Operator

Good day, ladies and gentleman. And welcome to the American Airlines First Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen only mode. [Operator Instructions] And as a reminder, today's conference call is being recorded.

I would now like to turn the conference over to Dan Cravens, Managing Director of Investor Relations. Please go ahead.

Dan Cravens

Good morning, everyone. And welcome to the American Airlines Group's first quarter 2019 earnings conference call. With us in the room this morning is Doug Parker, Chairman and CEO; Robert Isom, President; and Derek Kerr, our Chief Finance Officer. Also in the room for our question-and-answer session are several of our senior exes, including Maya Leibman, Chief Information Officer; Steve Johnson, our EVP of Corporate Affairs, Elise Eberwein, our EVP of People and Communications and Don Casey, our Senior Vice President of Revenue Management.

Like we normally do, Doug will start the call with an overview of our financial results. Derek will then walk us through the details on the first quarter and provide some additional information on our 2019 guidance for the remainder of the year. Robert will then follow with commentary on the operational performance and revenue environment. And then, after we hear from those comments, we'll open the call for analysts' questions, and then lastly questions from the media. To get in as many questions as possible, please do limit yourself to one question and a follow-up.

Before we begin, we must state that today's call does contain forward-looking statements, including statements concerning future revenues and costs, forecast or capacity, traffic, load factor, fleet plans and fuel prices. These statements represent our predictions and expectations as to future events, but numerous risks and uncertainties could cause actual results to differ from those projected. Information about some of these risks and uncertainties can be found in our earnings press release issued this morning in our Form 10-Q for the quarter ended March 31, 2019.

In addition, we will be discussing certain non-GAAP financial measures this morning, such as pre-tax profit and CASM, excluding unusual items. A reconciliation of those numbers to the GAAP financial measures is included in the earnings press release and that can also be found on the Investor Relations section of our website. A webcast of this call will also be archived on the website, the information that we're giving you on the call is as of today's date and we undertake no obligation to update the information subsequently.

So thanks again for joining us. At this point, I'd like to the turn the call over to our Chairman and CEO, Doug Parker.

Doug Parker

Thanks, Dan. And thank you all for being on the line. I need to start by thanking our 130,000 team members for the outstanding job they did of taking care of our customers and each other during some really difficult circumstances. Robert, we'll talk more about disruption. The 737 MAX issue is caused to our customers and team members, but our team has responded remarkably and our customers and our shareholders are the beneficiaries of that work, so we are extremely grateful.

As your earnings we announced this morning pre-tax results from the quarter of $314 million in profits ex specials, which is $0.52 a share. As we head into or begin to prepare for the peak summer travel season, the fundamentals of our business remain strong, demand for our product is high.

Our near-term forecast though has been up - has been affected by the 737 MAX grounding, which we currently estimate will negatively impact. Our 2019 pre-tax results by approximately $350 million and that assumes they were - they are flying as we currently have them scheduled again by August 19.

And the recent bounceback in oil prices hasn't helped either. Our current estimate for 2019 fuel expense is approximately $650 million higher than it was when we spoke on this call just three months ago.

But despite these challenges, we're still - anticipate our 2019 EPS to increase approximately 10% versus 2018. And as we look to 2020 and beyond we anticipate our free cash flow for production will increase significantly, as our historic fleet replacement program winds down.

So we're really bullish on American Airlines and on AAL as ever is - evidence in the quarter by us purchasing approximately $600 million of American Airlines equity. So with that intro, I am going to turn it over to Derek to go through a lot more the numbers and then Robert will take you through more analysis as well. Derek?

Derek Kerr

Great. Thanks, Doug. Good morning everyone. And before I begin I'd like to recognize our team also who did a great job taking care of our customers during the quarter despite a number of challenges, including a government shut down, challenging storms at are largest hubs and obviously the grounding of our 737 MAX fleet, dealing with these issues has not been easy and they've done it with professionalism and commitment. So from all of us, thank you for all of your efforts.

We filed our first quarter 2019 earnings press release this morning, excluding net special items we reported a first quarter net profit of $237 million, this is versus $353 million in the first quarter of 2018.

Our diluted earnings per share, excluding special items in the first quarter was $0.52 per share, down from $0.74 cents per share in the first quarter of 2018. Our first quarter 2019 pre-tax profit excluding net special items was $314 million resulting in a pre-tax margin of 3%.

Before I give more details on our financial performance, I'd like to provide an update on our fleet. As you are aware on March 7, 2019 we announced the unplanned removal of 14 737 800 aircraft from service for remediation work, following the installation of new aircraft interiors, resulting in the cancellation of approximately 940 flights in the quarter. Work on these aircraft has been completed and all aircraft have been returned to service.

In addition on March 13th, 2019 the FAA grounded all U.S. registered Boeing 737 MAX aircraft. Our fleet currently includes 24 Boeing Max 8 aircraft with an additional 76 aircraft on order. As a result of the grounding we canceled approximately 12 hundred flights in the first quarter. In aggregate we estimate that these groundings - grounded aircraft and associated flight cancellations negatively impacted first quarter pre-tax income by approximately $80 million, 50 of that million is attributed to the MAX.

We have now removed all 737 MAX flying from our schedule through August 19th resulting in the cancellation of approximately 115 flights per day or approximately 2% percent of debate daily capacity during the summer period. Although these aircraft represent a small portion of the company's total fleet, the financial impact is disproportionate as most of the revenue from the cancellations is lost, while the vast majority of the costs remain in place.

In total, we presently estimate that 737 MAX cancellations which we assume right now will extend only through August 19th to impact our 2019 pre-tax earnings by approximately $350 million dollars.

Despite the challenges of our fleet, our total revenues were a record for the first quarter at $10.6 billion or a 1.8% increase over the first quarter of 2018. Our total RASM was up for the 10th consecutive quarter as RASM increased 0.5% to $15.87, also a record for the first quarter.

This revenue growth was driven in part by the continued success of our basic and premium economy products, as well as initiatives to drive higher load factors in the shoulder periods, all of which helped grow passenger revenues by 1.95 to $9.7 billion in the first quarter.

Our cargo yields grew by 5.5% for the quarter, but a reduction in available cargo capacity due to reductions in our flying to China and Latin America meant that cargo revenues were down 4% to $218 million.

Our loyalty program continues to drive revenue growth and other revenues were higher by 1.9% to $708 million for the quarter on higher card acquisitions. Total operating expenses in the first quarter of 2019 were $10.2 billion, up 2 percent when fuel and special items are excluded, our unit costs increase in the first quarter by 2.7% compared to 2018, due primarily to increased maintenance expense, contractual increases in salaries and benefits, facility rents and depreciation and amortization.

Turning to the balance sheet, we ended the quarter with approximately $7.2 billion in total available liquidity, so far this year our treasury team has completed a number of transactions, including securing financing for 30 new aircraft through mortgage and sale leaseback transactions.

With the exception - with the exception of three regional aircraft delivering in the fourth quarter we have committed financing for all aircraft deliveries through 2019 and we have committed financing for 25 of our 2020 deliveries. We continue to evaluate financing options for our remaining mainline and regional aircraft deliveries.

We made contributions of $364 million to our defined benefit pension plans in the first quarter for 2019 we still expect total contributions for the year to be approximately $800 million. Driven by strong asset performance in the first quarter we estimated that the funding status of our plans has improved by over $300 million as of March 31 compared to year end or approximately 380 basis points.

In the first quarter, our debt including pensions continued to decline driven by contributions to our pension plans and through debt amortization. We continue to expect that our 2019 year end debt – were compared to year in 2018. As the elevated CapEx associated with our re-fleeting [ph] program ends after this year, we expect this trend to continue for the foreseeable future.

We remain committed to returning cash above our target liquidity to shareholders, as market conditions merit. During the first quarter we repurchased 16.7 million shares for $600 million bringing our share count to 444 million, a 41% decline in the share count since the merger in 2013. Our available authorization for stock buybacks is now 1.1 billion and expires at the end of 2020.

We filed our investor update this morning, which include our guidance for the second quarter and full year 2019 Due to the ongoing impact of the grounding of our MAX fleet, we now anticipate capacity growth of approximately 2.5% for the full year and approximately 0.7% in the second quarter. While lower than our original plan this capacity growth will still allow us to fully execute our growth plans at our DFW hub which will be the primary driver of our ASM growth for the rest of the year.

For the full year we now expect that our 2019 cost per ASM, excluding fuel special items and new labor deals will grow by approximately 2.5%, driven primarily by increases in maintenance expenses, higher regional costs due to volume of flying, higher airport rent expense and contractual salary and benefit increases. This 50 basis point increase from previous gains is solely due to the reduction in ASM growth that I mentioned earlier.

Due to lower ASMs in the second and third quarters, we now expect that our CASM will increase by approximately 4.5% in a - in the in the second quarter with growth of approximately 3% in the third quarter, fourth quarter guidance remains unchanged at approximately a 0.5%.

Fuel price increases - increased sharply during the first quarter of 2019. We are forecasting that our average fuel price will be between $2.14 and $2.19 per gallon for the second quarter of 2019 and $2.13 to $2.18 for the full year. Our anticipated consolidated fuel expense for the full year is now approximately $650 million dollars higher than our expectations at the start of the year.

For revenue we expect that our total revenue per ASM will grow by between 1% and 3% in the second quarter. Robert will provide more detail on the revenue environment in his remarks. But given the cost guidance I outlined above, we expect that our second quarter pre-tax margin, excluding that special items will be between 7% and 8 – 7% and 9%. Had we not had the impact of the mass cancellations on the second quarter, we would have forecasted year over year margin expansion.

Due to the impact of the grounding of our MAX, which is fleet - which is about $0.60 per diluted share and the significant increase in fuel expense for the full year which is about a $1.25 per share, we now anticipate that are our earnings per diluted share excluding special items will be between $4 and $6 per share in 2019, an increase of approximately 10% at the midpoint over our 2018 adjusted earnings per share. We still anticipate that we will see margins expansion in the back half of the year.

We continue to anticipate an incremental $1 billion in revenue improvements and $300 million in cost reductions from a one airline cost initiatives in 2019. However with fuel expenses where it is currently forecasted for the remainder of the year we plan to take another look at all of our initiatives and our growth plan – at our planned growth in the second half of the year in 2020.

We have revised our expectations for aircraft CapEx in 2019 which now anticipate it will be $2.7 billion, down from $3 billion in previous guidance, due primarily to the late delivery of 5 A321 neo aircraft that will now be received in 2020.

As a result of the delay of the neo deliveries into 2020, total CapEx will now expect it to be $4.4 billion in 2019, $3.6 billion in 2020 and remain unchanged in 2021 at $2.2 billion.

So far 2019 has presented some unexpected challenges, but our team has responded admirably to take care of our customers and each other. We are excited by the opportunities we have to grow our business for the rest of 2019 and beyond. And we look forward to executing on all of our plans.

With that, I will turn it over to Robert.

Robert Isom

Thanks, Derek and good morning everyone. Before I begin I'd like to thank our team members for doing a great job of taking care of our customers. Their dedication and commitment to delivering outstanding customer service was a crucial component in our ability to generate record first quarter revenues. This was no easy task, particularly given the challenges we faced with our fleet and weather.

As we prepare for summer, our focus is around planning for the busiest travel period of the year. And as Derek mentioned, on April 14th we made the decision to extend the cancellations of our Boeing 737 MAX aircraft through August 19th.

Our team has done a remarkable job of taking care of our customers and it's been a real challenge given the magnitude of this disruption. For flights through August 19th, we have had to re accommodate almost 700,000 customers, 700,000 customers from almost 150,000 MAX cancellations.

And it's not just our passengers. It's literally thousands of our crew members that have had their work schedules altered on very short notice. And that means that our reservations, customer relations and crew resources teams have been working non-stop and overtime to take care of our customers and team. So again, from all of us to our colleagues, thank you.

Based upon our ongoing work with the FAA and Boeing, we are confident that the MAX will be recertified prior to August 19th. But by extending our cancellations through the summer, we can plan more reliably for the peak travel season and provide confidence to our customers and team members that we will operate our planned schedule.

Once the MAX is recertified, we anticipate bringing these aircraft back into service as spares to supplement our operation as needed during the summer. As we have discussed on past earnings calls, we have several initiatives to improve our operating reliability. The initiatives we are undertaking are making sure that our aircraft are ready to start the day, depart on time and then turn throughout the day on schedule.

We also continue to evaluate and refine our planning processes to ensure that we are ready to deliver better service during our peak travel periods throughout the year. But we still have a lot of work to do, I am pleased to report that despite the challenges we have had with our fleet, we've improved our competitive position for reliability.

Our relative on time performance, completion factor both improved. We've seen particularly strong performance from our Northeast hubs and Philadelphia, DCA, LaGuardia and JFK.

And our regional operations have been outstanding, delivering the expected results from our continued investment in the regional fleet, the simplification of our Eagle partner portfolio and performance initiatives to ensure consistency across the regional business.

We've made steady improvements in our international wide body performance as well, delivering the best quarter of on time performance in our history and we're setting new reliability records for our cargo customers as well.

On the product side, we have continued to take big steps forward in creating a world class customer experience. During the first quarter, we opened newly renovated Admirals Clubs in Boston and Charlotte, nearly doubling the seating capacity and our renovation project in Pittsburgh just finished up last week. We will also be growing our network of flagship first dining and flagship lounges with DFW opening later in the second quarter.

During the first quarter, we announced new innovative and exclusive partnerships that further differentiate American from competition with a private suite at Los Angeles International Airport and with Blade, a helicopter transfer service at both LAX and JFK.

These new partnerships further enhance American's already well-known five star service offerings for premium customers. In addition, we announced an enhanced partnership with Hyatt Hotels. Elite members in both the advantage and world of Hyatt loyalty programs will be rewarded with more ways to earn points, miles and status on qualifying American flights and Hyatt hotel stays.

On the digital front, in-flight Wi-Fi has long been a frustration for our airline customers, as slow speeds and frequent outages had made for a difficult experience. This is no longer the case with American. We have now have – we now have the bandwidth to meet their needs, our customer's needs, as our installations of high speed Wi-Fi throughout our domestic - our domestic fleet are nearly complete.

We've also activated free live TV on nearly all of our mainline aircraft and we continue to be the only U.S. carrier to offer live television on international flights. In addition, we launched the new exclusive partnership with Apple, giving our customers access to Apple Music to stream more than 50 songs, playlist and music videos on any domestic flight equipped via Satellite Wi-Fi. These are just a few of the examples of the investments that we have made in our product that further differentiate American from the competition.

As we look to our network, we are leveraging our strengths with high margin growth planned at our DIA Dallas/Fort Worth and Charlotte hubs. The first stage of that growth commences in May where we'll begin using our 15 new gates at DFW, which will add approximately 100 departures per day.

We've already begun selling tickets to 23 new routes and additional frequencies in over 70 markets. And the early results are encouraging, as both bookings and yields are coming in at rates higher than the system average.

This marks the first opportunity for significant growth at one of our most profitable hubs. We are excited about adding this capacity particularly into the diverse and robust North Texas economy, which is one of the fastest growing regions in the U.S.

We remain on track with our growth plans in Charlotte for 2020 and at our hub in Washington DCA in 2021. Our local sales and distribution team produced strong results last quarter, as corporate revenue growth outpaced system revenue growth on a healthy corporate demand and improved corporate fair environment.

The team continues to execute on making American Airlines the easiest airline to do business with, including recent corporate recognition enhancements. Corporate customers now receive complimentary priority access, which includes a priority check in, priority security and group for boarding and during irregular operations, corporate customers now receive a higher prioritization for re-accommodation.

Working with our Corporate Customer Advisory Board, we received guidance and feedback on this and other strategic initiatives, solidifying American Airlines as the preferred airline for business travellers.

The first quarter was also another record breaking quarter for new corporate account acquisitions, ensuring a strong and healthy pipeline for future corporate growth. Based on our recent corporate customer survey 90% of respondents said that they plan to increase or maintain their spend in 2019, as compared to last year. So we feel confident about corporate demand for the remainder of the year.

In loyalty, we continue to see strong growth in advantage fliers, along with more customers qualifying for elite status with year over year yield improvements exceeding system increases.

We are also seeing strong growth in redemption bookings. We set first quarter records for acquisitions and spend on our advantage credit cards. And we expect that to carry forward for the full year.

As we've previously mentioned, the enhancements to our city advantage platinum card and the introduction of the no fee mile up card last year have increased customer engagement in both acquisitions and retention. This quarter we're excited to announce new benefits for our Barclays Red and Silver Aviator Cards, beginning on May 1st.

New card features include an annual companion certificate and enhancements to the travel experience with credits for onboard Wi-Fi and food and beverages. With these changes, we believe we offer an unrivaled portfolio of cards to engage a broad range of customers.

Our product segmentation strategy continues to provide choice for our customers and drive incremental revenue for the company. With our premium economy retrofit program now complete American has more aircraft with this differentiated product than any other U.S. airline.

The average fare for premium economy continues to be twice the coach fare making it the most profitable use of square footage on our wide body aircraft. We are an industry leader in this category and our customers are noticing as we were recently recognized by TripAdvisor for having the best premium economy product for the more – for North American carriers and their Travelers Choice Awards.

All of this resulted in record first quarter revenue of $10.6 billion, up approximately 2% year over year. On a unit revenue basis, total revenue per available seat mile improved 0.5% percent year over year. This marks the tenth consecutive quarter of positive unit revenue growth for American.

We are pleased with our revenue performance, although we were slightly below guidance, we were on track until the middle until the middle of March and the grounding of MAX after which we saw close in softness to the balance of March due to schedule uncertainty resulting from the MAX related cancellations.

Also as a reminder in 2018 we made a big investment on our advantage program, making it more valuable to customers. We significantly increased the inventory available for redemptions in 2018, increasing the value of the mile to our customers, while also giving our customers more flexibility to use their miles.

For the quarter these changes had a negative impact of 0.9 points to unit revenue. We anticipate a similar impact for the remainder of the year. Normalizing for this, our passenger unit revenue would have increased 1.5% in the quarter, a solid result considering the impact of the MAX grounding and our exposure to weak long haul Latin markets.

We led the industry in year over year performance in both the Atlantic and Pacific entities, as we were able to grow load factor in a weak pricing environment. The Pacific also benefited from our network restructuring to China and our partnership with Japan Airlines. Japan unit revenue grew by double-digits.

Our normalizing unit revenue for the domestic business grew by 1.2% in spite of the MAX routing. Latin performance was weak for American in the first quarter due to Argentina and Venezuela unit revenues which were down by over 20% and also difficult year over year comps. We expect the Latin entity to move to positive territory in the second quarter.

Looking forward, we expect our second quarter year over year TRASM to be up 1% to 3%, a 1.5 point sequential improvement from the first quarter. This incorporates a negative 0.5% impact due to the MAX grounding and a negative to unit revenue because the MAX cancellations are higher yielding, lower stage likes flights from an overall system perspective and we are re-accommodating passengers into seats that would have otherwise sold at higher fare levels.

So as we prepare for the busy summer season, we are all excited about what the future holds for American Airlines. We are intensely focused on creating value for our shareholders by running a great operation and continuing to improve our product and taking advantage of the opportunities to strengthen our network.

With that, we'd like to turn the call back over to the operator and begin our question-and-answer session. Thank you.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] And our first question comes from David Vernon of Bernstein. Your line is now open.

David Vernon

Hey. Good morning, guys. Thanks for taking the question. I wanted to ask a little bit about the guide down on fuel and how you're thinking about the revenue environment as we get through the year. Obviously you can't give us guidance on what TRASM should be doing, but I wanted to make sure there isn't something that's following on from the disruptions caused by MAX that might make it harder for you to go ahead and exercise a little bit more pricing in a market where there's less capacity and higher fuel cost?

Doug Parker

Okay, sure, David. This is Doug and let me first take the guidance point and then Don can talk more about the environment. So anway, the guidance change was simply again you know, oil prices are - just the change in oil prices versus three months ago $650 million [indiscernible] We didn't build into our guidance some hope that because oil prices are higher than they were three months ago that fares in the future are going to be higher than they are today.

That may be the case we shall see, but we didn't do that. In this case the other three months higher – the $650 million are higher they were three months ago, but they're not much higher or much different than they were a year ago or certainly you know throughout the 2013.

So they went down for a period of time. At the time we gave our last guidance, they've recovered. That doesn't – while we'll do everything we can of course to make sure we're pricing to cover our cost and increase cost as to the guidance itself largely just as the fuel price being adjusted back to current levels where they were three months ago. Don, do you want to talk about the environment.

Don Casey

Sure. So just you know, we did see during the first quarter you know a bit of weakness in leisure yields. This was driven primarily by price reductions and flow and connecting markets in the domestic business, plus some sporadic aggressive pricing in trans cut [ph] markets.

The biggest impact however was just the grounding of the MAX through the end of March and through April. As we look forward from where we’re right now load factors are up in future months and the yield environment has stabilized and we're seeing growth every week and the yields are pretty happy with what the outlook looks like, which is one of the reasons why we've guided up about 0.5 in the first quarter.

David Vernon

Okay. And then maybe just as a quick follow up to that, I think you know some of the other – the airlines that have reported have said, had actually called out a little bit more sequential improvement in things like corporate bookings. Can you comment a little bit on how the closing bookings look current for America?

Don Casey

Sure. So again as we went through the quarter, we actually stress through January and February, a very, very strong closing yields for bookings within 13 days of departure, with the MAX cancellations we did see some share shift. This was caused by the fact that we re-accommodated customers on two flights and just less seats out in the market to go sell. That is an impact to the end of March and really through April as well.

And we saw just because of schedule uncertainty as we canceled the schedule in three tranches some customers moving away just due to schedule uncertainty, that is now kind of come back and we're seeing the same kind of kind of close in yield improvements that we saw in January and February.

David Vernon

Great. Thank you for the time.

Operator

Thank you. And your next question comes from Jamie Baker of JPMorgan. Your line is now open.

Jamie Baker

Hey. Good morning, everybody. The August 19th MAX date would seem to imply that recertification would need to occur sometime in July. I mean, I suppose you can operate the aircraft as spares once you have the green light, but obviously you need several weeks to sell the inventory.

So you know that that July timing seems to be at odds with a growing consensus that a global regulatory consensus may be needed. And of course, rolling cancellations such as this diminish shield production. So why wouldn't the better, more profitable strategy be removing the MAXs until the holidays, adjusting labor lines accordingly and reaping the RASM benefits associated with that reduced capacity?

Don Casey

Okay, Jamie. Let me try first the premise. And then if you'd like to explain why- if we did what you're suggesting, I think that would not be - that that would actually hurt earnings not help them.

Jamie Baker

By all means?

Don Casey

Yes. So on the premise itself that you know, when these aircraft come back into service. You know, as Robert said, we - after you know getting every piece of information we can from the FAA and Boeing who have been working closely with us of course, you know we came to the conclusion that we needed to - we needed for our customers certainty in booking and for our team members to put the start up date as far out in the future as we thought - as we as we said to FAA and Boeing that we need like 95% certainty, that the aircraft – that what we're – that what we're going to be - what we're going to be selling will actually be flown. That's what we think about August 19th.

There are all sorts of different suggestions as to what is required to do this. But the reality is the FAA and the DOT regulate the US carriers. They are working closely with Boeing. Everything we see at this point is there - is a fix that makes the aircraft airworthy for any airline.

And when that - when they make that determination we expect with the aircraft will be recertified. And again, we believe August 19th is a date that gives us a lot of certainty, it gives our customer certainty and expect actually that it'll be certified well before that date. So that's why we said it there because we think it's well outside the day.

So anyway, actually that's where we are…

Jamie Baker

Okay…

Don Casey

You know, doing something different and that is why we did it, that's because we believe that the aircraft will be certified before that. And I certainly hope that's the case.

Jamie Baker

Okay. Second, and this may be a little bit tougher. Can you give us a feel for how many new hires you've made in pricing and revenue management over the past 970 days, not entry level, but any mid to high level type hiring’s?

Don Casey

Well, maybe you can tell us why you'd like to know that. I'm just confused what you're trying to get at Jamie.

Jamie Baker

I believe that your marketing department received a blow roughly 970 days ago with Scott's departure.

Don Casey

Okay, thanks. Doug?

Doug Parker

There really hasn't been anybody and so mid market and mid-level and up in the organization is are all people that we’re here when Scott was here.

Don Casey

Thank you very much.

Operator

Thank you. And your next question comes from Darryl Genovesi of Vertical Research Partners. Your line is now open.

Darryl Genovesi

Hi. Good morning, everyone. Hey Derek, can you just help provide some sensitivity around, some earnings sensitivity around potentially longer 737 MAX drowning. I mean, I guess I'm looking for something like you know if we lose it for an extra month then the EPS it is x? Can you - are you able to do that?

Derek Kerr

It'll be harder to do. But I mean, I can give you what the EPS impact. I mean, we said it's $0.60 for where we're at. By month or by quarter, right now in the second quarter we said over $350 million dollar impact. We have 50 in the first quarter approximately 185 in the second quarter and approximately 115 in the third quarter. So I would say you know 185 in the second quarter is a full quarter. So that's a number that's there the whole time. But that is the summer and that's the peak. So it might be a little bit higher than if it continued into August, September, October it might have a little bit less effect where we probably have a little bit more room.

I mean, the reason we took it down to August 19th is that's when the end of the summer is and when the peak is. So we may have a little bit more room in August and September you know. to o cover some of the flying.

So I think that that's the best we can do right now from that effect. But you got $0.60 a share and then the impact about 180 and a full quarter.

Darryl Genovesi

Well, that's good. That's helpful. Thank you. And then and then Robert or Don, just looking at booking trends that you've seen since the MAX - since the MAX was initially or maybe even going back to before the MAXs was grounded, but when some of these headlines started coming up, have you seen anything in booking trends that would suggest a reluctance on the part of your customer base to take 737 NG flights. I mean I guess I'm just thinking that to the infrequent traveller, a 737- 800 and a 737-8, sound like more or less exactly the same thing. So just wondering if you've seen anything like that yet and if that's something that we shouldn't worry about you know, even post the return to service by the MAX>

Robert Isom

The answer is no, there's not a significant change in load factors you know from what we can see. I think the bigger issue has been schedule uncertainty. You know, don't forget that to get to where we are now we had to go through a series of tranches of cancellations that were all close in. And as Don mentioned earlier you know, we had - in for closing bookings you know, we saw share shift that definitely benefited some of our competition.

You know, the good news is, is that now we've canceled you know further out that that certainty is back and it really gives us something that we can go out with, our sales and distribution teams to give confidence that that schedule is certain. But in regard to questions about a preference for aircraft types, we don't - we haven't seen anything like that.

Darryl Genovesi

Okay. Thanks for the update, appreciate it.

Robert Isom

Thank you.

Operator

Thank you. And our next question comes from Hunter Keay, Wolfe Research. Your line is now open.

Hunter Keay

Hey. Morning, Doug. Thank you everybody. Hey you guys have talked about over actually your over $3 billion in merger related costs being pulled out of CASM now five years after the merger. You're not the only airline to do that and so sorry to isolate you here. But I'm curious to know when these are going to stop and how much of the special items, you know, this quarter and that $3 billion have been cash? Thanks.

Doug Parker

Thanks I'll try and give you details. Look, really good question one that we ask ourselves all the time and our auditors ask us. But the reality is what we – we're very careful about what we include in special items, they are meant to be items that are non-recurring items. Therefore to give all of us and our investors in particular an idea of what the ongoing financial performance of the company is.

So and the fact of the matter is in an airline merger related activities still go on four and five years later and they still are. So we work through with our auditors to figure out what exactly things that are that are going on that are related to the merger. We still have issues related to mergers its something we – just this quarter. We got our flight attendants onto one scheduling system, so that they can - so they can work together, there is a lot more to do in maintenance and other items. So they are items that we wouldn't do if it weren't for the merger that wouldn't have been in either companies, you know if they were separate, they're there because we merged two airlines and have to incur expenses as a result of the merger. But Derek, any one detail…

Derek Kerr

Well, I would say its exactly right. I think from a cash standpoint the merger and integration items are okay. Items that come out of cash, whereas I think the fleet restructuring is non-cash and it's just bringing falling forward, catch up depreciation and accelerated depreciation. Example is you know, the aircraft that you know as part of the merger we're doing are - we call it the Oasis project or the project to conform the aircraft and make sure that they're all the seats are the same on both A321s and 73s that makes us go on the newer 737 aircraft and retire like the seats in the videos on the back five years earlier and that's catch up depreciation that you put in there. So that's non-cash, merger and integration is almost all cash. As you break out the two numbers.

Hunter Keay

Okay. That's helpful. Thank you. And then you know, Robert or whoever maybe, you talked about Dallas growth and obviously reference to the economic strength in the region, but capacity in the DFW area is going to be about 50% higher this summer than it was in 2010.

How are you thinking about that in terms of maybe you know, over saturating the market, competing against yourself either of your local or connecting basis and just managing the risk around some of this growth? Thanks.

Don Casey

Anyway, I don't think we're actually up 50%, I am not sure.

Hunter Keay

Not you. No, no, Don, not you. It’s the DFW area between you and Love Field, to be clear. Sorry.

Don Casey

Yeah, even looking at us on Love Field, I'm not sure how you get to 50%, you know, number. I mean the big part of the growth and Love Field is capped, right. So there's really no departure growth happening at Love Field right now. We're growing about 100 departures right at DFW from 800 to 900. But anyway…

Hunter Keay

Don, I'm sorry. I was talking about - just to be clear, from 2010 it's a long time ago, not year on year.

Don Casey

It's arguably a cherry picked trough, but the point there is lot more capacity on it was 10 years ago and I'm just trying to make sure you know, how you guys are thinking about the competitive impact, either from yourselves or others? That's what I'm getting at? Thanks.

Hunter Keay

Sure. Well, as we get from 2010 to 2018 right which was up until last year, it's been one of our best performing hubs during that entire time period, right. We're growing at this year a big percentage of the customers we're going to grow we're going to be connecting customers, right, so not really reliant, just on the DFW market. And again when we look at the early results in terms of the how the new markets are booking up, their booking at or above the system average, so I think we're pretty encouraged.

Derek Kerr

Yeah. And we're looking at all Jim is – I am sorry, I do it every time. And it's not intentional, I promised.

Doug Parker

Jamie and I were just discussing that earlier this morning ironically, but you continue.

Derek Kerr

I know, sincere apologies to you both. So look, again I mean, this is one of these once in a lifetime opportunities that are good for the airline in everyway, it is you know, our largest of the chance to expand it by 100 departures, it doesn't come along very often.

Frankly it's not so much about Dallas, as it is about the United States because we connect – we will be connecting most of those people over

Dallas much more to markets that we weren't able to sell before. In some cases that our competitors are able so in other cases that we just sold you know not very efficiently.

So it's you know, these things as Robert noted we add these flights, they come in at system average, they don't need to build up their markets that - there's demand for the travel and you fly an airplane into Dallas, Fort Worth and it connects people to hundreds of markets. They didn't have opportunities to fly to before. It's built not the hub getting it even to be even more powerful than it is today. And it's really, it's very nice growth.

Doug Parker

I'll just add that you know these 15 Gates in this satellite-e, that's a fantastic opportunity. So you know versus you know going out and spending tens of millions dollars you know for Gate you know anywhere else you know for growth. These are these are a fraction of a fraction of that kind of cost and we're ready to go. So excited.

Hunter Keay

Okay. Thank you very much.

Doug Parker

Thanks, Hunter.

Operator

Thank you. And your next question comes from Jose Caiado of Credit Suisse. Your line is now open.

Jose Caiado

Hey, good morning everyone. Thanks for taking the time. I was hoping we could start just with the cost of the MAX grounding, which you quantified at $350 million for the year. I guess, I'm struggling to reconcile that with what we heard yesterday from your crosstown competitor which has larger fleet exposure than you do, but appears to be guiding to a lesser MAX impact for the full year. Could you maybe walk us through why that might be and the moving pieces there, is that maybe a function of where you concentrated at your MAX fleet just any help there?

Doug Parker

Okay. First, anyway. I look at that number, their absolute numbers that they gave one, and if they did it's dramatically different.

Don Casey

I mean, the only thing we could figure out from their guidance was they went – CASM was worst by 4% and RASM went up by 1%. So a four point basis point reduction in earnings which would be over on their margin would be over $250 million dollars in the second quarter. So…

Doug Parker

But we shouldn't speak for that But our analysis at least on what they said looked consistent with ours is what we should say, we may be missing that, but what we just looked at what they said came in those numbers as Derek said that way. So it seem totally consistent.

In terms of the absolute number, the inconsistency versus ours is a little bit as Robert suggested that our RASM in the second quarter would be lower than it would've been otherwise, this suggest to be would be higher, and they have higher CASM and we didn't have until we got that much.

You know, again this is not speaking for them only for us, but trying ourselves to understand why that may be, that is that we see more of a revenue per ASM change and – we see revenue per ASM falling actually, they see it going up a little bit.

And in the second quarter a few points to make, one in this December MAX of course is an entirely domestic airplane. So on the American Airlines system, well the domestic revenue per ASM is a higher number than revenue per ASM internationally because of stage link.

So Southwest probably doesn’t have the issue. They don't - they're not taking out their highest revenue per ASM flying, in this case we are just a math issue basically. But that would have an impact.

The other point you know that I that I imagine is the case. Robert talked about how painful this is to us. At American in the near term when we have people who have bought travel in advance, so you know in our pricing model, Some leisure travelers with advanced purchases who have bought lower priced tickets. And then we cancel them in a relatively near term. In a peak, we need to provide them seats that we were holding back for higher price customers, for higher yielding customers.

So that has a real impact on revenue per ASM. And again, Southwest pricing model has less of that than ours. So those again is our best guess as to why they may be seeing a different thing on revenue per ASM than we are.

But the total - the total profitability impact to us look right in line with where we are, but if we're wrong on that, let us not…

Jose Caiado

Yeah, I know that's…

Doug Parker

What are you talking for certain is we feel really confident in our number, we spent a lot of time on it and we feel really good about our estimate.

Yeah, that's totally fair. Thank you for that Doug. I know it's not clean math, but that's helpful. Just switching gears, Robert or Don maybe, I was hoping you could give us an update on where you are with those IT initiatives or that that infrastructure work that you were doing that was going to enhance your ability to kind of push out more offers and drive more ancillary conversions. Is that project completed and contributing already?

Robert Isom

No, Don, you can – and Mike can add in here to, we're on track to be able to really put some nice offers out that to customers that you know post purchase but pre-flight at the end of this month.

Doug Parker

That's right our first product its an upscale subsidiary push offers at upselling a premium cabin and we're going to be in market with our initial product by the end of May.

Jose Caiado

That's great. Thanks for the time everyone.

Doug Parker

Thank you.

Operator

Thank you. Your next question comes from Dan Mckenzie of Buckingham Research. Your line is now open.

Dan Mckenzie

Hey good morning. Thanks, guys. First question is really just sort of a clarifying question regarding the full year guide you know the narrative in the first quarter was off peak pricing weakness because there's too much capacity and as I just kind of look at the growth that you guys are laying out for the fourth quarter it's up 6% and you know not asking you guys to give a revenue forecast for the fourth quarter, but just hoping you can clarify whether the kind of revised guide does factor in some off peak pricing weakness that you know it's probably likely to manifest in the fourth quarter or are what gives you comfort that the fourth quarter won't be a repeat of the first quarter?

Doug Parker

Its Doug. When we talk about growth for this year it is DFW and then the start of Charlotte. So you know again as we take a look at you know any of the growth that is done it mentioned earlier any growth we have planned for the summer as we extend out into that schedule for DFW and Charlotte. You know we think that that is a smart growth and it's growth that is going to maintain performance for us we take a look out through the end of the year.

Dan Mckenzie

Okay. I just try to clear this, the fourth quarter factor in potentially some pricing weakness or you know there's a fact I mean maybe you can just help because that Hunter's question, actually was my question as well, maybe you can just help us understand the nature of the growth you know what percent of the growth is smaller high yielding markets, you know what percent is kind of a larger competitive markets that may be lost on folks, just as we kind of think about the revenue trajectory through the end of the year?

Doug Parker

Again the bulk of the growth is going to be focused on Dallas right, skewed to overall domestic growth. Domestic has again higher nominal, right. So the entity mix as we head into the fourth quarter is going to be favorable for us.

Dan Mckenzie

Smaller markets though I mean like 50% of the growth out of Dallas is to smaller higher yielding markets. So can you just help give us a little bit more clarity there?

Doug Parker

50% regional. So that that would be the case.

Dan Mckenzie

Understood. Okay. Thank you.

Operator

Thank you. And your next question comes from Susan Donofrio of Macquarie Capital. Your line is now up.

Susan Donofrio

Yes, good morning. I just wanted to get some more color on your international markets in terms of the trends you're seeing. If you could also just provide a little more color on competition in those markets?

Don Casey

Okay, sure. This is Don. I mean, if you go to look at the first quarter you know Latin was our most challenged entity for the quarter. You know particular for Argentina and Venezuela where we saw you know revenue declines as you know more than 20%. Just as a reminder we did end up suspending operations to Venezuela on March 28. So that won't have an impact as we look forward.

We also in the first quarter - particularly difficult comps in Latin America in our unit revenue growth in the first quarter last year is up 12%, while the rest of the industry grew in the 5% range.

We also face some currency headwinds in the first quarter. Latin America by about 1.7 points. But as we look forward into the second quarter in Latin America we expect Latin America actually positive in the second quarter and we expect Brazil to have positive revenue in the second quarter as well.

In Atlantic, we did see softer pricing in the economy cabin during the first quarter which we're able to offset with higher load factors. Premium demand did hold up and we were able to improve our yields in the premium cabins.

UK was our top performing market in the first quarter and we have not really seen any impact at this point related to Brexit. And we expect similar to potentially slightly better performance in Atlantic as we look into the second quarter.

Pacific was our best performing entity for the quarter with unit revenue growth about 9%. Gains were really in both yield and load factor across the both economy and business gap. And so it is really broad strength in the Pacific.

I mean every entity in the Pacific I posit you know revenue growth led by Hong Kong, Japan. We benefited from our restructuring of our operations to China and our partnership with China Southern.

So we added five additional Kocher cities to Beijing, and now to Shanghai we now cover either through our own metal or through our coach. With China Southern 86% of demand. So we expect that Pacific looking forward to be solidly profitable in the second quarter - solidly positive in the second quarter as well.

Susan Donofrio

Great. And then just as a follow up on, is there anything you're doing in terms of further integration of your alliance partners?

Don Casey

I guess, that's just an ongoing process right. So with all of our joint businesses you know, we have a roadmap of initiatives on how we're going to better integrate our services because that's really the key is creating more seamless experience for customers across the combined networks.

Doug Parker

And there's good news on the horizon, that we're very confident that our Qantas JV. will be approved to go forward sometime soon and that's beneficial. And we're constantly at work with IAG, especially B.A. and making sure that you know every thing that we do is making our product more consistent and easier to use for our customers.

Susan Donofrio

Great. Thank you.

Doug Parker

Thanks, Susan.

Operator

Thank you. Our next question comes from Andrew Didora of Bank of America. Your line is now open.

Andrew Didora

Hi. Good morning, everyone. Just one question Doug, as you outlined in your release free cash flow should increase significantly heading into 2020 and really kind of be a first year of true free cash flow generation since the merger.

I know this has been the story given your CapEx program and other cash hasn't come in the door for a bit, but can you maybe just give us a sense of what your priorities are going be for that free cash flow as you stand right now? Thanks.

Doug Parker

Yeah. Thanks, Andrew. They'll be consistent, what you've seen from us to date and then looking at - and our view on capital allocation goes like this, as we generate cash we use it first, again having generating cash having - having invested in the operation, but having produced revenues in excess of what we've spent in the operation.

We then look to invest in the business in any manner that can get returns for our investors, that meet our thresholds. Those obviously as we as we get through all of this both merger - capital expense and fleet monetization expense fall off. So we'll have - we have less need for CapEx is what we're saying.

We then look to with the cash flow then it still exists. Free cash flow that comes we look to make sure that all of our debt is efficient and not at the level that is remotely concerning. So there's any debt that can be - it is that high levels can be preplanning debt that's coming due that is amortizing we pay off and may or may not decide to refinance issue, refinance based upon where we're at the time.

Having done all that what we want to be certain is at least in today's environment that we have at least $7 billion of liquidity at any time, that's an enormous amount of cash for a company our size. But that is the cost to our shareholders and it being more levered.

What we know is as confident we are in the future we need to be prepared for any short of any sort of black swan type event that could require us to need additional capital, so we hold a lot of cash with a view that's more important in those times than having unencumbered airplanes which are hard to finance in those times.

So having done all that to the extent there's a free cash flow that goes for our shareholders because we've determined that there's - we've used what we've generate to as best - as best we can. And having no other alternatives we look to give it back to our shareholders. If we believe the stock is undervalued, the best way to do that is buyback our shares. If we happen to believe the stock is fairly valued, we would look to do things like dividends. o that's what you should expect.

Andrew Didora

Great. Thank you for that.\

Operator

Thank you. And our next question comes from Joseph DeNardi of Stifel. Your line is now open.

Joseph DeNardi

Yeah, thanks. Good morning. Doug, kind of along those lines, you've got the free cash flow outlook over the next few years, you know what your stock is trading at now. Is there any thought to kind of pulling some of that forward. You've talked about eventually lowering the $7 billion to something like 5. What are your thoughts there at this point? Thanks.

Doug Parker

Yeah, look I don't believe either 77, do we're going to lower in 75. So I want to correct that. What I have said I think is $7 billion is a really high number for a company our size. I'm always careful to note that because some people started talking about that as some sort of a minimum cash is not even closer to a maximum cash. Basically you could run this airline up to probably $2 billion of cash before you started being – before you started having sort of issues about the future.

But - so we hold basically a $5 billion cushion, I think I said, and maybe that at some point I think it'll be - it'll make sense to relook that number. But you know., where we today we still believe that's the right number we still do have, we still are working through merger, we still do have some large CapEx expenditures in this year and we still and frankly we still and we - this earnings level that we're projecting isn’t what we believe is an earnings level that gets us excited about reducing that number either.

So for all those reasons we think $7 billion is the right number at this point in time. And as aggressive as we are in terms of wanting to return capital to shareholders certainly and aggressive at these valuations and wanting to repurchase shares. We are equally if not where we are more aggressive in our view that we're not going to - we're not going to violate the $7 billion cash number. As we move forward, we think that's important that we keep in place that - as we sit here today.

As we move forward, I suspect we'll come to the conclusion that we don't need to have that large of a number. But we're still working through all the issues I said and as we do so that feel like the right number now.

Joseph DeNardi

Okay. And then just on the 357, I mean, I know the proxy will come out shortly. Can you talk about whether the bonus pool got funded in 2018 that you fell short on a pre-tax income basis of the three? And then how you're thinking about that going forward and any changes you're thinking about on the 357? Thank you.

Doug Parker

Yeah. Happy to. I think in the 357 everyone else doesn't know we're talking about – we have and have had for a while our incentive - our short term incentive plan tied to pre-tax profits with a threshold $3 billion, target of $5 billion maximum of $7 billion which is which as we've stated is our long term view about the profitability generating potential of this company.

In 2018, you're right on a reported basis we were slightly below %3 billion on a pre-tax level but this calculation is made prior to the payments themselves of course and prior to profit sharing. So what you'll see in the proxy is that while it was reported number below $3 billion in terms of the plan calculation it was slightly above $3 billion. So the team got a 51% of their target bonus in 2018.

As we move to 2019 and setting the plan you know, we - as to the named executive officers me and my director reports are still are still on in 2018 the 357 plan. But look we got to be careful about making sure that while we may believe that's the long term future, we're going to make certain that we have incentive plans that allow our team to believe they have a reasonable chance at getting their bonuses in any given year.

So we did amend the plan for everyone below the any of us to – for ought to be split into two components now of financial - financial plan and the operational plan 50/50 of each and the financial piece we tied for 2018, for 2019 I am sorry, to $4 billion of pre-tax earnings and starting at zero, much like the profit sharing does. So that - that's where we set it going forward.

Long way we say, which I think you really care about more is what is our view about 357 over the long term, its still - again we said there, I still believe this company has potential. I will tell you as we sit here today you know, given where we were for the past couple of years, as you think about explaining to people where you think you are. I would say certainly as you go into 2019 that it feels a lot more like 3, 4, 5, 4 is a good year, 5 would be a great year, 3 is not a very good year.

That's - and I am not trying to make any big statement there about our long term view of the company, but just rather let you know what it feels like today and really what I'm saying it's tightened somewhat in that range.

And you know, and we'll see where it goes going forward. But you know, what I would also point out is if you want to go build the numbers like that in the models into the future you're going to find I believe you will find that our stock is well undervalued because it's not trading like - it's certainly not trading at 3, 5, 7, it is not trading like 3, 4,5. And that's where we believe we are today.

Joseph DeNardi

Thanks, Doug.

Doug Parker

Yeah.

Operator

Thank you. And our next question comes from Savi Syth of Raymond James. Your line is now open.

Savi Syth

Hey, good morning. I just had two quick follow up question, just on the summer operations in Dallas, I recognize that you're getting additional gate, so it's not like you're working more gates. But just given the extra flying are you comfortable with the kind of the air side capacity and you know - that we're not going to see something like we saw in LAX a couple of years ago?

Doug Parker

Yeah, great news on that, as we've had teams that hard at work for you know literally you know over a year to make sure not only the facility is ready to go, but surface management at the airport and then also you know ATC is ready to go. And so when we take a look at from a regional perspective or from a mainline perspective and whether you're talking about you know Gates or equipment or personnel, we've already ramped up to a considerable level, we're not quite at the 900 level yet, but we will be at the end of this month and really confident about where we go - where we are going forward.

Savi Syth

Helpful. Thank you. And just a quick follow up on the capacity, you mentioned that you'll take a look at forward capacity, it's going to fuel states higher as you get into the shoulder periods again. Is there is that more of the kind of domestic perspective or should we think international and domestic or how should we think about kind of - where the potential cuts could come?

Doug Parker

Well, we haven't thinking about cuts, what I would say is that we're all - we're always on the lookout to make sure that we're optimizing profitability for the network as a whole. And so you know both you know international, domestic are interrelated and you know it's a network business. So as we take a look we will evaluate, you know our hubs, we'll evaluate our fleet and certainly you know, all the cities that we fly.

But as you know - I'll underscore again you know when we talk about the DFW flying for the remainder of the year and the growth that we have planned for the year it's largely DFW related and the kind of things that we're doing, is we're adding some new markets, some new spokes to DFW places like Cheyenne, and Del Rio and Harlingen you know, places that we haven't served and then you know increasing capacity from a perspective of frequency out of DFW just some markets both you know, the smaller and midsized that we think that's going to make DFW stronger overall for the long run.

Doug Parker

Appreciate that. Thank you.

Operator

Thank you. We will now be taking questions from members of the media. [Operator Instructions] And our first question comes from Tracy Rucinski of Reuters. Your line is now open.

Tracy Rucinski

Hi. Good morning Doug, you seem very confident about the MAX being ungrounded by August 19th. But there is still some uncertainty from global regulators. So my question is, if the FAA a recertifies the MAX, that other regions or countries like Europe or Canada have issue will you still fly it?

Doug Parker

If the FAA recertifies the MAX, we absolutely will fly the airplane. That's our regulator. And if the FAA determines that it's airworthy, it is absolutely airworthy and anyone that's flying on an aircraft will know that for certain. Look, but, this is part of the issue that you know FAA and DOT need to work through, the administration needs to work through. And I don't know that that's a scenario that will develop or not.

But to be clear, we're regulated by the FAA. We know that that aircraft with our pilots with our training systems, with our aircraft is airworthy, will be certainly will be airworthy if the FAA recertifies it and we will – so yes.

Tracy Rucinski

Okay. And if pilots ask for added level of simulator training on checklists related to MCAS failures, like runway stabilizer, will you provide it? And is there any possibility that additional training demands either from pilot unions or global regulator could delay the return to service of the aircraft?

Doug Parker

Well, look again, our pilots were critical of this, we've been working. Our pilots have been heavily involved in all this work. We -that's what gives us - what will give us confidence and what will give the flying public confidence that the aircraft is safe to fly will be when American Airlines pilots say that it's safe to fly because I can tell you for certain is that if an American owned pilot decides that their plane is safe to fly you can be a hundred percent certain of that and not because - not out of bravado, out of analysis, out of understanding the aircraft, out of training, out of knowing, they have been their co-pilot has been trained accordingly.

So absolutely our pilots will be not just involved and critical to this process will make sure whatever time the aircraft is deemed airworthy that our pilots will - that will have a leadership role in ensuring that they are comfortable with that.

So that's given and we'll make sure that will be done. But again we believe based on what we know now that that was by August 19th, we will pass those thresholds.

Operator

Thank you. And your next question comes from Alison Sider of Wall Street Journal. Your line is now open.

Alison Sider

Hi. Thanks so much. Good morning. You know, since the two crashes there's just been a lot of discussion about pilot training, standards around the world. Just wondering if you have looked at some of your partner airlines if you're having any concerns or questions about training at partners and if that's something you have conversations with them about?

Doug Parker

So that the good news is that you know we work very closely with all of our partner carriers and it is a process when we establish relationships, you know we do extensive reviews of their operations as well. And so you know from our perspective you know we feel very comfortable with the one more carriers that we deal with and as well with you know our joint business partners and we'll continue to make sure that you know customers flying an American Airlines whether on American Airlines or with any of our partners that they're getting the best service and the most safe and reliable service that you can get.

Alison Sider

And are those things - are those ongoing conversations you know, have there been any sort of like renewed looks at that standards or procedures that other airlines or is that something that sort of happened you know at the outset on a partnership...

Doug Parker

It's a constant process.

Alison Sider

Okay, thanks.

Operator

Thank you. And your next question comes from Patti Waldmeir of Financial Times. Your line is now open.

Patti Waldmeir

Thanks so much. Can you say anything about what compensation you may be seeking from Boeing for the costs that you've referred to on this call, the cost of the grounding and you know even things like you know staff working overtime to rebook passengers things like that?

Doug Parker

Yeah, all of our efforts at this point are working to make sure you get the airplane recertified and flying again for our customers and our team members were working closely with Boeing, at the appropriate time we'll talk about what this is done to American.

And Boeing's is a very good and long time partner and we'll work through that privately, but nothing that we – we had any conversations at that point yet. And at some point perhaps we will, but right now we're focused on working together to get the airplane back andrecertify.

Patti Waldmeir

Thanks.

Operator

Thank you. And our next question comes from John Biers of AFP. Your line is now open.

John Biers

Thank you. Just most of my questions have been answered already, but I wondered are you - how does this whole situation with the 737 MAX affect the way you think about Boeing versus Airbus going forward?

Doug Parker

Boeing, is a phenomenal company that builds great airplanes as is Airbus. Obviously we're not happy about this issue but no one is. Tragic events and what we care about is safety and we will work together as this industry always does to ensure that safety is the number one focus. And we don't compete on safety nor do aircraft manufacturers.

So we will as an industry make certain that that this is addressed in a way that ensures that all aircraft are 100% safe and as that happens we're certain that both manufacturers are committed to that as we are.

John Biers

Did you feel like you have a clear understanding of what went wrong with the aircraft, in the crashes at this point?

Doug Parker

I'll just I'll just chime in here. Look we have to - first off you know we operated the 737 MAX you know very successfully for a number of months and really hadn't had to deal with any anomalies. So what we're doing is working with the FAA and with Boeing on what's been reported you know from the incidents to make the aircraft better and correct any deficiencies. And I know that when we get through with addressing the issues related to MKS software that it's going to be an even better plane.

And so, again from our perspective we have what you know about you know issues related to the aircraft. We certainly have our own experience with it and we're constantly working to make sure that we make the aircraft better and you know we look forward to recertification.

John Biers

Thank you.

Operator

Thank you. And your next question comes from Ted Reed of Forbes. Your line is now open.

Ted Reed

Thank you. I have two questions. First, I'd like to know about Munich. I don't understand the reasoning behind canceling Philadelphia and then starting Munich, Charlotte and Munich Dallas?

Doug Parker

Hey, Ted. We're constantly taking a look at how the marketplace works and for us it's just better connecting opportunities. And so we think that it's going to be a great fight and hopefully it'll lead to better things in the future.

Ted Reed

Looking strong from the two new destiny from the two new hub, from these two hubs?

Doug Parker

Yes it is. And you know for smaller markets you just need a lot more connecting traffic to make, in survey…

Ted Reed

Secondly, I thought the pilot talks were going to go rapidly but now it seems that they're going slowly and that there might not be any kind of deal till next year? Is that the case.

Doug Parker

We've just begun negotiation with our pilots. The talks are happening well in advance of the amendable date which is January of 2020. So we're happy to be talking well in advance of that. And we would be - it would be nice to get something done before the amenable date. I think both parties goals and we'll keep working toward that, nothing new to report.

Ted Reed

All right. Thank you, Doug.

Doug Parker

Thank you.

Operator

Thank you. And that concludes our question-and-answer session for today. I'd like to turn the conference back over to Doug Parker for closing remarks.

Doug Parker

My closing remarks is thank you. Thank you for your interest. If you have any questions give Dan or corporate communications a call. Thanks, again.