Operator

Good day, and welcome to the American Airlines Group Third Quarter 2015 Earnings Call. Today's conference is being recorded. At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session.

And now, I'd like to turn the conference over to your moderator, Managing Director of Investor Relations, Mr. Dan Cravens. Please go ahead.

Daniel E. Cravens - Managing Director-Investor Relations

Thanks, Tina, and good morning, everyone, and welcome to the American Airlines third quarter 2015 earnings conference call. In the room with us today is Doug Parker, our Chairman and CEO; Scott Kirby, our President; Derek Kerr, our Chief Financial Officer; and also in the room for the Q&A session is Robert Isom, our Chief Operating Officer; Elise Eberwein, our EVP of People and Communication; Bev Goulet, our Chief Integration Officer; Maya Leibman, Chief Information Officer and Steve Johnson, our EVP of Corporate Affairs.

As is our normal practice, we're going to start the call with Doug, and he will provide an overview of our third quarter financial results. Derek will then walk us through the details on the quarter, and provide some color on our guidance for the fourth quarter. And Scott will then follow with commentary on the revenue environment and our operational performance. And then after we hear from those comments, we'll open the call for analyst questions. And then lastly, questions from the media.

Before we begin, we must state that today's call does contain forward-looking statements including statements concerning future revenues and costs, forecasts of 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 and our Form 10-Q for the quarter ended September 30, 2015.

In addition, we will be discussing certain non-GAAP financial measures included this morning such as net profit and CASM excluding unusual items. A reconciliation to those numbers to the GAAP financial measures is included in the earnings release, and that can be found on our website at aa.com. A webcast of this call will also be archived on our 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 this morning. And at this point, we'll turn the call over to our Chairman and CEO, Doug Parker.

William Douglas Parker - Chairman & Chief Executive Officer

Excellent. Thank you, Dan, and thanks, everybody, for being on here. We this morning reported the highest quarterly profit in American Airlines' long proud history, $1.9 billion excluding net charges for the quarter. Obviously, very pleased with these results. Particularly proud of the fact that over the last six or seven days, our team has migrated all of our reservations on to one system, something that is a key milestone for our customers and the fact that we now have one – we are now selling under one brand, but a really key milestone for our team.

This is an issue that other airlines have stumbled at in the past in their migration. Our team did it flawlessly. This was by far the largest and most complex, one of these integration initiatives, that it had to take place. So we couldn't be happier. This is further evidence of what this team is doing to build the greatest airline in the world. Maya Leibman is here as is Robert Isom, the two people whose teams had the most to do with this. They'd be the first to tell you it wasn't them, however, but their teams. So, I just want to use this opportunity to thank everyone that was involved in this project and the entire 100,000 people of American Airlines who are working to build the greatest airline in the world, and they're showing everyday that we are well on our way to do that.

The result of all that, the financial results, the phenomenal integration work, everything else was going on including great operations the team are now running are evidence of the fact that we are well on our way to building the greatest airline in the world. We know we have a lot of work to do, but we are very bullish on our future. That bullishness is evidenced in the fact that we repurchased $1.56 billion of common stock in the quarter, 38.4 million shares. And we're happy to return that value to our shareholders through share repurchases because we think that's the right thing to do.

As we generate profits, the first thing we do is make sure we invest it in the airline. We are doing that, producing very nice returns with that capital, making sure we reduce the debt at the same time but then to the extent there's cash left over. And certainly, at a time when we think the market isn't recognizing the value we produce, we use it to repurchase shares. So that's what happened this quarter. Those are the highlights.

I will turn it over now to Derek who will give you a lot more detail followed by Scott. Thanks.

Derek J. Kerr - Chief Financial Officer & Executive Vice President

Thanks, Doug, and good morning, everybody. As Doug said, we filed our third quarter 2015 10-Q along with our earnings press release this morning. And in that earnings release, we reported the highest quarterly profit in the company's history, beating the previous record set just last quarter.

Excluding net special charges, our third quarter net profit was $1.9 billion or $2.77 per diluted share. This represents a $662 million improvement versus our third quarter 2014 net profit, excluding net special charges of $1.2 billion, or $1.77 per diluted share.

Third quarter 2015 pre-tax margin, excluding net special charges, was a record 17.7%, up 6.7 points year-over-year. We currently have the youngest fleet of any in the U.S. network airlines. In the third quarter of 2015, we took delivery of 16 new mainline aircraft and retired 36 mainline aircraft older at 75s, 76s and MD-80s.

On the regional sub, we took delivery of 15 aircraft and we removed from service and parked 9 aircraft. We also continue to modernize our fleet. Over the next several years, our fleet will get even younger and the differential in fleet age will continue to expand relative to our network peers.

The total capacity for the third quarter of 2015 was 71.1 billion ASMs, up 2.9% from the same period in 2014. Mainline capacity for the quarter was 63.5 billion ASMs, up 2.6%. Regional capacity for the quarter was up 5% to 7.63 billion ASMs due primarily to larger gauge aircraft and longer stage-length flying.

Our third quarter 2015 revenue was negatively impacted by large capacity increases in certain domestic segments, as well as weaker yields in international markets due principally to foreign currency devaluation, lower fuel surcharges and continued economic softness in Latin America.

For the quarter, total operating revenues were $10.7 billion, down 3.9% year-over-year. Passenger revenues were $9.4 billion, down 4.2%, driven by yields 9.2% lower on a 2.9% increase in system capacity.

Cargo revenues were down 16.3% to $180 million due primarily to lower yields and other revenue. Operating revenues were $1.2 billion, up 0.6%.

Total RASM in the third quarter of 2015 was $0.1506, down 6.6%, driven principally by the decline in passenger RASM, which was $0.1316 down 6.8%, and Scott will give a little bit more detail after my remarks.

The Airline's operating expenses excluding net special changes for the third quarter of 2015 were $8.5 billion, down 11.5% year-over-year primarily due to a 43.5% decrease in consolidated fuel expense. As we have seen now for the first nine months of 2015, our financial results reflect the material benefit from the significant year-over-year drop in crude oil prices as we remain unhedged.

Our average mainline fuel price including taxes for the third quarter of 2015 was $1.67 per gallon, a 43.8% decline versus $2.97 per gallon last year. Lower fuel prices drove a 14.3% decline in mainline operating cost per ASM excluding net special charges to $0.1107. Excluding net special charges and fuel, our mainline cost per ASM was $0.0856 in the third quarter of 2015, up 2.6%.

This increase is due primarily to higher salaries and benefits, costs associated with our new labor contracts that were signed at the beginning of this year. These wage increases increased our third quarter mainline CASM, excluding special charges and fuel, by approximately 3.4 percentage points.

Regional operating cost per ASM, excluding net special charges and fuel, was $0.1578 for the third quarter, an increase of 1.7%. Excluding net special charges and fuel, our consolidated third quarter 2015 CASM was up 2.6%, principally due to increased flying under our capacity purchase agreements.

We ended the third quarter with $9.6 billion in total cash and investments. Of this, $710 million was restricted and $609 million was held in Venezuela bolivars. We currently have $1.8 billion of revolving credit capacity, none of which has been drawn, which we consider to be one of the least expensive forms of liquidity on our capital structure. We have been working to upsize our existing revolving credit capacity by approximately $600 million and expect to accomplish that by the end of this month.

Attractive debt markets have allowed us to complete new financings at favorable rates. In the third quarter, the company issued $1.1 billion in enhanced equipment trust certificates at a blended rate of 3.8%. In addition, the company re-marketed $365 million of the New York JFK Airport Special Facility Revenue Bonds at a one-year rate of 2%. We also raised another $845 million of aircraft financings in the private debt market.

During the third quarter of 2015, we generated $1.2 billion in cash flow from operations and paid down $714 million in debt. The company returned $1.63 billion to its shareholders through the payment of $67 million in quarterly dividends and the repurchase of $1.56 billion of common stock, or 38.4 million shares at an average price of $40.56 per share.

In the first nine months of 2015, the company has returned approximately $2.7 billion to its shareholders in dividends and share repurchases. And since the merger closed, we have reduced the company's shares outstanding by approximately 100 million shares or 14% through share repurchases and share withholdings in satisfaction of tax obligations on employee share issuances.

As our program to return capital to shareholders continues, we recognize the need to be prudent about our leverage. We closely watch our minimum cash levels and routinely stress test our credit metrics. As we have said before, our minimum cash will continue to be higher than our competitors', but lower than it is today.

Now that our passenger service system integration is complete, we will reevaluate our leverage and minimum cash levels. When complete, we will communicate guidelines that clarify our strategy going forward.

At our board of directors' meeting held yesterday, the board authorized an additional $2 billion share repurchase program to be completed by December 31, 2016. This brings the total amount of share repurchase program authorized in 2015 to $6 billion. The company's board of directors has also declared a $0.10 per share dividend to be paid on November 19, 2015 to shareholders of record as of November 5, 2015.

Turning now to our guidance, we are forecasting overall system capacity growth to be up approximately 1%, resulting in full-year domestic capacity growth of approximately 1% to 2% in 2015, while international capacity is expected to be flat to up 1%.

For the fourth quarter 2015, mainline capacity and ASM is expected to be 58.3 billion and regional capacity is expected to be 7.37 billion in the fourth quarter. We're still in the process of developing our 2016 operating plan. So, as usual, the formal ASM guidance for 2016 will come when we report fourth quarter 2014 earnings.

At this time, we expect year-over-year system capacity to be up approximately 2% to 3% in 2016. Approximately one point of the increase is due to our growth of the Pacific entity, while another point is due to leap year and aircraft reconfigurations that increased the gauge of our aircraft.

Domestic capacity is expected to be up approximately 1% to 2%, while international capacity is expected to be up approximately 4% to 6%. For the full-year 2015, we are forecasting year-over-year total CASM ex special items and fuel to be up approximately 3% to 5%. As we have seen throughout this year, this increase is driven primarily by labor contracts covering our pilots and flight attendants and investment we have made to improve the reliability of our operation.

Mainline CASM, excluding special items and fuel is projected to be up approximately 4% to 6%, while regional CASM, excluding special items and fuel is projected to be approximately flat to up 2%.

As I mentioned in my earlier comments, we continue to see a substantial financial benefit as a result of low fuel prices. Using the October 21 forward curve, we are forecasting our 2015 consolidated fuel price to be in the range of $1.70 to $1.75 per gallon.

Based on these prices, we expect our 2015 consolidated fuel expense to improve by approximately $5 billion year-over-year. Our fourth quarter forecast is between $1.48 and $1.53 per gallon for mainline, and regional $1.51 to $1.56.

Using the midpoints of the guidance we have provided along with PRASM guidance that Scott will give, we expect to continue our string of strong margin performance with the fourth quarter pre-tax margin, excluding special items, of between 12% and 14%.

As we conclude 2015 and complete our plans for 2016, we will continue to focus on completing our remaining integration items, investing in the airline by renewing our fleet, improving our operational performance and returning excess cash to our shareholders.

In terms of capital expenditures, we expect total gross aircraft CapEx to be approximately $5.3 billion in 2015, of which approximately $1.3 billion will occur in the fourth quarter. In addition, for the full-year 2015, we expect to invest $900 million in non-aircraft CapEx, which includes many investments to improve our product. And we also expect to make $2.2 billion in debt payments.

In conclusion, I'd also like to thank and congratulate our more than 100,000 team members for again producing the highest quarterly profits in the company's history. We knew that 2015 was going to be a big year for integration. And given the results achieved thus far, our team has performed exceptionally well. So, thanks again for your time this morning, and I'll turn it over to Scott.

J. Scott Kirby - President

Thanks, Derek. I'd like to start by also adding my thanks to all the people at American Airlines for the truly fantastic job that they've been doing operationally and for the great work that everyone did to make the cut over to a new reservation system. That's a success that was largely seamless for our customers.

As most of you know, moving to single res system is probably the biggest technical training system and process hurdle that airlines face after a merger and our teams led by Maya Leibman, our CIO, and Robert Isom, our Chief Operating Officer, just did a fantastic job.

In fact, in the first day, five days since the cut-over happened, we've run an 89.4% on-time performance and a 99.95% completion factor. So while we're proud of the job the team did on the cut-over, we're also quite proud of the strong operational result that American Airlines is producing prior to cut-over and continued producing since then.

Our system on-time arrival rate and completion factor in September and October are the best that we have in our records which go back to 2000. At our largest hub, DFW, we've made significant strides in running a reliable operation since we rebanked the hub, including a 10-point improvement in our departures within zero minute of scheduled time, a 9-point improvement on time performance, and a 99.9% completion factor. So, a big thanks to the team at DFW for the great results.

I could go on and on, but I'll just close this section by saying thanks to all the people of American Airlines who've done such a great job in completing the reservation systems cut-over. At the same time, they're running a fantastic operation.

On the revenue front, our third quarter PRASM was down 6.8%. Domestically, PRASM was down 7.6%. And we saw the strongest performance in New York and Charlotte and the weakest performance in hubs that have a greater share of international connecting traffic into the domestic system.

Internationally, the stronger U.S. dollar and declining international fuel surcharges made up 2.7 points of our total system PRASM decline, but we saw additional weakness beyond currencies in Asia and Latin America. The Atlantic was our strongest region where PRASM was down 5.6%, and this decline was mostly explained by the stronger U.S. dollar.

Across the Pacific, PRASM was down 11.3% with weakness in both Japan and China, the flat year-over-year PRASM in South Korea and Hong Kong. LatAm PRASM was down 10.4%, but as has been for a while now, that weakness is concentrated in Brazil and Venezuela where PRASM was down 25% and 46%, respectively.

Looking forward, we expect the fourth quarter to look similar to the third quarter with the same factors that drove the decline in Q3 continuing into Q4. We project the currency and surcharge declines will impact system PRASM by 2.1 points in Q4, which is down from 2.7 points in Q3 as we're beginning to overlap the time when the dollar started strengthening last year.

We continue to see significant year-over-year competitive growth in Dallas as Southwest completed their final expansion at Love Field. And in South America, we don't see any improvement yet on the horizon. The revenue environment doesn't seem to have gotten any worse, but there aren't yet any signs of improvement. We don't realistically expect any improvement in South America until the Brazilian economy turns around. Given all that, we expect our system PRASM to decline 5% to 7% year-over-year in 4Q.

In conclusion, we passed a significant milestone in the integration this quarter. We're very proud of the job that the entire team at American Airlines has done in getting the res system integrated and beginning to produce record operational results.

There's still a lot of hard work left to do to finish the integration of the remaining systems and processes. But passing this milestone is a huge achievement and lets us begin or turn our energies, time and resources to innovating and continuing to make American Airlines a better airline for our employees, our customers and our shareholders.

William Douglas Parker - Chairman & Chief Executive Officer

Thanks, Scott. And then I have one last thing for you. The question just – it turns out today is a big day in commercial aviation history, which people may not know. It's Scott's 20-year anniversary with our company today. October 23, 1995, Scott Kirby joined America West Airlines as Senior Director of Scheduling & Planning.

So anyway, I had joined America West like five months before that, so I've been working with Scott now for 20 years and he's a young guy. He's got 20 years left, but I'll just use this opportunity to point out. Anyway, we're happy he joined 20 years ago. He's the best in the business. He's a driver of change and has been a driver of change in a business that's needed it dearly. And we wouldn't be here without him. The result is that people of America West, U.S. Airways and American Airlines are all in much better shape than they would have been had Scott chosen to do something else 20 years ago. So we're glad he did. Thanks, Scott. Congratulations.

J. Scott Kirby - President

Thank you. It's embarrassing, but thank you.

William Douglas Parker - Chairman & Chief Executive Officer

Yeah. I know. That was the point. All right. Operator, we are ready to take questions.

Question-and-Answer Session

Operator

We'll go to Rajeev Lalwani with Morgan Stanley.

Rajeev Lalwani - Morgan Stanley & Co. LLC

Thanks for the time. I guess, the first question just on the capacity guide for next year. It seems like it would be growing a bit more versus 2015, but the economy doesn't seem to be picking up and GDP isn't looking great. So just some more color on the thinking there.

J. Scott Kirby - President

As Derek said, it's really driven by two things: One is adding service into Australia, which is a big chunk of it. And the other one is gauge on aircraft. And we are behind – we intended to have more aircraft regauged for 2015 to 2016 and 2015. And one of our seat manufacturers got way behind on producing seat, and so some of that slipped. And so up-gauging that we originally expected to occur in 2015 is now going to occur in 2016 or is going to occur for 2016. That's really what's driving it as opposed to the macroeconomic. It's really just a delay in getting the gauge changed on some of the aircraft.

Rajeev Lalwani - Morgan Stanley & Co. LLC

Thanks. And then just switching gears, On buybacks, you guys were clearly aggressive this past quarter. I guess, I'd just like to get more color on how you think about it just quarter-to-quarter, how do you arrive at the right level just to help us figure out how to think about it over time?

William Douglas Parker - Chairman & Chief Executive Officer

Okay. Look, this is Doug, I'll start. Again, as we told you in the last quarter, we look particularly in times when it feels – we do not do this on a systematic basis as some companies I know do. We came into the merger with more cash than certainly our peers and arguably excess cash. We, however, knew we needed to get through a complex integration and, therefore, wanted to hold a good bit of cash to make sure that we were confident that all is going well. We clearly have passed that threshold.

At this point, what we do is as the company can use it to earn cash and produce cash, we first invest in the business. We are doing that on a pretty large scale and doing so in a way our investors would be proud because we're producing nice returns on what we are investing your capital in. Having done that, we look to pay down any high cost debt. We have done that and now are actually borrowing at rates that we simply can't ignore and believe are rates that we should borrow at. On aircraft, for example, I think, as Derek noted, we closed the EETC this past quarter at $1 billion at something around 3.8%.

So we don't think it makes sense to use our cash to purchase the airplanes but rather that we should borrow it at those rates because we could produce higher returns for you at those rates – than those rates. That leaves us with cash on hand that still is in excess of what we need. And we don't think the right thing to do with it for you is to leave it in our bank account but rather to return it to you. And we try to do that really efficiently.

So what that means is, in times like last quarter when we went through and we may go again, and there are people wondering if the industry has changed or not and such things and whether or not these type of results can continue, and our view may be different than the market. We like to use those opportunities to purchase our shares at levels that are less than we believe they were. So you put all that together and you get to numbers like this.

Therefore, it's really hard to tell you what it's going to be like in the future because it's not systemic. It's based on what we have left to do – what we have in excess remaining and what we feel about the relative value at the time. So a really long way of me telling you it's going to be maybe perhaps hard for you to project in the future, but I can tell you this. We're committed to returning value to our shareholders. And to the extent we have excess cash and to the extent we believe the market isn't giving us full value for what we plan to do, we'll repurchase shares.

Rajeev Lalwani - Morgan Stanley & Co. LLC

Very helpful. Thank you, gentlemen.

Operator

We'll go to Julie Yates with Credit Suisse.

Julie A. Yates-Stewart - Credit Suisse Securities (USA) LLC (Broker)

Good morning. Thanks for taking my question and congrats on a successful reservation system cutover.

William Douglas Parker - Chairman & Chief Executive Officer

Thanks.

J. Scott Kirby - President

Thanks, Julie.

Julie A. Yates-Stewart - Credit Suisse Securities (USA) LLC (Broker)

Now that that's complete, what's the biggest focus from an operational standpoint, and are there levers that the system combination alone unlocks or do you still need to get the flight operating system combination and the seniority list integration?

J. Scott Kirby - President

Well, when you say operations, I'm going to take it more broadly. It is great to have this milestone behind us. The team, as we've all said, just did a fantastic job on getting it done, and that's really the foundation that lets us start doing a whole backlog of projects and things that we want to do, specifically on the operations front.

Robert and his team are already off and running and the numbers of late are quite strong, but under improving our core reliability, innovating on more customer self-service options, a whole suite of things that we haven't been able to get done because all of those resources were working on the systems integration to make it easier for customers to deal with us, either for our employees to have the information that they need and the tools that they need to provide a great service to our customers.

On the commercial side, we have a huge backlog of projects in terms of all kinds of areas, but two bigger areas are the frequent flyer program and doing more innovation within the frequent flyer program. And secondly, doing more to further disaggregate the products and really move to a world where we can offer fares that compete with low-cost carriers and have a suite of attributes that are appropriate for those prices, and then fares that have a greater suite of attributes and give our customers choice. It's all about giving our customers choice.

And so there really are just hundreds of projects. I hope that the IT team took a few days to rest and recover because we want them and are hoping that they're going to be running just as hard as they have for the last two years on the big backlog of stuff that we have left to go.

We're also glad to – well, we got two of our big labor contracts done. Another big thing is finishing the remaining labor contracts as those groups have gotten through the NMB process and had certification for their bargaining unit. Our customer service workers have a contract – a tentative agreement that's in place right now. We look forward to having that one behind us, and then the remaining workgroups we're in negotiating with all of them and I hope to have deals done with them soon.

So it really is a great milestone for us to accomplish and to be able to look forward to moving forward really on all fronts of the business.

Julie A. Yates-Stewart - Credit Suisse Securities (USA) LLC (Broker)

Okay, great. And then maybe a quick one for Derek. I know it's a little early to talk about 2016 non-fuel unit cost. But in light of the capacity guidance that you gave today, is there any directional color you can offer?

Derek J. Kerr - Chief Financial Officer & Executive Vice President

Yeah. I think ex any of the labor deals, because we don't know where those are going to come out. I would expect right around flat to 2% range from CASM ex-fuel next year. But that would exclude any new labor deals that would be put into place.

Julie A. Yates-Stewart - Credit Suisse Securities (USA) LLC (Broker)

Okay. Thank you very much.

J. Scott Kirby - President

Thanks, Julie.

Operator

We'll go to Jamie Baker with JPMorgan.

J. Scott Kirby - President

Hey, Jamie.

Jamie N. Baker - JPMorgan Securities LLC

Hey. Good morning. Doug, I think it's only appropriate that you dedicate Mariah Carey's hit single Fantasy to Scott as it was the Billboard number one on this day back in 2005.

William Douglas Parker - Chairman & Chief Executive Officer

Hey, thank you for that fine research.

Jamie N. Baker - JPMorgan Securities LLC

Yeah. No doubt on...

J. Scott Kirby - President

You're very good with the Google.

Jamie N. Baker - JPMorgan Securities LLC

No doubt, it was on Scott's Walkman at the time.

William Douglas Parker - Chairman & Chief Executive Officer

Thank you, Jamie.

Jamie N. Baker - JPMorgan Securities LLC

Scott, a question. You're guiding in the fourth quarter to somewhere around $1 billion of year-on-year fuel savings, probably a little bit more than that. But the margin guidance implies an EBIT improvement of around $150 million or so. Maybe it's $200 million. We'll digest the full 8-K in a little bit.

In a simplistic measure, this implies that the vast majority of your fuel savings are not being retained, that you're only hanging on to somewhere around 15% of the benefit, maybe 20% of the benefit. Delta and United also guided for the fourth quarter. They think they are going to hang on to about half of their fuel benefit. Indeed, that's what you retained in this third quarter. So what is it about Q4 that's making you slip and slip relative to the third quarter and causing you to underperform the competition?

J. Scott Kirby - President

So thanks for the question, Jamie. And...

Jamie N. Baker - JPMorgan Securities LLC

Sure.

J. Scott Kirby - President

...as I think you know, it's a little bit of a simplistic analysis when you just try to tie fuel savings to what's falling straight to bottom line because it's ignoring everything else that is happening. But it's a fair point for you to make, although it really comes down to the relationship of RASM to fuel price and what's happening with relative RASM performance. And on that front, our relative RASM we're forecasting is going to be down compared to what Delta and United have in the fourth quarter. One of the reasons for that, of course, is credit card deals. All three of our big major competitors have credit card deals on a year-over-year basis that have RASM flowing through to the bottom line. We don't have a new credit card deal.

Jamie N. Baker - JPMorgan Securities LLC

Good point.

J. Scott Kirby - President

And the other ones, or probably the two big ones at least, are Brazil and Love Field, which are disproportionately affecting us. One other point I'd make, it doesn't matter from the sequential third quarter to fourth quarter. But on a year-over-year basis, we did sign the new five-year labor contracts with pilots and flight attendants. Again, something that's impacting us, but it impacts the third quarter as well as the fourth quarter.

All that said, we feel really excited that we're now through the integration. It's hard to pinpoint a number and it's hard to tell you exactly what is going to change. But the reality is that we had a lot of constraints embedded in the revenue management systems and our distribution systems. A lot of things – and even just resource constraints of people spending eight hours a day working on the res system integration and then trying to do their day job after they finished all their work on res system integration.

So I can't put specific numbers on it, but I feel pretty optimistic that we've been held back a little bit. We've done it to ourselves, as we focus really on having a successful reservation systems integration. And now being able to turn our full attention in those groups to optimizing revenue, I believe, will lead to relative outperformance.

Now, we still are going to have the kind of headwinds of credit card deal in Brazil and Love Field to deal with. But at least relative to where we are right now, I certainly hope that we are going to start outperforming even more.

Jamie N. Baker - JPMorgan Securities LLC

Okay. A very thorough response. I appreciate that. Quick follow-up. I am trying to assess how the impact of low-cost carriers in your hubs differs from how revenue is holding up in markets, O&Ds where discounters don't publish fares? How would you compare the overall revenue dynamic in each type of those two markets? Is it your view that we're also seeing too much pricing aggression, particularly close in, in those markets where discounters are not a factor?

J. Scott Kirby - President

So revenue performance in markets where low cost or ultra low cost carriers are growing are clearly performing worse than in markets that don't have that. But a similar story is true in markets if there's a lot of legacy carrier ASM growth, we also have lower RASM performance. Of course, the low-cost carriers have been growing more, so there's more markets that are subject to that.

There has, however, I think – this is a trend that's been going on for 15 years at least. As there are more and more markets that have low-cost carriers flying in them, there are just more and more markets that are impacted even beyond that. So we have thousands of markets that we consider drive markets, Greensboro, North Carolina, that the pricing in Greensboro, even though it doesn't have low-cost carrier service, is impacted by Raleigh-Durham, which the airports are, I think, 55 miles apart. The customers have indicated willingness to drive.

So I think that the vast majority of pricing, probably north of 85% of domestic pricing, is really either directly or indirectly influenced by low-cost carrier pricing, which means as they're growing, it's affecting not just the 2% or 3% of revenue in markets that they're in, but it's affecting a much – it does affect a much bigger piece of the pie.

Jamie N. Baker - JPMorgan Securities LLC

Okay. Makes sense. Thanks for the clarity. Appreciate it, gentlemen.

William Douglas Parker - Chairman & Chief Executive Officer

Thanks, Jamie.

Jamie N. Baker - JPMorgan Securities LLC

Thanks, Doug.

Operator

We'll go to Hunter Keay with Wolfe Research.

Hunter K. Keay - Wolfe Research LLC

Hey. Good morning. Thanks.

William Douglas Parker - Chairman & Chief Executive Officer

Hey, Hunter.

Hunter K. Keay - Wolfe Research LLC

Hey. So a little bit of a follow-up on Jamie's question and I kind of want to – I'd love you to synthesize some of the stuff you've been alluding to throughout your prepared remarks. Obviously, you want to talk about this, I can tell, about some of the IT stuff. So...

William Douglas Parker - Chairman & Chief Executive Officer

How could you possibly tell that?

Hunter K. Keay - Wolfe Research LLC

Yeah. Love to do that. So okay, it's clear that you guys have concluded that ULCCs are a long-term threat in your market and they need to be dealt with and fine. That's your decision to make. But how do we know that you guys aren't totally blowing up yourself in the process of defending them, causing long-term damage on the pricing side while you're doing what you think you need to do to match them on fares.

So effectively, what you've done is – feel free to disagree with the premise, but you're competing against yourself. You're selling $41 walk-up fares to business travelers that were never going to be in the ULCC to begin with. So is there a more tactical way to going about keeping the pressure on the ULCCs as vis-à-vis they're competing in your market while being a little bit more surgical about how you don't impact your own close-in demands by like inverting the yield curve for – inverting the booking curve, I mean, for example, and then that in itself might be an IT question.

J. Scott Kirby - President

It's not an IT question, but thank you for the question, Hunter. And I don't agree with all the premises of at least you representing our view in the question.

Hunter K. Keay - Wolfe Research LLC

Tell me where I'm wrong, actually, if you would.

J. Scott Kirby - President

Well, more broadly, I'll talk about because I get this question a lot. I do get this question a lot from investors about – I would summarize it as, why are you matching ultra low cost carriers' price. And for what it's worth, we're doing – to start, we're doing what's best for American Airlines and for American Airlines shareholders, for our customers, and that's the premise that we do every day from. I have started asking investors when they ask me that question, if they own shares of Spirit Airlines, and so far, 100% of them have been honest enough to acknowledge that yes, they do.

And so we're not trying to do things that helps Spirit. We're trying to do things that are better for American Airlines. This, however, is not something that's just about Spirit. Most people ask it about in that context because they happen to own shares in Spirit. But we're competing the same against Frontier and Volaris and Norwegian Air Shuttle and carriers around the world.

Essentially what we're doing is anytime that we are competing with a nonstop carrier, nonstop-to-nonstop, we're going to compete and match their prices. And the reason is because those carriers are relevant, and we have many customers who are willing to fly them. A statistic that when I told people they find somewhat amazing is that 87% of the people that have flown American Airlines in the last year flew us only one time. So 87% of our unique customers fly us one time for a year or less, and they represent over 50% of our revenue.

While there are a lot of our customers who want to have a lie-flat seat to fly in the transcon market or who want a lie-flat seat to fly when they go overseas and are willing to pay a premium for a better product. We have that 50% of customers who are very infrequent travelers who fly us once per year – 50% of our revenue who fly us once per year or less, for whom air travel is largely a commodity, and I wish it wasn't that way, but it is. And you can see it. I'll give you some more stats in a minute about how much Spirit and Frontier and others have grown and how successful they can be in getting those customers to move off of us if we don't match their prices. And so, 50% of our customers are up for grabs. We have to compete for them. We can't just walk away from that size of the business.

Hunter K. Keay - Wolfe Research LLC

50% of revenue?

J. Scott Kirby - President

50% of revenue, sorry. And if you look at what's happened, it gives you some clarity on how those customers have moved to low-cost carriers. In Dallas, for example, before American filed bankruptcy, Spirit served three markets out of Dallas. Today, they serve – they have over 50 flights a day in 25 markets. In Chicago, they've grown to 24 markets with over 60 flights per day. In Dallas, Spirit at DFW is our number two competitor. They are larger than either Delta or United. In Chicago, they're the number three competitor. They're larger than Delta in Chicago. In those 25 routes in Dallas that Spirit flies, they have 20% market share, huge market share. But you have to understand this, when Spirit flies a flight, they carry all local passengers. So one Spirit flight is the equivalent of about three American Airlines flights, because we carry so many connecting flights. So if they fly a market twice a day, that's the equivalent of American Airlines flying six times a day in terms of the amount of passengers that they carry.

Also, we have larger overlap. If you measure our overlap as our domestic ASMs that have non-stop competition from someone, 28% of our domestic ASMs have non-stop competition with Spirit. That is much larger than our domestic overlap with Delta and United.

Frontier, similar. Frontier, before American filed bankruptcy, had 1% overlap with the American Airlines networks, and they've grown that by 1000% and they now have 11% overlap. Similar statistics, they're not as large because of the markets, but in some of the international markets where Volaris has grown into many markets.

And so given that 50% of our revenue is up for grabs in these markets and that these carriers have had so much success when they weren't matched, we know that we have to match their fares. This isn't something that's unique to ultra-low-cost carriers. We match Delta. We match United. We match Air France. We match every carrier that we compete with around the globe. But if we are going to fly head to head and compete non-stop to non-stop with any carrier around the globe, we are going to be competitive and match their prices.

Hunter K. Keay - Wolfe Research LLC

Okay. So that's all well and good. And this is my last question, it's a true follow-up, but is there a way – what we don't know as an investment community is how many seats you're selling on a plane to match that. Are you selling three seats? Are you selling a row?

J. Scott Kirby - President

Yeah.

Hunter K. Keay - Wolfe Research LLC

Or are you selling 25% of your seats? And that's what some of your competitors I think do better and that's maybe where you haven't had the resources from an IT perspective to get more surgical on your inventory. So I'm not saying you should come in here and let ULCCs take your share or whatever, but is there a way to be more precise? And to have a certain product that's more tailored to that type of customer, so you're not imploding, like I said, the booking curves. So, I, the business traveler, I'm buying the $46 walk-up.

J. Scott Kirby - President

So thanks for the follow-up because there are good points that I didn't make. One, so we are trying to be precise about where we have seats available. And what we've seen so far, and I'm sure we can fine tune it, but we're pretty happy with our results so far, in markets where we've matched ultra-low-cost carriers, our RASM performance has been the same as it has been in the rest of our domestic system. So we've performed just as well. What we've done is we're running much higher load factors, particularly on formerly off-peak flights. We've done a really good job so far of directing that traffic to formerly off-peak flights running higher load factors, running lower yields.

But our RASM performance even in the short-term has been equivalent to the RASM performance we've had in the rest of the system. And there probably are opportunities to fine-tune it, but that's normal course of business stuff that we do, and it's not going to be a meaningful change in terms of the number of seats.

One thing longer term that we would like to do, I talked earlier about further disaggregating the product is, and we haven't been able to do this yet because we've been getting through integration, but we are going to go to a product that has different attributes. And so that the attributes that you get if you buy ultra-low cost carrier competitive fare are going to be different. I'm not going to give you all of the attributes that will be different today because we'll wait till we're ready to announce it. But that's something that we hope to have in place in 2016, which will have two benefits for us. One, it will allow us to compete with the ultra-low-cost carriers.

And for that 50% of revenue and 87% of the customers that are up for grabs, it will allow us to offer them a product that's competitive on price with ultra-low-cost carriers. But also, for our customers that want a better product and our frequent flyers that want better seats on the airplane, we can give them the choice of not paying that fare and getting a better product.

But we're not going to have that in place until sometime in 2016. And in the interim, we can't just walk away from competing with Delta or United or Air France of WestJet or Frontier, any of those carriers. And so, we're going to keep competing and knowing that we have upside later to come sometime in 2016.

Hunter K. Keay - Wolfe Research LLC

Great, Scott. Thank you very much.

William Douglas Parker - Chairman & Chief Executive Officer

Thanks, Hunter.

Operator

We've got Helane Becker with Cowen & Company.

William Douglas Parker - Chairman & Chief Executive Officer

Hello, Helane.

Helane Becker - Cowen & Co. LLC

Thanks very much, operator. Hi, John and thanks for the – and Maya, thanks for the time. So I noticed that you announced that you're going back into Venezuela, I think, from New York. And I'm just kind of wondering, is that market showing signs of improvement that you would go back into that market.

J. Scott Kirby - President

Well, it's still profitable, but it's not improving. But it's enough that we thought it was – that it would be incrementally profitable to serve New York, even though RASM is down 46%. It's still a profitable market, however.

Helane Becker - Cowen & Co. LLC

Okay. And then just one point of clarification on your response to Hunter, the 80-some-odd percent of your passengers that are unique, is that system wide?

J. Scott Kirby - President

It is. It was 87%.

Helane Becker - Cowen & Co. LLC

Yeah, so 87%, okay. So if you looked at like Dallas for something like that, are the numbers lower where you could be more – because one of your strengths actually, I think, Scott, it was you who developed that whole plan when you were at America West, that closed your lowest buckets sooner rather than later. And at America West, you guys were outperforming the industry in terms of RASM and yield well before the rest of the industry kind of caught on to what you were doing. And I'm just kind of wondering why you wouldn't be that clever in your current role.

J. Scott Kirby - President

Well, I think we are that clever. And look, we're doing the exact same kind of stuff. The big thing that we did that I think you're referencing at America West was we stopped matching connecting fares that were really low. So the example I used to use with Wall Street was I looked at a pricing display and saw Orlando to Seattle for $79 in the summer. And I looked out at our August – or our July FPS from the previous year and we had run at 96% load factor between Orlando and Phoenix and a 97% load factor between Phoenix and Seattle. And so why would we ever want to sell a $79 fare between Orlando and Seattle?

So that's where it started. But we've never done that in our non-stop market. It's one of the great things about running a hub-and-spoke airline is you can be willing to not be price-competitive in a connecting market that doesn't make sense for you and pick the connecting markets where fares are okay and continue to be competitive in the local markets. But you can't walk away from competition in a local market because it's too important to – it's always the largest segment of O&D traffic flows in the market.

And secondly, you walk away from a long-term relationship with the customer to be in the AAdvantage program, even people that are flying once a day right now, getting them on American experiencing our fantastic product, experiencing the new aircraft that we have, because someday that might be a customer that's an Executive Platinum customer. And so we're not going to ever walk away in the local market, though we are willing to walk away in connecting markets.

Helane Becker - Cowen & Co. LLC

Okay. Yeah?

William Douglas Parker - Chairman & Chief Executive Officer

Hey, Helane. It's Doug, how are you?

Helane Becker - Cowen & Co. LLC

Hey.

William Douglas Parker - Chairman & Chief Executive Officer

So, look, only because Scott's going to get angry eventually if people keep suggesting we don't know what we're doing.

Helane Becker - Cowen & Co. LLC

Sorry, I don't want to do that.

William Douglas Parker - Chairman & Chief Executive Officer

No, no. Helane, you were very kind about it, but let me just try and – let me just from my perspective tell you that what I think Scott said in detail was at a global level. The 20 years of experience Scott brings is going into this analysis as well, and we are not constrained by systems, we are not constrained by intellect. And indeed, we know what we're doing and we're extremely comfortable with what we're doing. We have to be careful when we talk about pricing in the future, but we're perfectly comfortable telling you that the same people that have gotten us this far who are the best pricing yield management people in the business are managing pricing yield management in American right now and are not constrained by systems and have not suddenly changed the way they look at analyses.

But the reality is all the things Scott said, which are this is non-stop service, we will and need to compete on price on non-stop service. So to the extent any of our competitors are suggesting that maybe we had – that we've lost sight of this, they're incorrect. And you guys know enough to know that so long as we're focused on it, we're going to be doing it better than anybody else and we are. So, you guys can keep asking these questions, but we really know what we're doing, and Scott and his team know what they're doing, and we are going to continue doing what we're doing.

Helane Becker - Cowen & Co. LLC

Well, that's awesome and...

William Douglas Parker - Chairman & Chief Executive Officer

Thanks.

Helane Becker - Cowen & Co. LLC

...that's good that you continue to do what you're doing because, obviously, it's been very successful. So, thanks very much for all that clarification. I appreciate that.

William Douglas Parker - Chairman & Chief Executive Officer

Thanks, Helane.

Operator

We'll go to Duane Pfennigwerth with Evercore ISI.

Duane Pfennigwerth - Evercore ISI

Hey. Thanks very much for taking the questions, guys. Listen, I just wanted to check, everybody looks at this business, sort of this industry, on a CASM basis. But if I just take a step back, by our math, your mainline cost per passenger is in the $180 range in the third quarter, and that's with really cheap fuel. Do you think that's a fair assessment?

Derek J. Kerr - Chief Financial Officer & Executive Vice President

I haven't done the math. I don't know.

Duane Pfennigwerth - Evercore ISI

Okay. I think it's in that range. And in that vein, with respect to some of this walk-up fare pricing that we're seeing, I guess the decision is we're just going to lose money until something changes. So, I guess, how are you measuring the success of this very aggressive walk-up fare program that we're really not seeing from other airlines here in the U.S.? How will we measure the success of it?

J. Scott Kirby - President

Duane, we are not deciding to lose money. We aren't losing money. And I suspect that your Econ 101 class they taught you that you don't sell everything at the average cost. We sell a lot of tickets below our average cost because they are quite profitable on the airline. It all adds up to a profitability. But our variable costs are not the same as our average cost.

And as the statistics already gave you, in these markets, once we've gone to matching their prices, we've actually had performance that's been either in line or better than the rest of the system. And so we feel really good about it. Every single market that we are matching any low cost carrier is profitable. They're nicely profitable. They're some of the most profitable markets in our system. And you can see that that adds up to 17% plus margins in this quarter. So it's working really well.

Duane Pfennigwerth - Evercore ISI

Appreciate that commentary, and certainly don't want to beat a dead horse here, but it seems like a very favorable environment right now with fuel as low as it is. And I guess the question would be and it's one you can't comment on because it speaks to the future, but the question is how quickly can you get that pricing back? And are you diluting your brand with some of this pricing?

J. Scott Kirby - President

So the question on fuel actually, I think if fuel prices went up, our ability to compete is improved because fuel as a percentage of cost is much bigger for low-cost carriers. And so their average cost advantage declined as fuel price goes up. So our ability to compete gets better in a higher fuel price environment.

And as to the longer term question, I tried to answer it once before, but we will do more to disaggregate the product and really have a product that has less frills, comes with a really cheap price, and we're going to do more to have products for the brand for that. Less than half of customers who fly us more than once – or that less than half of revenue from customers who are more frequent travelers who want the premium product and who want to pay for the brand, and who want a better experience, we're going to be able to give them the choice of having that, but it will be sometime in 2016 before we can do that.

Duane Pfennigwerth - Evercore ISI

Okay. And then, just lastly by our math and I wondered if you agree, if I just look at ASMs Dallas metro, I see you guys at 70% of domestic and Southwest at about 16% and Spirit at about 4%, and Spirit is not really growing right now. So, I guess the question is, if they're not growing, Southwest is growing a lot, I guess, I would just question again what the long-term game plan is here. And again, thank you for taking the questions.

J. Scott Kirby - President

Our long-term game plan is to compete with every airline that flies that we need to compete with, which includes every airline that we are competing head-to-head nonstop with, is the long-term plan. And, as to the Spirit 4% point, it's a bad statistic, because included in your statistic is the amount of customers that are flying from Dallas to Abilene, a market that Spirit is not in. The relevant statistic is the 25 markets that Spirit flies, they have 20% market share, and any other statistic is irrelevant.

William Douglas Parker - Chairman & Chief Executive Officer

Thanks, Scott. And then, Duane, you didn't specifically ask us, but your comments about fuel prices being so low give me the opportunity to make a comment, to make some points I've wanted to make. I referenced in my opening comments about how – we, on the last call, went through the points about whether the industry is indeed different. So, I want to point out this on fuel. The reality is, Brent oil prices this year are going to average to something around $55 a barrel. In 2005, Brent averaged $55 a barrel. The economic cycle for 2005, and you guys decide, but it was a pretty good year in the economic cycle.

So the two things that we as airlines that really affect our profitability that are outside our control, the economic cycle and fuel prices, were very similar in 2005 as they are in 2015. In 2005, this industry lost $28 billion. In 2015, we're going to make something close to $20 billion. This business is not the same. It's dramatically different. People that are worried that, oh, my gosh, now that fuel prices have fallen, here go fares falling and what are the airlines going to do, it's the old business again, are missing the point and are missing what has happened.

This business has dramatically transformed. Fuel prices fall, indeed. It does make sense for some capacity to come in that does result in prices falling. But if you think this is the old business, you're just not paying attention. And I know you didn't say it, Duane, so I'm not saying that to you directly. But anyone that suggests that just isn't paying attention. Just go look at what's happened over 10 years and what's happened over 10 years is there have been five big mergers. And as a result, we got a business now that's still intensely competitive, but actually can produce returns for investors and we're doing that. So, anyway, that was just a gratuitous commentary from me. Thanks.

Duane Pfennigwerth - Evercore ISI

Thank you very much for the time.

William Douglas Parker - Chairman & Chief Executive Officer

Yep.

Operator

We'll go to Mike Linenberg with Deutsche Bank.

Michael Linenberg - Deutsche Bank Securities, Inc.

Yeah. Hey, just a question here and I guess, Scott, you're getting a workout here. I apologize. But look, now that you're a single airline from a distribution and marketing perspective, I mean, some of the opportunities, but I wanted to ask you about some of the opportunities, but sort of within the context of just some of the recent news I saw that Sabre now is going to be using this new distribution capability to sort of connect right into some of your ancillary product. And one of the things that I actually felt was interesting, I didn't realize that your agency point of sale that that was at –

that the Direct Connect was 15%, or that represented 15%, which sounds like that that's right up there with some of your GDS volumes from agencies.

Like, how does that evolve? I mean, because it sounds like you can really put the foot on the accelerator on the distribution front and I realize you touched on some of this in multiple answers about really creating this bespoke product. But, where do we go on the distribution front here?

J. Scott Kirby - President

Well, we'll see how it evolves. Where we are today is we're happy with – look, I'll start with the GDSs have a network that works all the links built. And so to the extent we're paying a reasonable price, we are happy to go through the GDSs and work with GDSs. All of the debate is about price. And our frustration, not shared just at American but I think a lot of airlines' frustration is, it's one of the few places in technology where prices have gone up a lot over the last 20 years because they've got monopoly market power in some cases.

That said, we'd like to work with the GDSs on doing things like selling our ancillary products. And we want them to sell it. It's good for our customers, it's good for their customers, the travel agencies, and then the customers that are flying that they represent. And so we're trying to do that. I think we're still all jointly figuring out how the GDS and distribution model evolve. But at least where we are today, I thank Sabre for getting this product out there. It's good for their customers, it's good for our customers, and it's nice that we've been able to find some common ground and work on something that's good for both of our respective customers.

Michael Linenberg - Deutsche Bank Securities, Inc.

Scott, do you think there's a scenario where you could create, I don't know, if it's just a product whether it's internally or something that's attractive to maybe bring the travel management companies to go by way of the Direct Connect sort of process, or is that...

J. Scott Kirby - President

Yeah. I don't think I can answer that question today.

Michael Linenberg - Deutsche Bank Securities, Inc.

Okay. Okay. Well, very good. Thank you.

Operator

And we'll go to Savi Syth with Raymond James.

Savanthi N. Syth - Raymond James & Associates, Inc.

Hey. Good morning. A slightly different line of questioning, but on the ancillary revenue side, I was wondering if you could help kind of clarify a little bit of how much of the kind of other revenue pressure came from the reduction in change fees that you guys called out, and maybe whether trend was excluding that pressure? I'm just trying to get a sense of kind of what the underlying strength is.

J. Scott Kirby - President

I'm looking to Derek.

Derek J. Kerr - Chief Financial Officer & Executive Vice President

Yeah. I'll work to get back to you on that. But I think...

J. Scott Kirby - President

I could tell you, conceptually, though, we've had a little bit of decline – some of those lines have declined a little bit as we've done things like maybe credit program, both credit card programs, first bag. So, if there's anything driving the decline, it's been a change as we've integrated to have the same set of benefits for all of our customers.

Savanthi N. Syth - Raymond James & Associates, Inc.

All right. Great. And just then the follow-up on the domestic unit revenue kind of color that you provided. Just wondering how much of that is being impacted by kind of the international feed. I know you mentioned that a lot of the domestic hubs that have international feed are the ones that are under pressure. I'm wondering how much of that PRASM decline might be from the international component of the ticket or the domestic component of the international ticket?

Derek J. Kerr - Chief Financial Officer & Executive Vice President

I don't remember the exact number, but it's over two points of the domestic decline is the domestic portion of international journeys.

Savanthi N. Syth - Raymond James & Associates, Inc.

All right. Great. Thank you.

Operator

We'll go to Dan McKenzie with Buckingham Research.

Dan J. McKenzie - The Buckingham Research Group, Inc.

Hey. Thanks, guys. Derek, the $900 million improvement to the product, what are those improvements exactly? And then just tied to that, how would you characterize the return profile of these investments?

Derek J. Kerr - Chief Financial Officer & Executive Vice President

The $900 million is the number of non-aircraft CapEx that we're spending, and part of that is with the product. And we've have already announced the $2 billion improvement to the product with lie-flat seats and those kind of amenities and the clubs and other things. So, the $900 million wasn't intended to be spent on improvement of the product. That's how much we're spending in capital for this year. That is non-aircraft CapEx.

Dan J. McKenzie - The Buckingham Research Group, Inc.

Okay. Appreciate the clarification. And then, Scott, not to kick a dead horse here, I actually will talk about something a little different. So, just keeping fuel prices constant, margin compression on the international entities, but there are some margin expansion initiatives that, I think, that you have under way to help offset and blunt some of those. And one of those, if I'm not mistaken, is just the RJ fleet restructuring. It's not something you guys have talked a lot about in the past, but I'm just wondering how material is the swap of the smaller RJs with the larger RJs to your overall margins?

J. Scott Kirby - President

It is a meaningful number. We haven't disclosed any specific margin or dollars associated with it. But we are rapidly swapping out the 50 seat and smaller regional jets and going to the larger regional jets which – the economics are great. And while we're running high load factors, we can feed more traffic onto our mainline network, feed more traffic onto our international flights and really helps the whole network get much better. It is one of the big contributors and will continue to be going forward as we continue that re-fleeting exercise.

Dan J. McKenzie - The Buckingham Research Group, Inc.

And what percent of the departures are those that are being affected of the system departures?

J. Scott Kirby - President

What do you mean? What percentage are being...

Dan J. McKenzie - The Buckingham Research Group, Inc.

Just the...

J. Scott Kirby - President

...are being upgraded?

Dan J. McKenzie - The Buckingham Research Group, Inc.

...RJ departures as a percent of total that would be helping to drive this improvement?

J. Scott Kirby - President

I don't know the number exactly off the top of my head.

Dan J. McKenzie - The Buckingham Research Group, Inc.

Okay. That's it. That'll do it for me. Thanks, guys.

William Douglas Parker - Chairman & Chief Executive Officer

Thanks.

Operator

We'll go to Tom Kim with Goldman Sachs.

Tom Kim - Goldman Sachs & Co.

Good morning. Thanks for your time. I had a couple of questions on the international side. I wanted to start out with Brazil first of all. Just with regard to that market, do you feel like you're rightsized for it?

And I guess I'm just wondering earlier, I think a comment was made that the market will cover when effectively the macro does. And I guess I'm wondering like what do you need to see to potentially get more aggressive on capacity? Thanks.

J. Scott Kirby - President

Well, we've cut 30% of our capacity in Brazil. And so, we continue to look at the market, but we don't have any imminent plans to cut. We've cut 30%, but total capacity in the market is still up quite a bit and I think we're just, at the moment, hanging in there with what we have.

William Douglas Parker - Chairman & Chief Executive Officer

And Tom, it's extremely important part of the world for American Airlines. We're the largest carrier to Brazil and the South America so it's – we've cut back as Scott said 30%, but that is not a market we're going to abandon because it's so important strategically to us.

Tom Kim - Goldman Sachs & Co.

No, fair enough. I mean it's obviously the third largest domestic market in the world, and so you simply want good connectivity there. And then I guess just on the Atlantic side, can you give us an update in terms of the competitive landscape? And I guess more specifically, the JFK, Heathrow and I'm wondering if – with that sort of commentary if you could sort of update us on how your share has been progressing relative to your domestic peers? Thanks.

J. Scott Kirby - President

Well, we have the best partner across Atlantic in IAG and specifically in JFK. Heathrow, the partnership that we have with British Airways, we're doing quite well. We've increased share in that market and we're more than holding on our own against all competitors in that market.

Tom Kim - Goldman Sachs & Co.

Great. Thanks very much.

William Douglas Parker - Chairman & Chief Executive Officer

Thanks, Tom.

Operator

Go to Joseph DeNardi with Stifel.

Joseph DeNardi - Stifel, Nicolaus & Co., Inc.

Hey. Thanks for squeezing me in. I'll just ask two. Scott, just on the – if I look at kind of load factor trends the past couple of quarters compared to this one, there's a pretty noticeable increase in loads with some softening in yield. So, just wondering if there is a change in kind of the RM-System this quarter that drove some of that?

J. Scott Kirby - President

It's not so much a system change. The increase in load factor, well, we'll start across the wo whole industry, we all get better at squeezing people onto off-peak flights every year. And as much as anything for American, this was about getting more customers on off-peak flights, and the biggest increase in load factor on those off-peak flights was in markets where we're matching ultra-low-cost carriers.

Joseph DeNardi - Stifel, Nicolaus & Co., Inc.

Okay. I mean, domestically, can the load factor go beyond 88%? And then if you could just talk about how the revenue synergies start to phase and now do you have a single res system?

J. Scott Kirby - President

I don't know how far they can go. Every year that I get asked this, you think it's at the highest it can realistically be and then the next year it's higher. So I'm going to stop predicting when we'll have a peak in terms of load factor. In terms of synergy, the two biggest ones yet to come are full connectivity across the network prior to getting the single reservation system. If you went to usairways.com and AA.com, you would see different prices often times. That's a whole bunch of reasons in the old management systems.

Why that was different? That is now gone and we have effectively – we do have seamless availability between the two networks. And then the other one is moving aircraft around and putting the right-sized aircraft on the right route, again, prior to being on a single reservation system. We were limited in our ability to do that. We now have full reign to do that. That will take us a while to get done because there's also operational considerations to go along with that. And so, we'll start that next year, but we won't finish that piece of the integration really probably for 18 to 24 months.

Tom Kim - Goldman Sachs & Co.

Okay. Thank you.

Operator

We'll go to Andrew Didora with Bank of America.

Andrew George Didora - Merrill Lynch, Pierce, Fenner & Smith, Inc.

Hey. Good morning, everyone. Thanks for getting me in here at the end. Just had one question, I guess this is for Derek. Certainly I appreciate your commentary just in terms of addressing the cash balance and balance sheet coming up here. But your debt has been picking up this year obviously, particularly in 3Q as you brought back a lot of stock. Do you feel comfortable with leverage levels higher than today, particularly as your earnings grow or would you like to see this come down over the next, call it, 18 to 24 months?

Derek J. Kerr - Chief Financial Officer & Executive Vice President

No. We'd like to see it come down. I mean, we're comfortable where we are today, but we'd like to see it come down over time. That's why we're going to look at – relook at everything from the leverage levels to the minimum cash, and try to figure out where we're going forward. But our plan is to bring it down over time.

Andrew George Didora - Merrill Lynch, Pierce, Fenner & Smith, Inc.

Got it. Thank you.

William Douglas Parker - Chairman & Chief Executive Officer

Thanks, Andrew.

Operator

We'll go to Darryl Genovesi with UBS.

Darryl Genovesi - UBS Securities LLC

Hi, guys. Thanks for the time. Derek, any initial thoughts on 2016 CapEx at this point?

Derek J. Kerr - Chief Financial Officer & Executive Vice President

We think it'll be around – we've said it's around $1 billion. We were at $900 million this year. Some of those reconfigurations that Scott had talked about that didn't get done this year are going to push into next year. So, we'll be around the, probably about $1.2 billion range for CapEx next year just due to some of the spending that we expected this year pushing into next year.

Darryl Genovesi - UBS Securities LLC

Would the gross number be about five times that?

Derek J. Kerr - Chief Financial Officer & Executive Vice President

Oh, no. That would just be the CapEx for non-aircraft. Aircraft CapEx is right around probably about $4.4 billion for aircraft CapEx.

Darryl Genovesi - UBS Securities LLC

Great.

Derek J. Kerr - Chief Financial Officer & Executive Vice President

Combined, it's $5.6 billion, in that range.

Darryl Genovesi - UBS Securities LLC

Great. Thanks for that.

Derek J. Kerr - Chief Financial Officer & Executive Vice President

Yes.

Darryl Genovesi - UBS Securities LLC

And then, Doug, I've heard you say a few times this year that you don't think margins have peaked yet. And I guess I'd like it if you can put a little bit more meat on the bones there because the airline stock here is included, trading at single-digit P/E multiples do seem to imply margin deterioration from here.

And just within the context of an industry that's earning probably above what most would consider it to be cost of capital and within that industry, your own margin seems already be very competitive at the high end of your peer group and a premium that Delta and United which holds even if kind of adjusted for the fuel losses away from you. So, I guess I wonder if your comment there regarding the forward margin progression was meant to be taken in an absolute sense or in a relative sense, and just generally speaking, why you think margins cannot just hold from here but actually higher? Thanks very much and apologies for the long-winded question.

William Douglas Parker - Chairman & Chief Executive Officer

No problem, Darryl, and I apologize in advance for hopefully what's not a really long-winded answer. But to the extent I said – anyway, here's what I believe which is the traditional – at least when I think of it as peak margins as though this is the best it's going to get, and you should expect declines from this point on. That's just not what this feels like at all.

I do believe that the 2015 margins probably were higher than this economic cycle should warrant given fuel prices fell so quickly. And when fuel prices fell that quickly, capacity which rightfully, when your largest cost of production falls by 50%, one should expect capacity to come in. And if demand stays the same and capacity comes in, then by definition, prices fall. And that happened, but that didn't happen in the first part of the year.

So, we probably had some artificially high margins for this point of the economic cycle at the start. So, if that's clear – so, therefore, we'll leave to you guys to project next year's margins, but I certainly wouldn't be surprised if anyone was suggesting 2016 would be lower than 2015 margins with the exception of carriers that had large fuel hedges losses this year, which you should obviously adjust for.

There is apples-to-apples, paying the same amount for fuel year-over-year and not losing a lot on hedges, I would expect you'd see most all airlines have margins lower in 2016 and 2015 because of what I described. That's not because – it doesn't mean to me that the business gotten worse. It just means fuel prices fell so fast than you can respond in time. And then what it feels like to me is beyond 2016, you see margin increases. So do they get back to where 2015 was and when did that happen, I don't know, but of course, they can be higher than they were in 2015. And what I definitely don't believe is whatever they are in 2016, that they would be lower than that in 2017. It doesn't feel like bad at all. Is that clear?

Darryl Genovesi - UBS Securities LLC

Okay. Great. Well, thanks very much for that.