's future transatlantic flying. The implementation of the alliance agreement is subject to governmental review. 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 secured loan under the Treasury Loan Agreement, which contains covenants that impose restrictions on certain amendments or changes to our 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.

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:

- 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 United States 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.

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. Although spot prices for oil and jet fuel are presently very low by historical standards, we do not currently view the market opportunities to hedge fuel prices as attractive because, among other things, the forward curve for the purchase of such products, or hedges related to such products, is very steep, any hedging would potentially require significant capital or collateral to be placed at risk, and our future fuel needs remain unclear due to uncertainties regarding air travel demand. Accordingly, as of September 30, 2020, 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 and, while the price of fuel has been at historically low levels during the COVID-19 pandemic, there is no assurance that it will remain so and any increase in fuel prices, coupled with the severe reduction in demand we are experiencing, during the COVID-19 pandemic will materially affect our business in an adverse manner. See also the discussion in Part I, Item 3. Quantitative and Qualitative Disclosures About Market Risk – *"Aircraft Fuel."*

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 2019 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 2019 Form 10-K.

As of December 31, 2019, approximately 85% of our employees were represented for collective bargaining purposes by labor unions. Currently, we believe our labor costs are 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.

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 addition, we have significant obligations for retiree medical and other postretirement benefits. Additionally, we participate in the International Association of Machinists & Aerospace Workers (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.

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. 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 COVID-19 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.

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 has passed laws, 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 grounding of aircraft types altogether (including the March 2019 grounding of all Boeing 737 MAX aircraft, including the 24 aircraft in our fleet, which remains in place as of the date of this report), 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.

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 2020, the DOT is expected to implement a number of new regulations that will impact us, including disability rules for accessible lavatories 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.

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;
- 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.

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 in a timely manner and the substantial costs that may be imposed on airlines, including ourselves, in order 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 ATC 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 many countries, 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, JBAs, 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). There will now be a transition period during which the United Kingdom and the EU will seek to negotiate an agreement governing their future relationship, including in relation to air services. Under the Withdrawal Agreement, this transition period is scheduled to end on December 31, 2020, with a potential extension of up to two years, although the United Kingdom government previously passed legislation preventing any such extension of the transition period and the deadline to request such an extension has passed. 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. During the transition period, our current air services may continue as we currently conduct them. However, Brexit will mandate further modification in the current regulatory regime, including in relation to commercial air service. The precise scope of traffic rights between the EU and the United Kingdom remains uncertain and therefore the continuation of our current services, and those of our partners, is not assured and could be subject to disruption. During the transition period, the United Kingdom and the EU will seek to implement a new air services agreement. We cannot predict the terms of any such successor air services agreement or whether changes in the relationship between the United Kingdom and the EU, including whether or not an agreement governing their future relationship is reached before the end of the transition period, 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 international flights through the summer of 2021 and delaying the introduction of certain new 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-pandemic levels, if at all, or whether certain international destinations we previously served will be economical in the future. 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.

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 certain Airbus aircraft that we previously contracted to purchase, which were initially subject to an ad valorem duty of 10%. On February 14, 2020, the USTR increased such duty to 15% effective March 18, 2020. While the scope and rate of these tariffs are subject to change, if and to the extent 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. There will now be a transition period during which the United Kingdom and the EU will seek to negotiate an agreement governing their future relationship, including in relation to air services. Under the Withdrawal Agreement, this transition period is scheduled to end on December 31, 2020, with a potential extension of up to two years, although the United Kingdom government previously passed legislation preventing any such extension of the transition period and the deadline to request such an extension has passed. 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. During the transition period, our current air services may continue as we currently conduct them. The precise scope of traffic rights between the EU and the United Kingdom remains uncertain and therefore the continuation of our current services, and those of our partners, is not assured and could be subject to disruption. During the transition period, the United Kingdom and the EU will seek to implement a new air services agreement. We cannot predict the terms of any such successor air services agreement or whether changes in the relationship between the United Kingdom and the EU, including whether or not an agreement governing their future relationship is reached before the end of the transition period, 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 JBA. 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 as a result 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.

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 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). In particular, the International Civil Aviation Organization is in the process of adopting rules, including those pertaining to the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), that will require American to limit the CO_2 emissions of a significant majority of our international flights.

At this time, the costs of our obligations under CORSIA are uncertain and cannot be fully predicted. For example, we will not directly control our CORSIA compliance costs during the CORSIA Pilot and First Phases because such phases include a sharing mechanism for the growth in emissions for the global aviation sector. In addition, there is uncertainty with respect to the future supply, demand and price of sustainable or lower carbon aircraft fuel, carbon offset credits and technologies that could allow us to reduce our emissions of CO_2. 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.

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.

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.

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, under our current fleet plan, by the end of 2020 all of our mainline aircraft will have been manufactured by either Airbus or Boeing and all of our regional aircraft will have been 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. In particular, in March 2019, the FAA ordered the grounding of all Boeing 737 MAX aircraft, which remains in place as of the date of this report.

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 aircraft, including the 24 aircraft in our fleet. For the duration of the Boeing 737 MAX grounding, we have been unable to take delivery of the Boeing 737 MAX aircraft we have on order from Boeing and have in some instances been required to extend the service lives of older, less efficient aircraft and delay service that we planned to offer. Further, deliveries of Boeing 737 MAX aircraft have remained suspended following the grounding, and Boeing is not currently manufacturing new 737 MAX aircraft. Depending on the ultimate duration of the grounding, various Boeing 737 MAX aircraft financings and financing commitments we previously obtained may be terminated and, as a result, we may be required to prepay such financings and obtain alternate financing and financing commitments for these aircraft. Such a need to obtain substitute financing could be material and any such substitute financing may not be available at all or may require that we agree to terms and conditions less favorable than the previously obtained financings and financing commitments. Further, once the grounding has been lifted, we will be subject to additional training requirements, and such additional training would further delay the aircraft’s return to service and impose restrictions on our ability to optimize our fleet. This and other operational requirements and uncertainties regarding the timing of the delivery of Boeing 737 MAX aircraft we have on order and how rapidly we will be able to take delivery of and integrate such Boeing 737 MAX aircraft into our fleet could potentially result in further significant constraints on our operating efficiency, capacity and growth plans. In addition, the timing of the 737 MAXs recertification and return to service, and the resumption of deliveries, could be significantly impacted by the COVID-19 pandemic.

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.

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 implementation 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.

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 have been the target of cybersecurity attacks 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 could 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. 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 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, 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.

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 significant 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 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.

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 regarding the allocation of slots, the continued enforcement of a perimeter rule or similar regulatory authority 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 and gateways in Charlotte, Chicago, Dallas/Fort Worth, London Heathrow, Los Angeles, Miami, New York, Philadelphia, Phoenix and Washington, D.C. 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.

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, increasing 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. 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 Treasury Loan Agreement), which contain covenants that impose restrictions on the use of such intellectual property and, in the case of the Treasury Loan Agreement, 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 Part II, Item 1. Legal Proceedings.

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.

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, 2019, we had available NOL Carryforwards of approximately $9.1 billion for regular federal income tax purposes that will expire, if unused, beginning in 2023, and approximately $3.0 billion for state income tax purposes that will expire, if unused, between 2020 and 2039. Our NOL Carryforwards are subject to adjustment on audit by the Internal Revenue Service and the respective state taxing authorities.

Our ability to use our NOL Carryforwards also will depend on the amount of taxable income generated in future periods. We presently do not have a valuation allowance on our net deferred tax assets. If our financial results continue to be adversely impacted by COVID-19, there can be no assurance that a valuation allowance on our net deferred tax assets will not be required in the future. Such valuation allowance could be material. Additionally, due to COVID-19 and other economic factors, the NOL Carryforwards may expire before we can generate sufficient taxable income to use them.

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 $7.3 billion of unlimited NOL still remaining at December 31, 2019) 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, a government acquisition of warrants, stock options, common or preferred stock or other equity acquired in relation to the program does 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 the Payroll Support Program and accordingly will not apply to the warrants issued by us under that program. 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. 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*."

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 similar non-controlling 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 the timely execution of our strategic operating plans, including the finalization, approval and implementation of new strategic relationships or the expansion of existing relationships. These events could have a material adverse effect on our business, results of operations and financial condition.

If our financial condition worsens, provisions in our credit card processing and other commercial agreements may adversely affect our liquidity.

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 (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 COVID-19 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 COVID-19 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.

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 the first nine months of 2020, we recorded an $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 decline in demand for air travel due to COVID-19. 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.

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

The market price of AAG common stock has fluctuated 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);
- 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;
- increases or decreases in reported holdings by insiders or other significant stockholders; and
- fluctuations in trading volume.

We have ceased making repurchases of our common stock and paying dividends on our common stock as required by the CARES Act. 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. Our capital deployment program could increase the volatility of the price of our common stock and diminish our cash reserves.

Since July 2014, as part of our capital deployment program, our Board of Directors had approved seven share repurchase programs aggregating $13.0 billion of authority. As of September 30, 2020, there was $420 million of remaining authority to repurchase shares under our current $2.0 billion share repurchase program. In connection with our receipt of payroll support under the CARES Act, we agreed not to repurchase shares of AAG common stock through September 30, 2021. In addition, we have entered into the Treasury Loan Agreement and, as a result, we are prohibited from repurchasing shares of AAG common stock through the date that is one year after the secured loan provided under the Treasury Loan Agreement is fully repaid. 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 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.

Our Board of Directors commenced declaring quarterly cash dividends in July 2014 as part of our capital deployment program. In connection with our receipt of payroll support under the CARES Act, we agreed not to pay dividends on AAG common stock through September 30, 2021. In addition, we have entered into the Treasury Loan Agreement, and as a result, we are prohibited from paying dividends on AAG common stock through the date that is one year after the secured loan provided under the Treasury Loan Agreement is fully repaid. 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*" in our 2019 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 Payroll Support Program and in connection with the loan under the CARES Act, could depress the trading price of our common stock and the Convertible Notes.

We may conduct future offerings of 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 the Payroll Support Program and the loan under the CARES Act). If these additional shares or securities are 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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On September 30, 2020, as partial compensation to the U.S. Government for an additional installment of $168 million of financial assistance under the Payroll Support Program, we issued a PSP Warrant to purchase up to 0.4 million PSP

Warrant Shares. The exercise price of the PSP Warrant Shares is $12.51 per share, subject to certain anti-dilution provisions provided for in the PSP Warrant.

The PSP Warrant does not have any voting rights and is freely transferrable, with registration rights. The PSP Warrant expires on September 30, 2025. The PSP Warrant will be exercisable either through net share settlement or cash, at our option.

The PSP Warrant was issued pursuant to an exemption from registration provided for under Section 4(a)(2) of the Securities Act as a transaction not involving a public offering. Any issuance of the PSP Warrant Shares upon exercise of the PSP Warrant will be exempt as an exchange by the Company exclusively with its security holders eligible for exemption under Section 3(a)(9) of the Securities Act.

The PSP Warrant was issued solely as compensation to the U.S. Government related to our receipt of financial assistance under the Payroll Support Program. No separate proceeds were received upon issuance of the PSP Warrant or will be received upon exercise thereof.

ITEM 5. OTHER INFORMATION

(a) On July 15, 2020, we filed a Form 8-K (the July Form 8-K) disclosing that American had started an involuntary furlough process by issuing Worker Adjustment and Retraining Notification Act notices to certain of its team members. On August 25, 2020, we filed a Form 8-K (the August Form 8-K) disclosing additional details regarding the planned workforce reduction. At the respective times of the filings of the July Form 8-K and August Form 8-K, we were unable to make a good faith determination of an estimate or range of estimates required by paragraphs (b), (c) and (d) of Item 2.05 of Form 8-K with respect to such workforce reduction actions.

In connection with the preparation of the financial statements for the third quarter of 2020 as contained in this Form 10-Q, American recorded a charge of approximately $115 million consisting principally of severance and medical costs for these furloughed team members. We are providing this disclosure in lieu of amendments to the July Form 8-K and August Form 8-K solely to provide the information required by paragraphs (b), (c) and (d) of Item 2.05 of Form 8-K. Except as set forth herein, the disclosures in the July Form 8-K and August Form 8-K remain unchanged.

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	Indenture (IP Notes), dated as of September 25, 2020, by and among American Airlines, Inc., American Airlines Group Inc. and Wilmington Trust, National Association, as trustee and as collateral trustee.#
4.2	Form of 10.75%/12.00% PIK Senior Secured IP Notes due 2026 (included as Exhibit A to Exhibit 4.1).
4.3	Indenture (LGA/DCA Notes), dated as of September 25, 2020, by and among American Airlines, Inc., American Airlines Group Inc. and Wilmington Trust, National Association, as trustee and as collateral trustee.#
4.4	Form of 10.75%/12.00% PIK Senior Secured Notes due 2026 (included as Exhibit A to Exhibit 4.3).
4.5	Warrant Agreement, dated as of September 25, 2020, between American Airlines Group Inc. and the United States Department of the Treasury.
4.6	Form of Warrant (incorporated by reference to Annex B to Exhibit 4.5).
10.1	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.*
10.2	Amendment No. 13, dated as of July 13, 2020, to the A320 Family Aircraft Purchase Agreement between Airbus S.A.S., as seller, and American Airlines, Inc. as buyer, dated as of July 20, 2011, as amended, restated, amended and restated, supplemented or otherwise.*
10.3	Letter Agreement, dated as of September 4, 2020, to the Purchase Agreement No. 03735 between American Airlines, Inc. and The Boeing Company, dated as of February 1, 2013.*
31.1	Certification of AAG Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of AAG Chief Financial Officer pursuant to Rule 13a-14(a).
31.3	Certification of American Chief Executive Officer pursuant to Rule 13a-14(a).
31.4	Certification of American Chief Financial Officer pursuant to Rule 13a-14(a).
32.1	AAG Certification pursuant to Rule 13a-14(b) and section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code).
32.2	American Certification pursuant to Rule 13a-14(b) and section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code).
101.1	Interactive data files pursuant to Rule 405 of Regulation S-T, formatted in Inline XBRL (eXtensible Business Reporting Language).
104.1	Cover page interactive data file (formatted in Inline XBRL and contained in Exhibit 101.1).

* 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: October 22, 2020	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: October 22, 2020	By:	/s/ Derek J. Kerr
		Derek J. Kerr
		Executive Vice President and Chief Financial Officer
		(Duly Authorized Officer and Principal Financial Officer)