Operator

Good day, everyone and welcome to the American Airlines Group Second Quarter 2015 Earnings Call. Today's conference call 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. [Operator Instructions]. And now I would like to turn the conference over to your moderator, Managing Director of Investor Relations, Mr. Dan Cravens.

Dan Cravens

Thanks, Jenny and good morning everybody and welcome to the American Airlines Group second quarter 2015 earnings conference call. Joining us on the call this morning is Doug Parker, our Chairman and CEO; Scott Kirby, our President; and Derek Kerr, our Chief Financial Officer. Also in the room for the Q and A session is Robert Isom, our Chief Operating Officer; Elise Eberwein, our EVP of People and Communications; Bev Goulet, our Chief Integration Officer; Maya Leibman, our Chief Information Officer; and Steve Johnson, our EVP of Corporate Affairs.

As is our normal practice we are going to start the call this morning with Doug, and he will provide an overview of second quarter financial results. Derek will then walk us through the details on the quarter, and provide some color on our guidance for the second half of 2015. Scott will then follow with commentary on the revenue environment and our operational performance. And then after we hear from those comments we will open the call for analyst questions, and lastly questions from the media.

Before we begin though we must state that today's call does contain forward-looking statements, including statements concerning future revenues and costs, forecasts of capacity, traffic, load factors, 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 the earnings press release issued this morning, as well as our Form 10-Q for the quarter ended June 30, 2015.

In addition we will be discussing certain non-GAAP financial measures 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 under the More about American/Investor Relations section.

A webcast of this call will also be archived on our website. The information that we are 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, I will turn the call over to our Chairman and CEO, Doug Parker.

Doug Parker

Thank you, Dan. Thank you everyone for being on. We, at American Airlines today reported record earnings of $1.9 billion, excluding special charges for the second quarter. It's a record, not just for the second quarter at American, but actually the highest earnings American has ever had in one quarter, in its history. And while we are not the keepers of all industry data, we think, since it was the highest earnings of any airline this quarter, we think it's the highest quarterly earnings that any commercial airlines ever reported in a quarter.

So we are quite proud of that, and given the fact that this company was in bankruptcy about 18 months ago, to be producing the highest earnings any airlines ever produced is a testament to the amazing team we have and their great work. 100,000 hardworking people at American Airlines have come together, are doing a great job of integrating our airlines, and taking care of our customers. We are -- our confidence in our team, gives us confidence in our future.

We repurchased over $750 million of our equity in the second quarter, as Derek will talk about, and today we announced we've authorized an additional $2 billion share repurchase over and above the $2 billion that we announced just in January. So very pleased with the results, and excited about our future. With that, I will turn it over to Derek, to give you more detail on the financials, and Scott will talk about revenue and performance.

Derek Kerr

Great. Thanks, Doug and good morning, everyone. We did file our second quarter 2015 10-Q, along with our press release this morning. And in that earnings release, as Doug said, we reported the highest quarterly profit in the company's history. The second quarter was a net profit, excluding net special charges of $1.9 billion or $2.62 per diluted share, and this represents a $398 million improvement versus our second quarter of 2014, net profit excluding net special charges of a $1.5 billion or $1.98 per diluted share.

Our second quarter 2015 pretax margin, excluding net special charges was a record 17.2%, up 4.4 points year-over-year. On a GAAP basis we reported a record second quarter net profit of $1.7 billion or $2.41 per diluted share, and this compares to a net profit of $864 million or $1.17 per diluted share in the same period last year. In the second quarter of 2015, we continued to invest in the airline by taking delivery of 24 mainline aircraft, and retiring 34 mainline aircraft.

On the regional side we took delivery of nine aircraft and we removed from service and parked eight aircraft. Throughout the next few years we will continue our extensive fleet renewal program that has made American's fleet the youngest of any of the U.S. network airlines. During the remainder of the year, we expect to take delivery of 31 mainline aircraft and 29 regional aircraft, while retiring or parking 53 mainline aircraft and 22 regional aircraft.

Total capacity for the second quarter was 69.4 billion ASMs, up 1.9% for the same period in 2014. Mainline capacity for the quarter was 61.9 billion ASMs, up 1.5%, while regional for the quarter was up 5.5% to 7.48 billion ASMs, due primarily to larger gauge aircraft, longer stage length, offset by fewer departures.

Second quarter 2015 revenue was negatively impacted by large capacity increases in certain domestic and international segments, a strong U.S. dollar, and continued economic softness in Latin America. For the quarter, total operating revenues were $10.8 billion, down 4.6% from the same period last year. Passenger revenues were $9.4 billion, down 5.1%.

Yields were down 6.1% on a 1.9% increase in system capacity. Cargo revenues were down 12.3% to $194 million, due primarily to lower international yields, and other operating revenues were $1.2 billion, up 0.4% year-over-year.

Total RASM in the second quarter of 2015 was $0.156, down 6.4% for the same period last year. This decrease was driven principally by a decline in passenger RASM, which was $0.1357, down 6.9%, and Scott will give more details on that in his talk. The airlines operating expenses, excluding net special charges for the second quarter of 2015 were $8.8 billion, down 9.8% year-over-year, primarily due to a 37% decrease in consolidated fuel expense.

We remain unhedged and our financial results continue to see a material financial benefit from the significant year-over-year decline in crude oil prices. Our average mainline fuel price including taxes for the second quarter was 1.9 -- a $1.90 per gallon, a 37% decline versus $3.02 per gallon in the second quarter of last year. Lower fuel prices drove 11.8% decline in mainline operating costs per ASM, excluding net special charges to $0.1164. Excluding net special charges in fuel, our mainline cost per ASM was $0.0877 in the second quarter, up 2.5% year-over-year. This increase is due primarily to higher salaries and benefit costs associated with our recent labor contracts, which increased our second quarter mainline CASM, excluding special charges and fuel by approximately 3.5 percentage points. These higher labor costs are reflected in our guidance for the remainder of the year.

Regional operating cost per ASM, excluding net special charges was $0.1602 for the second quarter of 2015, an increase of 1.4%. So excluding net special charges and fuel, our consolidated second quarter CASM was up 2.6% year-over-year. We ended the second quarter with $9.7 billion in total cash and investments. Of this $747 million was restricted, and $629 million was held in Venezuela bolivars. The company also has an undrawn revolving credit facility of $1.8 billion, bringing our total unrestricted liquidity to $10.7 billion.

During the second quarter the company refinanced each of its secured term loan facilities at lower interest rates while improving collateral terms. In addition, the company also extended the maturity of its $1.9 billion term loan facility by one year to June 2020. Subsequently, both credit facilities received a 25 point -- basis point reduction in interest rate due to the company's improved credit ratings from S&P and Moody's.

During the second quarter of 2015 we generated $2.3 billion in cash flow from operations, and paid down $361 million in debt. The company returned $823 million to its shareholders through the payment of $70 million in quarterly dividends, and the repurchase of $753 million of common stock or 17.3 million shares at an average price of $43.53 per share. When combined with the dividends and shares repurchased during the first quarter, the company has returned approximately $1.1 billion to its shareholders in the first half of 2015. And since the merger closed we have returned approximately $3 billion to our shareholders.

Based on the company's strong financial performance, its projected cash flow, and the repurchase activity to date, the American Airlines Group, Board of Directors has authorized an additional $2 billion share repurchase program to be completed by December 31, 2016. This brings the total amount of share repurchase programs authorized in 2015 to $4 billion. The company's Board of Directors has also declared a $0.10 per share dividend to be paid on August 24, 2015 to shareholders of record as of August 10, 2015.

Turning now to our guidance for the remainder of the year, in our last IR update provided on July 10th, we lowered our full year overall system capacity growth and are now forecasting it 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 up approximately 1%. For the back half of 2015 mainline capacity and ASMs break down in the quarter's as follows; 63.6 billion in the third, 58.1 billion in the fourth. Regional capacity is 7.66 billion in the third, and 7.70 billion in the fourth.

For the full year 2015, we are forecasting year-over-year total CASM, ex-special items and fuel to be up approximately 4% to 6%. The increase is driven primarily by the new labor contracts covering our pilots and flight attendants, and costs dedicated to improving 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%. Mainline CASM in the third quarter is projected to be up 3% to 5%, and in the fourth quarter, up 6% to 8%. And on the regional side, at the third quarter up 2% to 4%, and the fourth quarter approximately flat.

As I mentioned in my earlier comments we continue to see a substantial financial benefit as a result of lower crude oil prices. Using the July 20, 2015 fuel curve we are forecasting our consolidated fuel price to be in the range of $1.78 to $1.83 per gallon. Based on these prices, we expect our 2015 consolidated fuel expense to improve by approximately $4.8 billion year-over-year. Mainline fuel in the third quarter expected to be $1.73 to $1.78, and in the fourth quarter, $1.71 to $1.76; regional fuel price in the third quarter at $1.75 to $1.80; and in the fourth, $1.73 to $1.78.

Using the midpoints of the guidance we have provided, along with the PRASM guidance that Scott will give, we expect to continue the momentum with a record third quarter pretax margin excluding special items of between16% to 18%. For the remainder of 2015 we continue to expect a large increase in operating cash flow versus 2014. As the second half of 2015 progresses our focus will continue to be toward completing our integration, investing in the airline by renewing our fleet, improving our operational performance, and returning excess cash to shareholders.

In terms of capital expenditures we are now forecasting total gross aircraft CapEx to be approximately $5.4 billion in 2015, of which approximately $2.5 billion will occur in the second half of the year. In addition, we continue to expect to invest $1 billion for non-aircraft [ph] CapEx which includes many investments to improve our product, and we also will make $1.8 billion in debt repayments throughout the year.

In conclusion, we are very pleased to report the highest quarterly profit in the company's history, and I would like to thank our more than 100,000 team members for making these results possible. With that, I will turn it over to Scott.

Scott Kirby

Thanks, Derek. I would like to start by thanking all the people of American Airlines for the great job they've continued doing operationally. April and May continued to be difficult weather months, particularly here in Dallas. But as we moved into summer we have seen a return to more normal weather patterns, and the team has been running a very good operations in both June and July.

On the revenue front, our second quarter RASM was down 7%. The stronger U.S. dollar and declining international fuel charges made up about two points of that decline. Venezuela was another 0.5 point and Brazil had about one-half -- almost a 0.5 point impact on system PRASM as well. Domestically, PRASM was down 5%. We saw the strongest performance in New York where PRASM was actually up year-over-year. At DFW, our largest hub, PRASM was down 5%, which was right in line with the rest of the domestic system.

Obviously, the Dallas headwinds are more challenging than the rest of the system, and we attribute the relatively strong performance -- and I emphasize relative because we never like to see PRASM down 5%, to the re-banking of DFW and to the improved PRASM performance we have seen in LCC competitive markets, as we continue to match more and more of their prices.

In the Atlantic, PRASM was down 9%, as total capacity across the Atlantic jumped in Q2 relative to the first quarter. Across the Pacific, PRASM was down 13% on 33% capacity growth. Currency and surcharges have had a particularly large impact in this region. And given our level of capacity growth, combined with the currency effect, we continue to be pleased with the absolute demand to Asia.

Latin America, PRASM was down 13%, but it really is the tale of Brazil and Venezuela, versus the rest of Latin America. Brazil PRASM was down 24%, on a 20% cut in capacity at American Airlines, and Venezuela PRASM was down over 40%, despite a 59% cut in capacity. The rest of our Latin America network had a modest decline in PRASM, which given the level of capacity growth in those markets indicates fairly healthy Latin demand outside of Brazil and Venezuela.

On the integration front, we continue to remain on progress and remain on schedule with our integration plans. In the past week we passed a significant milestone in locking down the date for our reservation system cut-over in October, and we started the 90 day drain down process. We feel confident about the plan and the trainings that are in place to successfully complete the res system migration. And we look forward to getting over that hurdle, because it will unlock some of the remaining synergies, and also allow our IT and business teams to turn their attention towards making improvements in all of our processes and systems, instead of being focused almost exclusively on getting through the integration.

Turning to the outlook going forward, the same factors that drove a 7% PRASM decline in Q2 continue into Q3. Currency and surcharge declines will impact system PRASM by approximately 2.5 points. We continue to see significant year-over-year competitive growth, capacity growth, particularly here in Dallas. And in South America, Brazil remains challenged, and we don't anticipate any material changes compared to the 2Q performance. Likewise in Venezuela we expect the revenue environment to continue roughly as it was in 2Q, though we now overlapped our significant drawdown in capacity from last year. So the overall impact on system PRASM is smaller. Given all this, we expect our system PRASM to decline 6% to 8% in the third quarter.

In conclusion we are very encouraged with the operating, integration and financial results at American Airlines. The revenue environment faces a number of challenges, but we think we are managing well in this environment, and continuing to produce record financial results in spite of those challenges.

Dan Cravens

Great, operator, we are ready for questions. Actually, I'm sorry, we are not ready for questions. Sorry, I have a -- [indiscernible] note from our lawyers. So before we start questions, as you all know, American and some of our competitors have received a civil investigative demand from the Department of Justice. We, at American sent a letter to our team a few weeks ago on this topic that includes our views, that letter is now public. We are not going to restate all that here.

In short, we are complying with the investigation, and are confident it will result in no findings against American. So this is now a legal process and we are not going to be able to respond to specific questions on that. So we thank you for understanding. So with that said, operator, we are now ready for questions. Sorry about that. Thanks.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions]. We ask that you please limit yourself to one question with one follow-up question. At this time we will go to questions from our analysts. We will hear first from Julie Yates of Credit Suisse.

Julie Yates

Thank you for taking my question. Scott, you mentioned unlocking remaining synergies following the reservation system integration. What are the key opportunities to continue to optimize the airline and capture the remaining revenue and cost synergies? And can you just remind us where you think that remaining synergy number is?

Scott Kirby

So there’s two big ones. One is just improved connectivity between the network and selling as a single code for -- if you go out and look at America -- or usairways.com and american.com, just as a simple example, you will often find different prices. That’s because of the inherent challenges with running a codeshare as opposed to having a seamless single system. And so all that goes away once we are on a single reservation system. And the second one is being able to essentially optimize the fleet, put the right-sized aircraft in the right market.

At the time of the merger we said each of those was worth about $300 million. The first one, the connectivity we’ve probably gotten half of it, and there is another half yet to come. And the optimizing the fleet we haven't really done anything on yet. It won't happen right away. When we do the transition to single res system, but we will be able to start that process, and it will probably take us 12 months to 18 months just to get through the first big wave of that, and then continue to continue to optimize over time.

The other thing that I think we are looking -- I know we are looking forward to is while they aren't synergies per se, there’s all kinds of things that we want to do that will drive better revenue performance, that will drive better operations performance, that will drive better customer service. And we have been really limited in being able to do that, because all of our business teams and IT resources have been focused on getting the integration done. And also we couldn't work on those -- interfere with those systems while we were in the middle of the integration. So we will be able to start a whole long backlog of projects that we haven't been able to do. That is not technically synergy but it’s incremental value that will also be created once we are through the rev system migration.

So we are as a company really looking forward to it. We are really quite confident. I am sure it won't be perfect but our teams have done just a fantastic job so far in every piece of the integration. So we are confident we will get through this and be able to really hit the accelerator on moving things forward.

Julie Yates

And this the seniority list of integration, is that a gating factor at all to capture any of those and just what’s the timing on that?

Scott Kirby

It’s not and we still expect that to be done end of this year or early next year. We can't combine those work forces until we get to single flight operating system which happens later in 2016. In any event, we expect to have the seniority list done well in advance of that but it is not a big issue in terms of -- we can move fleet around for example even before we got to a single seniority list.

Julie Yates

Okay, very helpful. Thank you.

Operator

And we will go to our next question from Duane Pfennigwerth of Evercore ISI.

Duane Pfennigwerth

Hey, good morning.

Doug Parker

Good morning.

Duane Pfennigwerth

Maybe I missed it, but can you give us any regional commentary in your 3Q unit revenue guidance and specifically I wonder if you detect any improvement sequentially in the domestic market?

Scott Kirby

No. I’d say the short answer to that is no, we don't detect improvement in the domestic market. I don't think it’s getting any worse. I mean for us specifically, there is another big slug of capacity that’s coming out of Love Field with eight new markets opening up in August. So that will put incremental pressure on Dallas, but the basic trends domestically I think are largely unchanged and that makes sense.

If you look at the capacity situation, the numbers are very similar in 3Q as they were in 2Q. They are similar in 4Q as well. And so absent a large change in the macro economy I think that the numbers kind of broadly speaking will be similar.

Duane Pfennigwerth

So just to follow-up, domestic down in kind of the 5% range, similar to what you saw in Q2 feels about right?

Scott Kirby

Well, I am not going to give a specific forecast on it, but I think it is -- we don't see any real change in the trend. I don't know for sure if that means exactly down 5%, but we don't really see a change in the trends. Costs change a little bit year-over-year, there's some things that get better, some days get worse. But I was answering the trend question without getting into a precise forecast.

Duane Pfennigwerth

Thank you. And then just on Latin America or even the Pacific, can you talk about how much of a priority pursuing partnerships, closer partnerships, perhaps joint ventures, how far away from getting -- are we away from getting some of those international regions a little more rational?

Scott Kirby

Well, I don't know what you mean by -- I am not going to comment on whether they are rational or not but we have had some great partnerships that yield real benefits for our customers. We have two JVs today, or actually three. The new one, that's coming online is Qantas. And we continue to believe that, that opens up new markets for us, opens up new markets for our customers, creates growth opportunities for us.

The Qantas JV is a great example of creating growth opportunities for American Airlines that we couldn't pursue on our own but we can with a strong partner and for Qantas who's been able to put back new service that they wouldn't be able to do on their own. So we look to joint ventures as a way to improve our results, expand our route map and create growth opportunities and we will continue to look for opportunities to do that going forward.

Duane Pfennigwerth

Thank you very much.

Operator

And moving on, we will go to a question from Michael Linenberg of Deutsche Bank.

Doug Parker

Hey, Mike.

Mike Linenberg

Hi, yeah, hey, good morning, everyone. Hey, just to touch on Duane bringing -- what Duane brought up on the JVs, I believe October of this year the U.S.-Brazil open skies is fully phased in. And I am not sure have you guys filed with the regulators an ATI-JV with your Latin counterparts?

Doug Parker

We have not.

Mike Linenberg

Okay. Next question is for Derek. Can you just update us on where you are with respect to your pension, the underfunding piece? I mean we've started to see discount rates come off the bottom. What's the latest on that, Derek?

Derek Kerr

I think we are under the Airline Relief Act at this point in time, so we are fully funded under the Airline Relief Act. We are about 62% funded overall, but under the Airline Relief Act we do not have any payments that we have to do until around 2019. So our forecast would show at this point in time we look at it every quarter, that we don't have any payments for pension funding through 2019 because we are fully funded under the Airline Relief Act for every one of our groups.

Mike Linenberg

Derek, do you have a sense on what the TBO is relative to the plan assets? What that difference is at this point, you haven't done a calculation recently?

Derek Kerr

We haven't done the calculation recently, but I can get that to you.

Mike Linenberg

Not a problem. Okay, great, thank you.

Operator

And we will hear next up from Hunter Keay of Wolfe Research.

Hunter Keay

Good morning, guys.

Doug Parker

Hey, Hunter.

Hunter Keay

So, Scott, have you been taking market share with your rebank, mainly DFW? And if so, have you seen any kind of unintended consequences from that, maybe in markets unrelated to DFW?

Scott Kirby

I am not sure -- I'm not entirely sure what that question means but what I can say is that we have been quite pleased with the results of the rebanking at all three of our hubs, and Dallas in particular. I mean you look at Dallas performing inline with the system average, with the huge increase in capacity in the Dallas market, is a pretty clear indicator that rebanking has been successful and we are really pleased with it and continue to work to refine it operationally but it's going great.

Hunter Keay

Okay. I guess sort of tangentially related to that, maybe this provides some clarity of what I was driving at, but Doug, you sent out a letter to the employees a couple weeks ago. You said that you've maintained and expanded the maverick pricing philosophies which were a reference to the advantage fares that US Airways used to employ. What did you mean when you used the word expanded? Does that mean that you are putting the advantage fare concept on American metal, you are expanding it through various codeshare mechanisms or what did you mean specifically when you said you expanded the use of the advantage fares?

Doug Parker

That's exactly what it means, Hunter. This is one of the, I think well, it's presumably surprising to the folk at the DOJ, though I understand why they had the perspective that they did at the time. They are worried that American -- US Airways advantage fares would go away. And in fact what has happened is we expanded advantage fares, not only to the US Airway system but put them in the entire American network and actually another step beyond that is that Delta and United have actually put them in a lot of their networks, as well.

So advantage fare pricing has gone from being something that was exclusively on the US Airways network to something that is now on the entire American network and on big parts of the United and Delta networks as well.

Hunter Keay

Okay, thanks a lot for the time.

Operator

And we will hear next from Savi Syth of Raymond James

Savanthi Syth

Hey, good morning. Just the investments that are being made to improve operational performance, I wonder if you can provide a little more clarity on that. Just how much of the cost pressure is that? And is there going to be any of that continuing into 2016? And it’s clearly a good project and then the timeline on when you kind of expect to see that flowing into operations and earnings.

Derek Kerr

Yes. This is Derek, and then Robert can touch on it. You know we’ve looked at a lot of what we were going to do in the back half of the year to reduce head count and do other things but we’ve decided to leave that in and leave it in place so that we can get through the integration. It is about a point of CASM I would say in the fourth quarter, that we’ve added. We’ve added staffing in areas like reservations and maintenance and the airports to make sure as we go through this in the fall and get through the operations, or get through the PSS migration and other things into the fall we have enough staff to be able to get through all of those.

I do believe most of that will come out and it will come out in part in the middle of 2016. And I do think, and Robert can touch on where the operations is now, but I think our July is just running really well. So Rob, why don't you touch on ops?

Robert Isom

Sure. Like Derek said, July operations are where we want them to be. Our completion factors are in the mid-99% plus. Our on time performance is

80% plus. And we are executing day in and day out. We are near in terms of departing exactly on time.

The kind of investments that we've made so far have been in a number of areas, maintenance by putting personnel in places that quite frankly we didn't have them before. So increasing maintenance opportunities for ourselves. We've invested a lot in renewal of equipment. Our capital plan had almost $100 million or over $100 million in terms of resources, additional and for replacement purposes. And then we have done things in the airports too, to ensure that we get our baggage performance where we want it and that we meeting and taking care of aircraft like we want them.

So looking forward though the investments are really about making sure that when we do get into increment weather and when we do have irregular operations that we are ready to handle them. So a lot of investments is coming and being put into place now to make sure that we are ready for the fall and winter season.

Savanthi Syth

That's very helpful. So that investment should be done by the middle of 2016?

Robert Isom

Yes.

Savanthi Syth

Okay, great. And just one last question on ancillary revenue; just wonder if you can talk about what you are seeing there and perhaps what the opportunities following the system integration in October?

Scott Kirby

We continue to see growth in our ancillary revenues as we've expanded some of the product lines and also learned from best practices at each of the two airlines. And earlier I alluded to, or talked about post integration. We have a lot of projects and plans. So a lot of our ideas which we are not ready to announce we can't talk about specifics here today, but a lot of them fall into that ancillary category of new ways to merchandise the product in a way that is good for our customers, is something that we are looking forward to doing once we get through integration.

Savanthi Syth

Very helpful. Thank you.

Doug Parker

Thank you.

Operator

And we will go next to Jamie Baker of JPMorgan.

Doug Parker

Hey, Jamie.

Jamie Baker

Hey, good morning, everybody. Scott, when I look at your pretax margins, relative to the industry, they are actually no better today than when the merger first closed and admittedly this is back of the envelope. I haven't made any adjustments for fuel, but the simple reality is that based on this observation you don't seem to be demonstrating really any synergies. In fact, six quarters into the new company and the word synergy only appeared once in today's release and it was in the forward-looking statement disclosure that nobody ever reads.

I know other issues have taken center stage as of late, but -- and the integration isn’t complete. You addressed an earlier question on that. But shouldn't a merged entity this far into its existence already be showing some improvement relative to the industry?

Scott Kirby

Well, I guess I would disagree to your analysis. First, I’m not sure how you could look at pretax margins before and after and come to conclusion that, that delta hasn't changed. We have the best pretax margins of all the network carriers right now. And I don't remember the exact numbers, but I am pretty sure that American and US Airways did not have the best margins in the industry previously. So I first thing that analysis, I would question it.

Second, some of the -- we have at least two really big things that I would argue, affected essentially the baseline for American that we had to overcome. American was going to underperform because of basically what was going to happen at Love Field and Venezuela. That is unique to America has absolutely nothing do with the merger or with integration or with synergies, and you would have to make that adjustment. So I guess at a high level I look at it and say American has the best margins in the industry and did not have them before and particularly when you take Venezuela and Love Field into account I guess I would reach a different conclusion.

Doug Parker

Hey, Jamie, it’s Doug, so we just -- we by happenstance just had a Board meeting this week and did a full review with outside help on the synergies. And I am happy to report the analysis shows just what Scott said. We are exceeding our estimates for synergies by our analysis. They are indeed hard to see on a macro basis because of what Scott just described, because there are things specific to American that aren't specific to other airlines. So you need to adjust for that. But if you make that adjustment what you will see is we are extremely happy with the results of the merger and the synergy we have created, and they continue to grow through time.

So we are doing more than we thought we would be able to accomplish as a result the merger and the synergy it would create.

Jamie Baker

Okay, I appreciate that. And just to be clear I wasn't comparing this to the pre-merger company I was comparing the pretax margin premium to sort of the first three quarters of the newly merged company and where you fleshed out recently, and it's been about 200 bps, fairly constant. So I can share that analysis with you later.

Second question, Scott, you didn't articulate a path to PRASM growth, and costs are going to rise over time. That’s inevitable. So in the absence of a path to positive RASM at some point, profits eventually are going to shrink unless oil just keeps declining in perpetuity and that can't happen. So is this what management anticipates and if not, where is that path to RASM growth? Thanks a lot.

Scott Kirby

So first I would start by saying we are producing records results. And I know there’s an obsession in the market with PRASM but producing the most profitable, as Doug said, the most profitable quarter not only in American Airlines’ history, but as far as we can determine in the history of aviation in an environment where PRASM declined 7%.

That said I know a lot of investors do focus almost exclusively on PRASM and I don't know when PRASM is going to turn positive. It is being driven right now by really the same -- the three factors that we talked about. Capacity is growing faster than demand. Currency is having an effect and there are some places around the world where the macro economies are weak. So I think to get to positive PRASM you have to have some or all of those three variables have to change. That’s just the math.

If we look out through the balance of this year we know that capacity in the third and fourth quarters is going to be roughly the same as it was in the second quarter. Currency gets a little bit easier in the fourth quarter but not nearly enough to overcome seven point negative PRASM. I don't anticipate a massive recovery in Brazil and Venezuela in that. So almost certainly the fourth quarter will be negative. And if you look out into the first half of next year looks like capacity is going to be trending similar to what it is right now. And currency does ease, the currency pressures ease and maybe the economies start to recover, but it looks to me like the first time you can really have a reasonable expectation for positive PRASM is the second half of next year.

That said, American does have some things that are uniquely going to help us as we get through the integration and can start to do some of the synergy things that we've talked about. But when you are trying to overcome a seven point negative PRASM decline, it's not going to be enough to overcome that. So I think we are looking at the second half of next year.

Jamie Baker

Okay, thanks very much, everybody. Take care.

Doug Parker

Hey, Jamie, it's Doug. I am going to chime in on this. I think it is a big deal that we do keep hearing about. So just to add on to Scott's comments, from a very high level, look, I mean, two things; one, we are really bullish. We would not have purchased $753 million of our stock in the quarter at an average price of $43.53, if we thought the stock wasn't worth more $43.53. And we are bullish in spite of what you said and what Scott said. So what I am getting at, the focus on -- the intense focus on unit revenues is, look, I think it is important but I would encourage everybody to look at valuation, which I know is your job, not ours.

But look past -- I will say this. Look there is no doubt that if supply exceeds demand unit revenues go down. And there is no down -- and if unit revenue goes down more than cost per ASM goes down, margins decline. That's simple math and no one's disputing that. And we are not suggesting that may not be the case.

What I'm suggesting is that we know all that and we are really bullish. Because for some reason it feels like the market has taken those two sets of facts and decided that, that means bad things are around you when we are trading on multiples that are well below what I think, if anybody really would fight through all this, would do. So look the market will do what the market will do. If it continues to be -- to have this view it will just allow us the opportunity to purchase more stock. So we are going to keep on the company, do it right. We are really happy where we are. We are really bullish on the future and we are bullish on the stock at this point.

Jamie Baker

Excellent. I appreciate you chiming in Doug, thanks gentlemen.

Doug Parker

Thanks Jamie.

Operator

And moving on, we will hear next from Tom Kim of Goldman Sachs.

Tom Kim

Good morning and thanks for your time here. I wanted to ask with reward to jet fuel, the consensus view is clearly that oil's going to be lower for longer, and given that you don't hedge that, so could prove to be a fantastic strategy and obviously you are a great beneficiary of that today. But if we play devil's advocate, how do manage that earnings risk if jet fuel unexpectedly does spike?

Derek Kerr

Well, I think we feel really good about our ability to manage in a world where oil prices go up. We have done that historically. We have all the traditional levers to pull to do that. If you are getting at the point of should we hedge or not, the problem with that it's really expensive to buy that insurance. I mean you look at how much our competitors have lost this year on that so-called safe insurance policy. It's a really expensive thing to do. There is no free lunch. You can't go off and protect against the downside and pretend it doesn't cost you a lot of money. So we are still in the no-hedging category because we think it's the best answer for American Airlines.

Tom Kim

So does that mean -- how responsive do you think you would have to be with regard to just pulling down the capacity to reduce the cost to adjust to that kind of environment, or do you think there is enough flex in the system to be working on the other side of the angle where you have pricing flexibility?

Derek Kerr

You know, if you look back at history, it seems that airline revenues have a pretty good correlation with fuel prices. When fuel prices have gone up, revenues have gone up. As we have seen fuel prices come down this year, airline revenues have also followed that down and consumers have benefited and I expect that correlation will stay in place.

Tom Kim

Fair enough. And if I could ask a bigger picture question, generally from your experience, how long does it typically take for the market to respond to oversupply, which seems to be the case here in the U.S.? And more specifically we have seen LCCs now growing at a large multiple to GDP and as you -- we all know, I mean the last time that this happened was back in the 2000s. And I'm wondering what we are seeing today, is it any different from that period of time? Thank you.

Scott Kirby

Look I am not going to endorse the words you used, that responding to oversupply because frankly we don't think that's what's happening. Airlines are making independent decisions. Everybody is reporting the best in their history profitability. And so I guess I would quibble with the start of the question.

Tom Kim

Well, I mean if we look at RPM growth relative to ASMs broadly across the domestic, I think it is factual that we've seen load factors have come down. That's the nature of the question. We certainly don't dispute the fact that the industry is very competitive and will always be so. I am just wondering with regard to what we are seeing, I mean how does the industry respond to this sort of environment?

Scott Kirby

I can't answer an industry question. I do think that RPMs have actually grown faster than ASM. Load factors are up but I can't give an industry response question because there is no such thing as an industry response.

Tom Kim

Okay, no that's fair enough. Thanks a lot.

Doug Parker

This is Doug, I will try and help you. This is Doug again. What I think everyone acknowledges is ASMs have grown faster than demand of late which does put pressure on revenue per ASM. I don't think that's news to anybody. But again, just like we -- in response to the first part of your question, as we have often said, if the -- what we believe happens in a world where fuel prices go up a lot, I think you would see -- we think you would see certainly at American and you would see capacity adjust to higher costs.

I think what you are seeing is fuel prices have fallen a good amount and capacity has adjusted to those costs. I think that's an important point to make. Much of the capacity growing in excess and demand is because we are seeing a huge change in the cost structure of the business. I don't think that should be unexpected.

Tom Kim

I appreciate that color. Thanks very much.

Doug Parker

Yes.

Operator

And we will hear next from Joseph DeNardi of Stifel.

Joe DeNardi

Hey, thanks, good morning. Scott, I think you mentioned in your prepared remarks that you are seeing a PRASM benefit from some of your LCC markets. And I'm just wondering if you can provide some more color on that. And are you seeing a behavior change from some of your competitors. And then in terms of what's left to match pricing on, if you could maybe quantify some of that?

Scott Kirby

Okay, well, as we -- this has been a gradual evolution as we have matched ultra-low cost carriers, in particular in more and more markets. To your third question, I think we are all-in now in matching everywhere. And what we saw as we matched is that the relative RASM performance of those markets, the local market plus the connecting traffic flows on those segments actually got a little bit better and that's in a world where the rest of the system was declining a little bit at a system level? So those markets have outperformed. It only makes sense. Our customers care about price and we are a price taker in those markets. But our customers care about that and we have won back some market share that we had lost by not being price competitive.

Joe DeNardi

Okay. Thank you.

Operator

And moving on we will go to Helane Becker of Cowen

Helane Becker

Thanks very much, operator. Hi, guys. Thank you for the time.

Doug Parker

Hello, Helane.

Helane Becker

Doug, I actually have a question for you. With respect to something you said last quarter or maybe the quarter before, when we were talking about paying down debt versus buying back stock, I think you mentioned that because money was so cheap you would rather buy back stock, which I don't disagree with at all. I like that as a plan. But when you think about interest rates rising, does it make sense to maybe look at the balance sheet more aggressively and do more debt pay down?

Doug Parker

Yes, Helane. Here’s what we think. I mean the first -- I mean generating cash through profits, having already a large cash balance on hand, the first thing we do is look to where we can invest in the business. We are doing that in a big way. And the product is improving according, as Derek and Robert have already talked about. The next thing we look to do is pay down high cost debt. We’ve done a lot of that as Derek has talked about and everything that we can. And then we are left with here come new airplanes and do you pay cash for those or do you finance them?

And in our case, irrespective of whatever the credit ratings may be, the rates that the markets are allowing us to raise, to finance aircraft just seem like it would be not in our shareholders' interest to not use. What was the last financing for those…?

Derek Kerr

Under 4%.

Doug Parker

Under 4%. So at those levels, we think we can do a better job for our shareholders by borrowing long term aircraft at well below 4% and using the cash on hand actually to return to our shareholders because it is indeed, their cash. So that's what we believe. That could, of course, change over time, Helane, if those markets change. We don't see any indication of that. The math I just went through doesn't change if there is a 25 basis point increase in interest rates or something like that but it could change over time.

And that's what we continue to assess. But certainly where the market is today and what we have to finance which are high quality aircraft that are coming in, I would expect you would continue to see us continue to finance aircraft as they come in, pay down high cost debt as it comes -- to the extent it matures, but we don't have much of that left either, and make sure we maintain a healthy cash balance but also make sure that to the extent we have what we would deem as any cash in excess of that, return to our shareholders.

Helane Becker

That's great. Thank you. And then my other question with respect to capacity, is I noticed in the last quarter, the second quarter you guys had, I don't know what the right word is, canceled options or returned options and postponed deferred deliveries. So as we look out to the rest of this year and into next year are there other times we should be mindful of when you would have options to exercise again?

Derek Kerr

Helane, this is Derek. What we actually did is took firm deliveries and moved firm deliveries. And what we did is move them out later in the delivery stream. So we just pushed them out. At this point in time we don't have any other opportunities, but we will continue to look at that, but there is no options that are out there that we plan on exercising any time soon. All of the deliveries that we have are firm deliveries and those modifications are to the firm delivery schedule. And if we have others we will let everybody know when that happens.

Helane Becker

Okay. Great. Thank you.

Doug Parker

Thanks, Helane.

Operator

And moving on we will go to Dan McKenzie of Buckingham Research.

Dan McKenzie

Hey, good morning, guys. Doug, I would like to just kind of follow-up on Jamie's question, just with taking a little bit different tack. Just kind of going over the past two decades, legacy airlines really don’t have a great track record competing against low cost carriers and American has, has consistently capitulated [ph] over a decade. That’s not happening today and you guys are reporting record profits. So the question here is at what point would you feel it would be necessary to take more aggressive steps to defend the core business?

In other words how far would you permit EBITDA or pretax margins to fall before you would step in to defend profits? And the worry here is that the end game is losses at some point, of course.

Doug Parker

Hey, Dan. Look, we don't look at it like that at all, in terms of what it -- we, first off, also reject the premise here. What we built is an airline that can compete with anybody. And certainly with our route network and our hub structure we have a competitive advantage, even where we have a -- even though we may have a competitive disadvantage on cost, we have a competitive advantage in terms of product primarily and maybe first and foremost the ability to connect traffic to compete against point to point carriers but then also as far as things such as premium traffic, international flows and all those things that they can't do.

So we have a real competitive advantage and we have historically done really well with that advantage versus a cost disadvantage. So I expect that will be the case in the future and we always compete on price. I don't understand the question, frankly, because that’s what we also do and that’s what we -- because we have to. It is a very competitive business. Customers care a lot about the price of the ticket and we have to compete on price, so we will continue to.

Dan McKenzie

Well, I guess just to clarify the question, there are obviously investors that take longer term views on a stock, say three to five years and should we think about core margins as say 14% to 16%, you would be willing to defend over a multi-year period? Or at this point is it not -- because that’s frankly some of your competitors are putting out sort of longer term profit objectives, investors are really thinking about the space and whether or not it deserves to be a high quality industrial valuation multiple is merited. And so I guess I'm just trying to think of your business over the course of the cycle.

Doug Parker

Yeah, fair enough, look, and again I don't -- here's what I think. We bought in $750 million of our shares as quoted at $43 and we view that as a long term investment that we are really happy about. So and that takes into account all the issues you are describing that we are cognizant of and highly confident of our ability to compete with anybody and will compete with anybody and we have a great company [ph] and it's -- we can compete with anything out there.

We don't base our competition based on trying to maintain a certain margin. Our goal is to maximize our margins and do better than others. We are doing that now. We expect to continue to do that in the future.

Dan McKenzie

Okay. Thanks Doug.

Operator

And next we will hear from David Fintzen of Barclays.

David Fintzen

Hey, good morning everyone. No to sort of belabor this point, follow up on sort of both Jamie and Dan's questions, but Doug if I kind of go back to your response to Jamie is your point kind of realistically that we may be achieved for American peak margin this cycle and that's fine, they are exceptionally high and there is a lot you can do with it? Or is there -- trying to square this with some of Scott's comments, is there an ambition to sort of drive margins higher from here in these initiatives? I just want to make sure I fully understand what you are saying.

Doug Parker

I didn't [ph] say anything about peak margins. That's not what I think. And again we are trying really hard to not give you projections that -- we simply don't know what they are going to be. All I said was if indeed there is revenue per ASM falls more than cost per ASM margins will decline. And you guys can go do analysis on it based on your own views about demand growth and capacity growth and fuel prices.

But I’m not -- all I was saying is that, that’s math and that could indeed happen. Certainly if you look at the trends that are there today. That doesn't mean it continues to happen over time or anything close to it. I think a rational -- if indeed that happened I think a rational way to view what happened was there was a major change in the cost structure of this business, that’s something that’s by far the largest expense in the business fell by 50 -- has fallen by 50%, not saying it’s going to stay there but that’s -- you can't ignore that. When that happens you get the full benefit once the prices fall as quickly as they do, and the revenue environment takes longer to adjust.

So that may be is what happened here and what you see -- if that’s true, what you would expect to see is the cost stay about where they are and the revenues fall for some period of time, but then it picks back up. At any rate I am not giving projections. I just am talking math to an analyst. So you guys know as well as I do. So but we are not here -- by no means does this feel to me like a peak, I don't think it is a peak in the economy and we are a cyclical business. But so -- and it certainly doesn't feel like the beginning of a continued decline in margins. I sure don't feel that way. If we thought that we wouldn’t good buying in $750 million of equity at this price.

David Fintzen

I appreciate that. That helps. More maybe tactically, you guys mentioned obviously Brazil, when I look at sort of the forward schedule, some of the cuts seemed to moderate, how should we think about Brazil capacity into the winter?

Scott Kirby

For American we were down 20%. We are going to still be down in the third quarter and fourth quarter, but the numbers are much less. We are now overlapping when we made the cuts last year and at a total level I think capacity is growing something like 10% or so.

Doug Parker

Right.

David Fintzen

And is that kind of reflecting -- you have kind of gone as far as you can go with some of your cuts? Or are there -- and I guess as macro deteriorates it can quickly get ahead of these things, I’m just kind of is that -- how do you view that phasing or is there a level where you kind of schedule integrity sort of gives you a bottom line and you can't go beyond that?

Scott Kirby

We don't have any announcements to make on additional changes to Brazil capacity today.

David Fintzen

Okay, all right. Appreciate all the color. Thanks.

Doug Parker

Thank you.

Operator

And we will hear at this time from Rajeev Lalwani of Morgan Stanley.

Rajeev Lalwani

Hi, thanks for taking my question. I just wanted to come back to buybacks. And you guys did a great job this quarter of purchasing your stock. Is there any reason to believe that, that's not going to continue going forward just in case you have to build more cash associated with the integration and that sort of thing?

Doug Parker

It's Doug, again, we have -- if you look at the balance sheet we have an ample amount of cash to deal with the integration and deal with any future needs. So you shouldn't be concerned that we couldn't continue to purchase stock because of cash balances. But there's also no guarantee that we will. We don't -- we won't -- we can't talk about how we decide to purchase stock but you shouldn't worry about the fact we don't have sufficient cash. We do.

Rajeev Lalwani

All right. In terms of pulling down that cash, at what point would you do it? Is it sort of a multi-year process or is it sort of post 4Q this year when you have that…?

Doug Parker

Again we try not to do this systematically. We try and do it opportunistically. So I think you should -- I don't really answer that. We have -- it certainly we have enough cash on hand today. We have projections of future cash generation and we will purchase stock based on our view of the value of the stock versus the market's perception of the value.

Rajeev Lalwani

Very helpful. Thank you.

Operator

And now for our media audience, [Operator Instructions]. And at this time we will hear from Terry Maxime of Dallas Morning News.

Terry Maxime

Good morning, guys. I would like to elaborate on your reaction to the low fare and ultra-low fare carrier out of Dallas/Fort Worth. Is it correct to stay that you stepped up your matching of low fares in recent months or have you done it rather consistently since [indiscernible] went away last October?

Doug Parker

Well, there has been a lot more press about it of late, a lot more conversation. But I think it's just been a consistent evolution.

Terry Maxime

Have you increased the level of matching or has had your pricing philosophy been rather consistent as markets came into the fray?

Scott Kirby

Well, it has evolved and some more markets have -- there are more markets where we are matching than we would have been matching 18 months ago. But it's not like there was a magic moment where that happened, and there's more markets. The other thing that happened is in a world where supply is larger than demand you have more seats available. So one of the other things that happens is with your management, your management per flight is projected to go out full, we will only have a number of seats available at the lowest fares in the market.

But when there is more supply than there is demand you have more seats available. And so it is true that there are probably more seats available right now, but that's really a function of the macro balance of supply and demand.

Terry Maxime

All right. I just have one other question, what are your plans on the MD 80? Have you stepped up plans to retire them and basically when do you expect to get them out of the fleet?

Derek Kerr

This is Derek, the MD 80s are going to be out of the fleet by the end of 2017. And that's consistent with where we have been. We haven't stepped up plans to move them out.

Terry Maxime

Thank you.

Doug Parker

Thanks Terry.

Operator

And we will go next to Jack Nicas of the Wall Street Journal.

Jack Nicas

Hi, guys. I appreciate a lot of the color you gave in some of these answers. And I got to go back to the PRASM topic, because it's such a hot topic right now. And I think there this interesting juxtaposition of record results with PRASM decline. And naturally, analysts and we journalists want to keep a critical eye on things. So there is this intense focus as you said, Doug, on unit revenue trend. But to the layman, I think this is all confusing. You see American doubling profits, but all I hear about is weak revenue performance. So Doug, can you speak to the layman for a moment and give us your take on how important these PRASM trends really are? Is this a chink in your armor?

Doug Parker

Yes. Thanks, Jack. I view the change in American's revenue per ASM -- again we have specific markets we can talk about, but in general, what we see is a result of there being more capacity put into the market than demand has grown. It just -- which is simple. I don't believe it should be unexpected because our largest cost has fallen 50% year-over-year. So I think that's an expected reaction to lower costs, lower cost of production result in more production.

And that's what we are seeing here. And what's nice to see is the revenues haven't fallen nearly as much as the costs are falling and as a result earnings are growing. So that is what's happening. I think it's as simple as that. That's a positive thing, not a negative.

Jack Nicas

Okay, great. Thank you. Finally, can you guys just clarify has there been any change to capacity plans for 2015 in this announcement today?

Scott Kirby

No.

Jack Nicas

Okay. So what's the current plan and that's obviously [indiscernible]?

Scott Kirby

Capacity for the -- let me get that number. Capacity for the quarter is to be up approximately 1%. Domestically up 1% to 2% and international up approximately 1%.

Jack Nicas

Okay, thanks very much, guys.

Scott Kirby

That's full year.

Jack Nicas

I'm sorry, what?

Scott Kirby

That's full year.

Jack Nicas

That's full year, thanks.

Doug Parker

That's for the full year.

Jack Nicas

Okay, got it.

Doug Parker

Thanks, Jack.

Operator

And we will move on to Jeffrey Dastin of Reuters.

Jeffrey Dastin

Thank you so much for taking the call. I guess to rephrase Jack's question, so should investors stop focusing myopically on PRASM?

Doug Parker

Investors should do whatever investors think the right thing to do is. Again our view is that -- and the best thing I can point it out is to point out that we purchased $750 million of our shares at $43.53 a share, that is an undervalued stock. So we bought a lot of it. So and we were well aware of the revenue per ASM and are not remotely surprised by what we are seeing.

So we, with full knowledge and with full expectation of these kind of revenue per ASM trends bought a lot of AAL at $43.53 and we are happy with that purchase.

Jeffrey Dastin

Great. Thank you. And then also to clarify comments earlier this morning. So American is not considering seriously taking a fuel hedge position any time soon?

Derek Kerr

As we said we haven't taken one for several years, and we don't have one to announce right now.

Jeffrey Dastin

But is it considering bringing the matter up to the Board. And if so would it be a very large position? Or what’s up in the air, what’s the possibility?

Derek Kerr

That is not a question we can answer.

Doug Parker

We don't disclose what we might be doing in the future as it relates to fuel hedging, but again the track record I think is fairly clear.

Jeffrey Dastin

Okay, thank you very much.

Doug Parker

Thanks, Jeff.

Operator

And we will hear next from Andrea Ahles of Fort Worth Star-Telegram.

Doug Parker

Hey, Andrea.

Andrea Ahles

Hey, good morning. I was wondering, Scott, could you give a little more commentary on the rebanking at DFW? Have you been able to change the mix to more connecting passengers, particularly given the pressures that you are seeing on the O&D [ph] market out of the now markets coming out of Love Field?

Scott Kirby

Well, actually, within the Love Field markets we are actually carrying more local passengers now than we were before. We are carrying them at lower yield. But that's what happens when the price goes down. The demand goes up and having lower fares we are carrying more local passengers. Overall probably we are carrying more connecting traffic than we otherwise would have. But it's really not a Love Field issue per se.

Andrea Ahles

But part of the rebanking was to bring more connecting passengers through DFW. Are you seeing that now that you are sort of three months into the rebanking process there?

Scott Kirby

Yes.

Andrea Ahles

I'm sorry, did you say yes?

Scott Kirby

I did say yes.

Andrea Ahles

Okay. All right, thank you.

Operator

And we will move on to a question from Linda Lloyd of Philadelphia Inquirer.

Linda Lloyd

Good morning.

Doug Parker

Hello Linda.

Linda Lloyd

You said how very serious you are about growing service to Asia and you are now dedicating some of your newest airplanes to flying there from Dallas-Fort Worth, Chicago and Los Angeles. As you get more of the fuel efficient Boeing 787s and Airbus 350s, will Philadelphia finally get its first direct flight to the Asia Pacific?

Scott Kirby

I don't know what the long term answer is, but for the foreseeable future our Asia growth is going to be focused on growing our Los Angeles Gateway to Asia.

Linda Lloyd

You know because you were executives of US Airways, in 2006 US Airways did announce an intent to fly to China. Then the recession hit and the route was scrapped. Later US Airways said it didn't have the right aircraft to fly there. But now American is getting the right aircraft, in fact quite a few of them in the next five or so years and is a larger and stronger company. Would there be a timeframe for Philadelphia to get one of these Asia flights?

Scott Kirby

I don't know and a lot has changed since 2006 in the aviation market. And again as I said for the foreseeable future our Asia growth is going to be focused on growing our Los Angeles Gateway. And that’s a question that we will readdress and evaluate at some point in the future.

Doug Parker

Linda this is Doug. I was there of course, too. And all I would add is Scott’s been [ph] watching the industry, a lot’s changed at US Airways and of course at that point and now as part of American. So at that point Philadelphia was the international gateway for US Airways. The merger gives us others, but it makes Philadelphia as a much, much stronger hub.

And so the merger, I think been great for Philadelphia in a number of ways, as a part of a much stronger, more global airline than it was just for US Airways. So we will continue to look at it over time but clearly the decision gets impacted by changes, both in the environment and in our airline.

Linda Lloyd

But let me just ask you, why is it a worse situation now for there to be a flight to Asia from Philadelphia on the East Coast than there was ever?

Doug Parker

Because we serve the market from other spots, still. At that point there was no other spot for US Airways to serve it from. And now we serve Asia for our customers in Philadelphia. There are connections to a number of them, to Asian markets. So again not saying that it won't make sense at some point in time, I’m just pointing out that, that decision that we wanted, the fact that we wanted to fly there as US Airways standalone several years ago doesn't necessarily mean that American Airlines several years later has the same sort of economics on that route.

So but again, we are not by any means trying to dampen anyone's expectations other than to point out that a lot changed from that point in time and but the good news is the changes have all been good for Philadelphia. And we have a much, much stronger airline and Philadelphia is a huge part of what is now the largest airline in the world.

Operator

And next we will move on to David Koening of the Associated Press.

Doug Parker

Hey, David.

David Koening

Hi, Doug and all you folks. You guys have sent the message today, don't worry too much, don't get excited about PRASM and Scott has indicated you have got nothing to announce on fuel hedging. Those are kind of the boogie men that have been discussed for a while now. So what keeps you guys awake at night? What could end this run of great profits that you are in?

Doug Parker

We sleep pretty well. Look, it is a good way for me to say what I really would -- what I think about what is going on right now. We are -- I just can't speak highly enough about how well our team is working together to combine these airlines. We have a lot of work ahead and we all know that, but we are really proud of what our team has done, one to come together as a team and two, to work through what are really difficult circumstances when you are two separate airlines, but still produce a really good operating performance for our customers. And we are excited about the future as we get to be more and more like one airline. But that’s what we are focused on right now.

We are focused on the integration of these two carriers into one. The team is doing a phenomenal job of that. We are excited about it. So we -- and we are fortunate that it happens to also be a really good economic time. So we are spending our time working on integration, and we are really pleased with the results.

David Koening

Does that mean short of a real big macroeconomic shock, the economy really slowing town and you should be doing pretty well?

Doug Parker

Yes. We are very bullish on the future, we feel very good about our future results. That of course, could change. But demand remains strong for air travel and we think we are doing all the right things to meet that demand.

David Koening

Okay. Thanks.

Operator

And we will hear next from Ted Reed of The Street.

Ted Reed

Thank you. On the other calls they mentioned a couple of cities where they were having little more competition and difficulties. One group was Orlando, Dallas and Chicago and United mentioned Houston. So I wondered if outside of Dallas if you are seeing any cities that are difficult, particularly Chicago? Thank you.

Scott Kirby

No, I wouldn't -- if I was actually creating a list I wouldn't have had that as a list, I haven't created a list like that. But Chicago yields actually did better in the quarter than our domestic average. So where we are seeing the most weakness is the international connecting flows, it really isn't domestic. So Miami is our -- domestic Miami network is the weakest but it's really nothing to do with the Miami domestic network. It has to do with all those Brazilian and Venezuelan connecting revenues are off the system. So we would not have had the same list and in fact we are -- given the competitive pressures in those markets we are quite pleased with Chicago and Dallas performance.

Ted Reed

All right. So I should ask Charlotte is doing well?

Scott Kirby

Charlotte is actually doing quite well. It's behind New York. New York was our best hub year-over-year and Charlotte was number two.

Ted Reed

Okay. Thank you.

Doug Parker

Thanks, Ted.

Operator

And that does conclude the question-and-answer session. At this time I would like to turn the call back over to Doug Parker for any additional or closing remarks.

Doug Parker

Yeah, thanks. And before we go, the first journalist to ask a question was Mr. Terry Maxime and Terry has also announced recently he is going to be retiring from Dallas Morning News. And that is a big loss for our industry. Terry is the consummate professional. We didn't always like what he reported, because -- but it's always because we didn't like the facts that we [ph] produced and they weren't what we wanted to read, but that's the point. I mean Terry always did a great job of reporting the facts. He worked hard to know what the facts were. He knew the industry so well that he was able to separate the noise, the substance from the noise. And he always had the best sources.

So I guess the best way I can say this is when I want to know what is going on in our industry, I read Terry's blog. I learn as much from that as anything else externally that I can find because it’s always true. And it’s always well informed. So look one of the things I like reading of Terry's is something he called three idle thoughts for Friday. So in honor of Terry I am going to close with three idle thoughts for Friday.

Number one is change in RASM does not equal change in value. Number two is this idle thoughts thing is a lot harder than Terry makes it look. And number three is congratulations to Terry Maxime on a well-deserved retirement and a great career, a phenomenal career. And he will be missed by all of us. So thanks Terry.

All right, we are done. Thanks, everybody.