Operator

Please, stand by, we're about to begin. Good morning, and welcome to the American Airlines Group First Quarter 2016 Conference Call. Today's conference is being recorded. At this time, all lines are in a listen-only mode, and following the presentation, we will conduct a question-and-answer session. We ask that you limit yourself to one question and one follow-up question.

And now, I would like to turn the conference over to your moderator, Managing Director of Investor Relations, Mr. Dan Cravens.

Daniel E. Cravens - Managing Director-Investor Relations

Good morning, everyone, and welcome to the American Airlines Group first quarter 2016 earnings conference call. Joining us on the call today is Doug Parker, our Chairman and CEO; Scott Kirby, our President; Derek Kerr, our Chief Financial Officer. Also in the room for the question-and-answer session is Robert Isom, the Chief Operating Officer; Elise Eberwein, our EVP of People and Communications; Bev Goulet, 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 today with Doug and he will provide an overview of our first quarter 2016 financial results. Derek will then walk us through the details on the quarter and provide some additional information on our guidance for the remainder of the year. 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, we must state that today's call does contain forward-looking statements, including statements concerning future revenues and costs, forecasts and capacity, traffic and 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 March 31, 2016.

In addition, we will be discussing certain non-GAAP financial measures this morning, such as net profit and CASM excluding unusual items. A reconciliation of 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 and 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, I'll turn the call over to our Chairman and CEO, Doug Parker.

William Douglas Parker - Chairman & Chief Executive Officer

Thanks, Dan. Thanks, everybody, for being on the call. This morning we announced 2016 pre-tax earnings for the first quarter, excluding special items, of $1.2 billion. That is slightly down from our all-time record first quarter earnings that were set in 2015, but of more relevance to our shareholders, on an adjusted earnings per share basis, EPS actually grew 15% versus last year's record. That, of course, is because our share count is lower due to the share repurchase program we've had in place.

And indeed absolute earnings would have been slightly higher than last year's record, slightly lower except for the company's unilateral decision to institute a profit sharing program for our employees beginning in 2016. I know investors may question that decision, it's a big decision and the fact of the matter is we, at American, had attempted to transform our industry's compensation structure consistent with our view that our industry had been transformed. In short, we believe the best way, as most industries do, to pay our hardworking team is to give them an industry leading base wage instead of lower wages and then give them a share of the profits at the end of the year.

But as it became more clear over time that our competitors were not going to do the same, it became a real issue for our team, and therefore, for our shareholders. And while the team understood the logic, we just couldn't get past a collective view amongst the team that the company didn't appreciate their contributions to the success of the team. And that certainly wasn't the intent, nor the view.

So, we implemented a unilateral 5% profit sharing program, the first accrual of which is in these results. The accrual was $73 million for our team. We're quite pleased with that, and believe you, as shareholders, should be as well. The fact of the matter is the announcement had the impact that we had hoped. Our team is excited. They're engaged. They are intent upon returning American to be the greatest airline in the world and we're seeing it in the results. You can see it in the great job our team is doing of running our airline and taking care of our customers, so I want to begin by thanking them for their continued hard work and everything they're doing to return American to greatness and take care of our customers.

As for the share repurchase, we returned more than $1.6 billion to our shareholders in the first quarter and our board has authorized a new $2 billion repurchase program that will expire at the end of 2017. Now look, we're repurchasing our shares because we're bullish on the stock and our prospects at American. We think it's a great investment for a couple of reasons. One, we continue to believe that the market does not seem to fully appreciate the transformation that's taking place in this industry, and as a result, we believe the industry is well undervalued. Second, we think American Airlines has more upside than anyone else in the industry.

We're not done with our integration. We're making investments at a rate that no other airline has done in the past, in the product and in our people, which will turn into our product. And that gives us upside that others don't have, so we're very bullish. But look, because we're bullish, that doesn't mean we are totally pleased with the current performance, because we're not. In particular, we're disappointed in our revenue performance on both an absolute level and relative to some of our peers. And Scott will take some time to explain the current situation and the outlook, but just know that we don't view the current revenue trends as either acceptable or long-term. If we did, we wouldn't be as bullish as we are.

So with that said, I will turn it over to Derek to give you a lot more details and then Scott will give you some color and then we'll take questions. Derek?

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

Yes, thanks, Doug. Good morning, everybody. In our 10-Q and earnings press release filed this morning, we reported a first quarter 2016 net profit, excluding net special charges, of $765 million, or $1.25 per diluted share. This compares to 2015 net profit, excluding net special charges, of $1.2 billion, or $1.73 per diluted share. As we talked about in our last call, in the fourth quarter of 2015, the company concluded that realization of substantially all of the deferred tax assets, principally net operating loss carryforwards, or NOLs, was more likely than not. This was the basis for the company's strong financial performance since the merger and expectations of financial sustained future profitability. Accordingly, the company reversed the valuation allowance on its deferred tax asset as of December 31, 2015.

Starting with its first quarter of 2016 results, the company will be recognizing a provision for income tax that is substantially non-cash, due to its utilization of NOLs. For 2016, quarterly net profit will not be comparable to net profit of 2015. As a result, we believe pre-tax profit, excluding net special items, is a better measure for evaluating year-over-year performance than net income.

On that basis, our first quarter pre-tax profit, excluding net special charges, was $1.22 billion, which resulted in record first quarter pre-tax margin of 12.9%. This compares to our 2015 first quarter pre-tax profit, excluding net special charges, of $1.25 billion and a pre-tax margin of 12.7%. As Doug talked about, excluding the effects of our special items and the non-cash tax provision, our first quarter 2016 adjusted fully diluted EPS was up 15% to $1.99 per share, reflecting a 15% reduction in our fully diluted average share count.

Total capacity for the first quarter of 2016 was 65.1 billion ASMs, up 3.6% from the same period in 2015 with mainline capacity up 3.1% and regional capacity was up 8.1%.

We continue to make significant investment in our fleet renewal program, which has given the company the youngest and most modern fleet of the U.S. network airlines. By the end of this year we expect the average age of our mainline fleet to fall below 10 years, well below any of our network competitors.

In the first quarter of 2016, the company took delivery of 15 new mainline aircraft while retiring 19 mainline aircraft. The company also added 13 regional aircraft and removed three regional aircraft. This program will continue throughout the year when we expect to take delivery of 55 new mainline aircraft, while adding 49 regional aircraft, and to keep our capacity in check, we expect to remove 86 mainline aircraft and 23 regional aircraft from our fleet during the year.

Our first quarter 2016 revenue continued to be negatively impacted by competitive capacity increases, principally in certain domestic markets, economic softness in Latin America, and the impact of a stronger dollar in foreign markets. For the quarter, total operating revenues were $9.4 billion, down 4% year-over-year, passenger revenues were $8.1 billion, down 4.2%, driven by 7.1% lower yields on a 3.6% increase in system capacity. Cargo revenues were down 16.8% to $162 million due primarily to a 15.3% decline in yields on international freight. Other operating revenues were relatively flat at $1.2 billion.

Total RASM in the first quarter of 2016 was $0.145, down 7.3%, driven principally by a decline in passenger RASM of 7.5%, which Scott will talk about in a minute.

As Doug mentioned in his remarks, on March 23 we introduced an employee profit sharing program, which will pay out 5% of pre-tax profit, excluding special items, starting with our full year 2016 results. This program was retroactive to January 1, and accordingly, we recognized $73 million of profit sharing expense in the first quarter. The company also accelerated a contractual mark-to-market pay rate adjustment for the company's flight attendants and reached agreement with our dispatchers on a new contract in April. Costs associated with these rate adjustments and the profit sharing program will be included in our forward CASM guidance that I'll discuss later.

The first quarter financial results continue to reflect a significant savings from the year-over-year decline in jet fuel prices. Our average mainline fuel price, including taxes, for the first quarter of 2016 was down 34.1% to $1.20 per gallon. Total GAAP operating expenses were $8.1 billion, down 5.9% versus the same period last year, due primarily to the $607 million decrease in consolidated fuel expense. Operating expenses, excluding net special charges, for the first quarter of 2016 were $8 billion, down 3.7% year-over-year.

First quarter mainline cost per ASM, excluding net special charges, was $0.1141, down 6.9% year-over-year, due primarily to lower fuel costs. Excluding special items and fuel, our mainline cost per ASM was $0.0962 in the first quarter, up 1.4% year-over-year. This increase was due primarily to contractual labor rate increases, including for our customer service and res agents, and the introduction of our profit sharing plan. These rate increases were offset in part by maintenance timing and lower selling expenses. Regional operating cost per ASM, excluding special items and fuel, was $0.1611 for the first quarter of 2016, a decrease of 2.2%, and our consolidated first quarter CASM was up 1%.

We ended the first quarter with approximately $9.4 billion in total available liquidity, comprised of cash and investments of $6.9 billion and a $2.4 billion undrawn revolver capacity. The company also had $691 million classified in restricted cash. During the first quarter of 2016, we generated $2.6 billion of cash flow from operations and paid $310 million in scheduled debt payments.

As a reminder, on our fourth quarter earnings call, we provided our view on leverage and liquidity for American going forward. In particular, we stated that in today's earnings and interest rate environment, liquidity was the most important metric we consider. And given our relative leverage, we expect to maintain a liquidity level of at least $6.5 billion. We also provided guidance with respect to where we are with our fleet renewal program, access to attractive debt in the capital markets, ongoing share repurchase programs, and our belief that American will produce sustained earnings.

Our liquidity of $9.4 billion for the quarter and was up from $8.7 billion at the end of 2015, and was well in excess of the $6.5 billion liquidity we seek to maintain for the foreseeable future. As previously mentioned, we believe it is important to retain liquidity levels higher than our network peers given our overall leverage and that we have not yet completed our fleet renewal program.

With respect to leverage, we look to metrics such as net debt to EBITDAR, and with our planned aircraft financing this year, we continue expect that on this metric we will peak in 2016 and then begin to see this decline each year going forward as our capital spending declines. In early January, the company issued $1.1 billion in enhanced equipment trust certificates at a blended rate just below 4%. The proceeds for this financing were used to finance aircraft previously delivered in 2015. The company also raised approximately $400 million in other low-cost aircraft financing during the quarter.

For the first quarter, the company returned more than $1.6 billion to its shareholders through the repayment of $61 million in quarterly dividends and a repurchase of $1.56 billion of common stock, or 39.3 million shares. Since our capital return program started in mid-2014, the company has returned approximately $6.6 billion to shareholders through share repurchases of $6.1 billion and dividends of $0.5 billion.

Including share repurchases, shares withheld to cover taxes associated with employee equity awards and shares distributions and the cash extinguishment of convertible debt, our share count has dropped 23% from 756.1 million at merger close to 585.7 million shares on March 31, 2016. At the end of the quarter, the company had approximately $850 million remaining on its current authorization, and as a result the company's board of directors authorized a new $2 billion share repurchase program that will expire at the end of 2017. On a program-to-date basis, the company's board of directors has authorized a total of $9 billion of share repurchases.

Turning now to our 2016 guidance, we continue to value our capacity and in our IR update issued two weeks ago, we lowered full year system capacity guidance by a half of a point and are forecasting it to be up approximately 2.5%. Full year domestic capacity growth is expected to be up approximately 2.5% and international has been reduced from 6% down to 2.5%.

By quarter, the first quarter is 62.6 billion – or second quarter is 62.6 billion, excuse me, 64.8 billion in the third quarter, 58.9 billion in the fourth quarter. On a regional breakdown, it's 8.01 billion in the second quarter, 8.22 billion in the third quarter and 8.08 billion in the fourth quarter. On the cost side, we're forecasting year-over-year mainline CASM, excluding special items and fuel, to be up approximately 3% to 5% with regional CASM, excluding special items and fuel, is projected to be down approximately 3%

to 5%. Mainline CASM in the first and second quarter (sic) [second quarter and third quarter] (17:10) will be up between 4% and 6%, and in the fourth quarter, up 3% to 5%, regional CASM be down by approximately 4% to 6% in the second quarter, and down 3% to 5% in both the third quarter and fourth quarter.

Based on the overall fuel curve of April 18, 2016, we expect to see another year with significant year-over-year fuel savings. In the second quarter, we expect $1.30 to $1.35, third quarter, $1.36 to $1.41, fourth quarter, $1.40 to $1.45. On the regional side, the second quarter we have at $1.35 to $1.40, third quarter, $1.43 to $1.48, and the fourth quarter, $1.47 to $1.52, and based on these prices we expect our 2016 consolidated fuel expense to decrease by approximately $1.6 billion year-over-year. Using the midpoints of guidance we provided along with the PRASM guidance that Scott will give, we expect our second quarter pre-tax margin, excluding special items, to be between 14% and 16%.

For capital expenditures, we still expect total gross aircraft CapEx to be approximately $4.5 billion, of which $1.2 billion will occur in the second quarter. For the full year 2016, we expect to invest $1.2 billion for non-aircraft CapEx, which includes investment to improve our product and the operations.

So, in conclusion, thanks to the efforts of our more than 100,000 team members, we have strong first quarter results, which make an excellent start to 2016. While we still have a lot of work to do to complete our integration and our continued financial success, has us well-positioned for the years ahead.

And with that, I will turn it over to Scott.

J. Scott Kirby - President

Thanks, Derek. And I'd like to start by thanking our operations team and the 100,000 people of American Airlines. We continue to make great strides and in fact the first quarter was our best operational quarter since the merger closed. Despite the fact that we're years behind our competitors in starting the merger integration process, we've already gotten to the point where we're neck and neck for first place in departures and zeros, which we view as a primary metric for core operating reliability.

In our other operating metrics, we're showing improvement as well with mishandled baggage rates down over 20% year-over-year and significant improvements in completion factor. But we know we can do even better. We have many initiatives and technology projects underway to further improve all of our operating metrics and are well on the path to operating the best airline in the world.

On the revenue front, the first quarter continued the challenging revenue environment with PRASM down 7.5%. Domestically, our consolidated PRASM was down 5.3%. We saw the strongest performance year-over-year in Los Angeles, Dallas, Fort Worth, and Chicago. The weakest performance once again was in Miami, although, that's still really a function of declining connecting revenues from South America.

Internationally, the stronger U.S. dollar and declining international fuel surcharges made up 1.7 points of our total system PRASM decline, so that is a smaller impact than we saw in fourth quarter, as we're beginning to overlap the dollar appreciation from last year. The Atlantic was our best performing international region with PRASM down 2.1%. While we're relatively pleased with that result, we expect capacity growth across the Atlantic this summer to drive some incremental pressure in this region.

Across the Pacific, PRASM was down 16% on 29% ASM growth, with continued weakness in both Japan and China, but positive year-over-year PRASM in South Korea. Latin PRASM was down 17%, but as it's been for a while now that weakness is concentrated in Brazil and Venezuela, where PRASM was down 39% and 48%, respectively.

Looking forward, while the comps get easier in 2Q, the revenue environment remains challenging. We expect the revenue environment to remain challenging throughout 2016, but longer-term, we feel quite positive about all the initiatives we have in place to drive higher revenues, including basic and premium economy, a new revenue-based frequent flyer program, $3 billion in new product investments, our continued fleet modernization program and the best people in the industry, who are focused on delivering the best customer service. We also recognize that the market is rightly concerned about getting back to positive PRASM, and we're also focused on that as an explicit internal goal.

I think that timeline has unfortunately been pushed into next year and some of the long-term initiatives I described will make a big difference in that regard in 2017. But we'd also like to find ways to accelerate the positive PRASM trends into this year. Doing so will require a fair level of sequential improvement, but one of the areas that we're focused on in the near-term include implementing a new demand forecasting system and yield management. This initiative we know will ultimately produce much better results, but as we've implemented this in the recent past we've had some one step forward, two steps back issues with the new system. We're cautiously optimistic that we're through some of the teething pains, and in fact, as we look out into the summer, our PRASM forecast for June and beyond looks much better than April and May.

As most of you know, we're also in the middle of negotiations for a new credit card deal. While I won't predict on this call when or even if we'll get a deal done, all of our large competitors have done new deals in the past couple of years and we expect a similar large tailwind for American Airlines when we do ultimately get a new deal done.

Further, we also adjust capacity in a world where we see declining demand. American Airlines was the slowest growing airline in the United States last year, and as you've seen for several quarters in a row, we continue to reduce our capacity plan in light of declining year-over-year PRASM.

So, while we believe the long-term outlook is bright and even have some near-term opportunities that could drive out performance, I know that many people on this call are a little more focused just on 2Q revenues. So, for the second quarter, total scheduled capacity remains elevated in all regions, and while capacity growth rates are down slightly from the first quarter levels, total capacity is still growing faster than the economies in all regions of the world. As we move into the back half of the year, however, we still expect capacity growth rates to moderate further from the first half level.

As we experienced throughout 2015, we continue to see significant year-over-year competitive growth in Dallas, and we don't expect that to moderate until September. And while the comps get easier, the economy, currencies and revenue environment in Brazil and Venezuela both continue to deteriorate on a sequential basis. Given all this, we expect our system PRASM to decline 6% to 8% year-over-year in the second quarter.

In conclusion, the near-term revenue environment remains challenging. While we're delivering solid bottom line results, we know that getting back to PRASM growth is important to our near-term and long-term future. To do that, we're making smart investments in our product and continuing to modernize our fleet. We have an intense focus on improving our operations and are starting to see the results in our operating metrics and we're investing in our people. Our team members are responsible for delivering great service to our customers each and every day. And in near-term, we're focused on better day-to-day execution in revenue management and getting our new yield management system properly tuned. When you put it all together, we feel very good about the foundation that we're building for the long-term, which will enable us to run the world's best operation and drive higher revenues.

William Douglas Parker - Chairman & Chief Executive Officer

Excellent. Thank you, Derek, thank you, Scott. Operator, we're ready to take any questions.

Question-and-Answer Session

Operator

And we'll take our first question from Joseph DeNardi with Stifel.

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

Scott, just a question kind of on the PRASM environment and the messaging. I feel like it's getting a little bit mixed and if you guys wanted to get to flat PRASM or positive PRASM, you could probably do it next quarter, but you're not, because that capacity is earnings and cash flow accretive. So, can you just talk about in an environment where you did reduce capacity, what would cash flow look like? And what are you doing with the incremental cash flow you're getting from the capacity growth?

J. Scott Kirby - President

Well first, I don't think it's that simple. I think American Airlines unilaterally reducing capacity wouldn't get us to PRASM-positive on its own and it's going to require more than that. It's going to require a lot of the kinds of things that I talked about in my prepared remarks. There are some near-term things that we're focused on, particularly in the yield management area. And a lot of the longer-term investments and initiatives are the kind of things that are going to get us not just back to positive PRASM growth, but hopefully recovering what we've lost in 2015 and 2016 and get back to actual real PRASM growth.

We're not in a world where we're saying, keep capacity in place, just taking a near-term perspective on cash flow or anything else. We are focused on getting to cash flow – PRASM-positive. You see us, I don't know how many quarters in a row, six quarters or seven quarters in a row, where we have reduced capacity, but I don't think capacity is a simplistic button to push that will just magically turn PRASM-positive.

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

Okay. And then, Doug, just on the decision on the profit sharing side of this, are you expecting benefits operationally from improved employee engagement? Is that part of this? Or is it just you had to do this, so just cost of doing business at this point?

William Douglas Parker - Chairman & Chief Executive Officer

Well, Joseph, yes, we're not going to try and point to anything where you're going to see absolute improvement. What I can tell you is this, we'd lost part of the team and it's really important, particularly at this airline, given the history that the team had gone through, and given what we're trying to accomplish to pull everyone together and help them understand that indeed, it's different, much like we're trying to, with every one of our partners, help them understand the world is different.

What had happened is we'd lost a part of the team. They understood analytically the argument we laid out and that we've laid out for you and that we laid out all the time and it certainly passed our look them in the eye test, which is important to us. We all talk about a team needing to (27:53) look our employees in the eye and tell them why we made the decisions and we can do that extremely well. We just didn't like the look we were getting back on this one. The employees got it with their brains, but they didn't get it in their hearts and it really felt like, again, largely because while our competitors kind of were moving in our direction, they weren't going to the point that we had. And other airlines had in place these profit sharing programs and we did not and it felt to our team, while they understood again the logic, felt as though we weren't appreciating their contribution to the bottom line, which is the last thing we were trying to accomplish.

So, what we realized is if we were going to really get our team engaged and excited, which is an imperative to accomplishing all we want to accomplish and all the things Scott talked about that we're working on, to compete against the other airlines, and particularly for premium travelers, we have to have our team engaged and excited and this was holding us back. So, I firmly believe it's in our shareholders' best interests to do it. We wouldn't have done it otherwise. We have, indeed, seen an uplift in engagement and excitement because of this. Not so much, I don't think, because of the actual dollars involved, just because it proved what our employees wanted to believe, that indeed, it is different. And that we will listen and that we will do things when even though we've taken strong positions, if it gets to the point that we think it's not working, we're willing to revisit those decisions.

So, all those things have had a positive impact on the team. I think that's good for – I know it's good for our shareholders. It's impossible to quantify. And it's also early. The real challenge for the team is to now build on it. This is temporary. While the profit sharing will stay in place, the feeling of instituting profit sharing is not going to stay in place. It will become just, I imagine over time, just part of everyone's compensation. And the way they view it and our challenge is now to use it to go do the things that we want to go do as an airline and put in place the product with the people that do their job so well that we want to. So, just a long way of me saying, it wasn't an easy decision, but I know it's the right decision for our shareholders.

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

Okay. Thanks, Doug.

William Douglas Parker - Chairman & Chief Executive Officer

Yes.

Operator

And we'll go next to Julie Yates with Credit Suisse.

J. Yates - Credit Suisse Securities (USA) LLC (Broker)

Thanks. The trans-Atlantic PRASM down just 2% was really quite impressive compared to peers. What are the primary factors there and how do you expect that to trend into Q2?

J. Scott Kirby - President

Look, we had a good quarter. Some of that is true-ups that happened at the end of the year for the previous year, so some of our outperformance this quarter was really was true-ups from earlier quarters, which means our earlier quarter performance would have been better. We expect that to get a little bit worse in the second quarter. Demand across the trans-Atlantic though, particularly in light of the Brussels tragedy, has remained pretty strong and pretty resilient. There is a lot of capacity coming, however, so I expect that to take a downturn going forward, but core demand still seems pretty good across the Atlantic.

J. Yates - Credit Suisse Securities (USA) LLC (Broker)

Okay. And, Scott, can you comment on advanced booking trends and corporate versus leisure and whether you're seeing the same positive trends in advance summer yields domestically that Delta called out last week?

J. Scott Kirby - President

Yes, I'll go back a little bit. We hit a little bit of a rough patch in February and March, where corporate demand, in particular, seemed a little weak and I think a lot of airlines – well, every airline tended to see that. I think actually, I think there's two reasons for that, as near as I can hypothesize, both of which have gotten better now, so that's the good news. The first one is we had a stock market that dropped, whatever it dropped, 10% or 12%. As we've said before, on a headline basis, whether it should or not, that does affect travel demand, particularly corporate travel demand, which it's easy to go, when you start to get worried, rein in your travel and entertainment budget.

And so I do think that was one of the factors and it appears that as the market has come back that close-in booking demand has gotten stronger. Another thing that happened, which got talked about a little bit on our earnings call the last time, we got asked a question about AAdvantage fares, which I know many people on this call think, or were worried was problematic and I declined to answer it on the last call. The reason I declined to answer it is because there were no AAdvantage fares in the market at that time. None of the airlines had AAdvantage fares. They'd all been canceled. And so I didn't want to talk about it.

We went for about three months with no AAdvantage fares in the market. That three-month period actually coincided with the relative decline in revenue expectations across mostly all airlines. So, we were starting to wonder if our decision to cancel AAdvantage fares was really the correct revenue decision. But before we had made a final decision on that, one of our competitors, I presumably concluded that it was also the wrong decision, and put them back, so they've been back in the market now for a couple of weeks. And the combination of those two things means that in the last couple of weeks, we've actually seen strengthening close-in demand, not just absolute demand but booked revenue, so we actually feel better about the revenue environment than we would have say three weeks ago to four weeks ago.

On the domestic front, I know that some have talked about advance booked yields being up. That's true for us too. Our booked yields domestically for May, June, July, and August are up year-over-year for all those months. But, I don't want to mislead anyone because that's been true for the past several months. The issue had not really been about advance booked yields. We've had advance booked yields domestically up. It's been about weak close-in yields. And there still is weakness in close-in yields, although, we do have a pretty strong demand environment and bookings are up a lot year-over-year, but the yield is tending to fall as we get closer to departure.

J. Yates - Credit Suisse Securities (USA) LLC (Broker)

Okay, very helpful color. Thanks, Scott.

Operator

We'll take our next question from Jamie Baker with JPMorgan.

Jamie N. Baker - JPMorgan Securities LLC

Hey, Scott, just following up on your last point, if we look at the domestic fare structure, it looks pretty sloppy to me. I don't really care how we got here, but the fares that I'm being asked to pay, particularly close-in and to your point, they strike me as stupidly low. Notwithstanding airlines' recalcitrance to discuss pricing, what is potentially wrong with the structure? Is it multi-segment itineraries that are pricing too low? Is it that junk fares have been popping up in markets where discounters don't even exist? Is it something about minimum stay requirements? The reason I ask is not in regards to what you might do differently, it's what we might be looking for, keeping an eye out for, in terms of change, as opposed to just monitoring for plain vanilla fare increases.

J. Scott Kirby - President

Well, I won't use the term wrong, because of the connotations that has...

Jamie N. Baker - JPMorgan Securities LLC

Okay.

J. Scott Kirby - President

...but the fare environment has changed over the last couple of decades. One of the big – probably I think the biggest change has been the lack of pricing fences. So, historically, airlines had a 14-day advance purchases with Saturday night stays and that was an effective way to segment demand and offer business travelers great product, high frequency, the ability to book last minute, but also to be able to offer leisure fares that could fill the empty seats on airplanes that were below the average cost to flying the airplane, but could fill what would have otherwise been empty seats and it would have effectively segmented demand. Really, because of the growth of low-cost carriers, those pricing fences have broken down across the board and have lots of zero AP fares, lots of one-way fares. And more than anything, that's what I think has driven lower fares for business travel and for close-in traffic.

Now, the ways to combat that are, and to drive higher fares, basic and premium economy are two of the really I think big levers for American Airlines in doing that. We're not going to have that really in place until next year, but today, when we wind up having to be competitive with others, and so we have low fares in the market that have very few restrictions on them, and there's no reason for a customer to pay more.

And we're going to – you get the exact same product, whether you buy a $41 walk-up fare or a $900 walk-up fare and we're going to change that and we're going to have different products, and the more you're paying, the better benefits you're going to get. That's one of the really big things that we can do. Parts of that, part and parcel of that is investing in the product and having a great product that customers are actually willing to pay for and pay more for, so that for those customers who aren't commodity customers, we have a lot of our customers who are commoditized, but for those of the customers, who are not commoditized, we can sell them a better product and be appropriately compensated for that. You also see changes going on in the industry like the stuff about fare combinability...

Jamie N. Baker - JPMorgan Securities LLC

Right.

J. Scott Kirby - President

...which for the most part has been rolled back now, but those are – the fare combinability is an artifact of history that goes back to the 1960s when GDSs were first built, and has had unintended consequences as the pricing environment change.

So the fact that those kinds of changes are happening, even if they happen in a fitful one step forward, two steps back kind of process, are actually long-term encouraging to me, because we're moving to a world where we're getting away from just commoditizing the price of the product, and getting to, we will sell a commoditized product for some customers, but for other customers, we will be able to de-commoditize the product. And that's not going to happen overnight, that's not going to happen this year, but we're on a good path to get there and that's a big structural change.

Jamie N. Baker - JPMorgan Securities LLC

All right; helpful. And then a quick housekeeping question. Derek, there were reports in the last couple of weeks about stepped-up hedging by airlines. It wasn't even clear that the unnamed airlines were even in the United States, but I do feel compelled to ask: any changes, in terms of American's no hedge policy?

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

No changes at this time.

Jamie N. Baker - JPMorgan Securities LLC

Okay; just checking. Thank you, gentlemen.

William Douglas Parker - Chairman & Chief Executive Officer

Thanks, Jamie.

Jamie N. Baker - JPMorgan Securities LLC

Thanks, Doug.

Operator

Our next question comes from Rajeev Lalwani with Morgan Stanley.

Rajeev Lalwani - Morgan Stanley & Co. LLC

Hi, gentlemen. Thanks for the time. Scott, you talked a fair amount about just benefits from yield management, cabin segmentation, credit card, et cetera. To the extent that you have those in place today or at some point going forward, what would pricing actually look like? Would you be more flattish? Would be positive? That's the first question.

And then the second question, just on the domestic side, what sort of capacity growth does the industry need to see it actually have a more stable pricing? Clearly, the numbers we're seeing today aren't cutting it, but just your thoughts there on all of that would be great.

J. Scott Kirby - President

So, on the second part of the question, I'm just going to say, I can't answer that. What industry capacity growth (40:07) and just say this: look we try to do what's best for American Airlines as I said. We always try to give you guys the best 50/50 forecast that we can on our outlook for capacity growth, and in a world where we continue to see PRASM declines, even though earnings have been growing for many quarters in a row, in a world of negative PRASM, we view that as indicative of supply and demand being misbalanced, and so as a result, we've cut capacity historically.

Turning to those other items, they're really hard to quantify. A credit card deal I'm not going to try to quantify. You can look to what other deals have done and make your own guess as to what the American Airlines deal will be. The American Airlines Loyalty Program and our partnerships with Citi and Barclays -- we have the largest and best loyalty program in the world and we're very proud of that and we have two great partners today, and we're looking forward to making that even better for American Airlines, for our customers, and for our bank partners.

On the other items, some of those things are longer term, like basic economy, premium economy, those are really 2017 initiatives for next year, again hard to quantify. In the yield management area, that's the kind of thing that when we ultimately get everything completed that we're working on, it's again impossible to know for sure, but probably worth two points to three points of PRASM, at least I think it should be worth two points to three points of PRASM. But it's also hard to know when you'll finish that.

You put in a new yield management system in place, you're replacing something that's been there for 25 years, you're going to get to a better position in the end, but all the patches and things that have been built into the system for the past 25 years to fix this problem or that problem or this place that didn't work well, you rip off all those BAND-AIDs and so you do take a few steps back sometimes before you can really get the system tuned and running. And that's frankly a continuous process. It never finishes. But we're right in the middle of starting a conversion process, so it's probably more challenging for us in the short term than it would be in a normal stated time, but I think improvements to yield management ultimately should be worth two points to three points for us.

Rajeev Lalwani - Morgan Stanley & Co. LLC

Thanks, and if I can squeeze in one quick one for Derek. I think I know the answer to this, but as far as your peers, they stepped up some aircraft orders recently because of regional issues or just better pricing from the OEMs. Where are you guys on all of that? I know you've had some regional issues, but you also have the big order books. Just some quick color'd be great.

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

Yes, there's no change to our order book. I think we have a significant amount of aircraft coming in, in this year, 2017, 2018, 2019, so I think we have the order that's in place that needs to be there. So there's no change to our order book going forward. We'll always be looking at opportunities, but at this point in time, no change to the order book going forward.

William Douglas Parker - Chairman & Chief Executive Officer

Rajeev, let me just use that to make a plug. The reason we're not (43:20) looking for new orders, as Derek said, we have a large order book and we've brought in a lot of new airplanes. Our team has just done – one of the things we don't talk about enough, I think, is the great job our team has done of modernizing this fleet. Robert Isom and his team are inducting a new airplane almost every four days, or about every four days, and retiring an older one. The result is the American Airlines fleet now is down right around 10 years on average, which is lower than any of our peers, and well lower than some of our peers, and shrinking. When we did the merger, we had the second oldest fleet of the four largest airlines. Now, we have the youngest.

That's because we've lowered our fleet age over time. This is something that we're ahead of the others on. We're happy about that. It's a product advantage. It's also a future capital allocation advantage.

Rajeev Lalwani - Morgan Stanley & Co. LLC

Thanks for all the time, Doug, Scott, Derek.

William Douglas Parker - Chairman & Chief Executive Officer

Thanks.

Operator

We'll go next to Hunter Keay with Wolfe Research.

Hunter K. Keay - Wolfe Research LLC

Hi, guys. Thank you very much. Two questions. Hey, Doug, or Scott, or anybody, why do you think the...

William Douglas Parker - Chairman & Chief Executive Officer

There's a lot of us here, Hunter, what do you got?

Hunter K. Keay - Wolfe Research LLC

Yes. Okay, good. Well then, Doug, why do you think we care so much about PRASM? And if you were on the buy side, how would you think about PRASM when making an investment decision?

William Douglas Parker - Chairman & Chief Executive Officer

You're asking me why I think you think what you think?

Hunter K. Keay - Wolfe Research LLC

That's right. That's exactly what I'm asking.

William Douglas Parker - Chairman & Chief Executive Officer

Okay, I'll do my best. Look, Hunter, you all have to – you have customers that care about near-term, you have some that care about long-term. We care more about the long-term, I think that's the only difference. And again, I wouldn't say the difference. Look, we care like crazy about our revenue trends in the near-term and what they look like next quarter. We just, I think, I have a sense we don't care as much as some of your investors, but look, if I was an investor who had a short-term horizon on trading, I would care about what tomorrow's revenue looked like. And that's a lot of who you have to deal with, and those are our shareholders and we care about them as well, but our job is to maximize long-term shareholder value, and that doesn't mean at all that we ignore the near-term and none of us would suggest that we are.

But all I – this is what I tried to say in my comments. Just because we're bullish about the future, don't take that to mean that we're entirely pleased with the current environment, because we're not. We just happen to believe that the long-term prospects for the stock are not reflected in the current price. And maybe that's because there's too much focus on the near-term, or maybe it's just because we're wrong. I don't know.

Hunter K. Keay - Wolfe Research LLC

Yes.

William Douglas Parker - Chairman & Chief Executive Officer

So, look, that's for you all to decide. Our job is to run the airline for the long-term. We are very excited about the long-term. We are not pleased with the current term. Again, I shouldn't say we're not pleased. We're actually – making $1.2 billion in a quarter is not something we're unhappy about, but our job is to maximize shareholder value and we know there are things that could be done better and particularly as Scott has noted, on the revenue environment, we think there are brighter days ahead, but we're not pleased with where we are now. It's not where we expected to be at this point. None of us were looking out a year ago and thinking we'd see these kinds of revenue declines, but I'm also happy to report that if someone were to project these kind of revenue declines, I don't think they would have projected $1.2 billion in earnings.

So, I don't know, it's a long answer and I'm not sure I can tell you why you think what you think, Hunter, but I can tell you what we think, and what we think is the near-term is really important, but so is the long-term and it seems at times that we focus, that you all have to, focus more on the near-term than we do.

So, I don't think that's inconsistent. I don't think that's a disconnect. I just think it's a different perspective of time horizon.

Hunter K. Keay - Wolfe Research LLC

Yes, well, I think when your long-term shareholders have their stocks go down 25%, they become near-term as well...

William Douglas Parker - Chairman & Chief Executive Officer

No kidding. Absolutely, Hunter, right.

Hunter K. Keay - Wolfe Research LLC

It's okay. I want to get more in. So this is a question for Scott. So you talk about some of these initiatives to clean up some of the fares and that's good, but they seem like their value will add, their value will add for sure, but they also seem a little bit transactional. This industry, Scott, has a track record of making really good transformational changes when things are really painful and bad.

So I'm wondering, why we're using a pricing system that dates back to the 1980s based on algorithms that might not even apply anymore when the industry structure has completely overhauled. So is it time to start thinking transformational stuff here in terms of how you price your ticket? Maybe it's a five-year initiative, I don't know. But why are we using a pricing system built in the 1980s for an industry that is now completely different than it used to be when this stuff was designed?

J. Scott Kirby - President

Well, I'll do my best to answer the question. I'm not 100% sure what you mean by transformational. I think we are doing things that maybe they're not big enough to be called transformational, but they're certainly evolutionary. Things like basic economy, premium economy, I'll put in the transformational bucket. Even things like getting rid of fare – changing fare combinability and trying to get a better pricing structure through eliminating fare combinability, has the potential to be transformational.

We're stuck to some degree with, we still sell a huge percentage of our tickets through GDSs and through even our own reservation systems, systems that were built and architected in the 1960s and this fare combinability is one of those things. It's just built into the hardwiring of the system and when we eliminate it, for good reason, we create some unintended consequences, with things like multi-city ticketing and others.

We're running hard, we're not the only one, other airlines too are running hard to change the way we price, and to be able to do things to, in particular, I think de-commoditize the product and change the way airline pricing has worked historically, but we're working with these old mainframe systems and it takes us time to get that done. It's not just us. It takes our partners' time. It takes Sabre time. It takes Amex GlobalTravel time, all to change it because we're working in these old systems and it's frustrating to us that we can't get these things done quicker because of great ideas about how to sell the product more effectively, about how to be able to, on the same airplane compete with Spirit Airlines and at the same time sell tickets to our premium customers who want a better product than they could ever possibly get on an airline like Spirit. But we're not going to get there tomorrow. We're running in that direction, but it's going to take time to get there.

Hunter K. Keay - Wolfe Research LLC

Okay, thanks.

Operator

We'll take our next question from Duane Pfennigwerth with Evercore ISI.

Duane Pfennigwerth - Evercore ISI

Thank you. On the profit sharing, you're accruing, and I would assume that for your unionized employees you would need an approval there, can you talk about the timeline for those approvals and if there's a chance that after accruing you don't have to pay it?

William Douglas Parker - Chairman & Chief Executive Officer

Hey, Duane. I'll let Steve give you the specifics as where we are, because frankly I'm not certain myself. But the fact of the matter is we announced the plan that did not ask our unions to do anything in exchange for it, so it's a company profit sharing plan that doesn't require any negotiations. It simply requires the unions to agree to put, if they choose to, to put language in their contract, basically a side letter, that says we will participate in whatever the company's plan is, and that's what we've asked them to do. I can't imagine a union would not want to put such language in their contracts, but that's how it works. This is not a negotiation.

The company has a plan, and we are required for, of course, with our collective bargaining groups to, if we make any changes to compensation, for them to agree to it. But in this case, all they're agreeing to is to accept the profit sharing, not to be asked to do anything else.

So, Steve, are they all done?

Stephen L. Johnson - EVP-Corporate Affairs & Assistant Secretary

Not all done yet, but I expect them to fall in line. Several of the unions have agreed already, a couple of the unions are reviewing the plan and have internal governance to take care of, and then four of our unions are still in the process of negotiating joint collective bargaining agreements that will, I think, obtain the agreement that has part of those negotiations.

William Douglas Parker - Chairman & Chief Executive Officer

Yes, I think it would be a big mistake to assume that we would not pay these. It would be more likely to assume that some union officials get tossed out if we don't pay them, so they're going to be paid, as they should be.

Duane Pfennigwerth - Evercore ISI

That certainly would be looking a gift horse in the mouth. Thanks for that detail. And then, Scott, if you could just talk big picture, I'd love to hear your thoughts on the relationship between fuel prices and revenue. Do you think a higher fuel curve accelerates that timeline for positive PRASM, even if capacity doesn't change? Thanks for taking the questions.

J. Scott Kirby - President

I do think that there is a pretty strong inverse correlation between fuel price and revenue. Look, if you go back and look over the past, really going all the way back to, I think, before the financial crisis and when you've seen oil prices go up, you've seen fares go up, with a lag, with a three-month to six-month lag. A lot of times that lag, I think, part of that is that you wind up with less capacity, which is completely rational. So you wind up with less capacity when oil prices go up and that leads to a move in the supply curve which leads to higher prices.

I was disappointed when oil prices fell, but that link went the other direction as well. It did. And when oil prices fell, supply went up and fares went down. I think that that is going to be in place going forward. And kind of going back to the earlier question, I think the investor focus and worry about PRASM is appropriate, but essentially it is a worry that that link won't exist. It's easy to say, earnings are good right now, but what if oil prices go up and revenues don't go up along with it? And I think that's really, I would characterize, the investor worry about PRASM. And I think it's one of the important points for investing in airlines. If you believe that, it's a pretty easy investment. If you don't believe that, it's a harder investment.

I happen to believe it. We all here believe it pretty strongly. It's only a glimmer, but even if you look at this quarter, oil prices have gone up. They're still at really low level, but as they've gone up across this quarter, essentially every airline that I've read the transcript for so far, did something they talk about reducing capacity. Those two things, I think, are correlated and it's rational and so I think that we will see that link and if oil prices go up, that revenues will go up, as well.

And I think that's sort of key to the investment thesis if you're an airline investor. If you believe that, it's a pretty easy story to say yes, and if you don't believe that, I get the focus on near-term PRASM and the worry about near-term PRASM.

Duane Pfennigwerth - Evercore ISI

Thanks very much.

William Douglas Parker - Chairman & Chief Executive Officer

Hey, Duane, it's Doug. If I can, all I want to add to that is I should have included that as part of my response to Hunter – I think to Hunter's question of why is there, if there's – to the extent there's a disconnect, it's that. And I think I tried to say that, but I didn't articulate that point. The focus on near-term PRASM, I think we look at, I think investors look at that and think, my gosh, if oil prices go up, what's this going to look like? And we believe if oil prices go up, it won't look like this. So I think that's as much as anything and I should have made that more explicit in my response to Hunter.

Duane Pfennigwerth - Evercore ISI

And I guess just taking a step back from PRASM, if you're just looking at the sequential revenue trends, just passenger revenue sequentially, with a very low but still modestly higher fuel price, I'd say we're still kind of waiting for that inflection. And so I think it's just a timing issue, would be my guess.

J. Scott Kirby - President

Yes, particularly if you're looking at the second quarter, it will take into the third quarter. It has been a three-month to six-month lag because you start to see oil prices go up. You're not going to turn off the schedule tomorrow, but the next schedule change that you're looking out three months, four months in advance is where you start to prune that marginal flight out that made sense when oil was $35 a barrel, but no longer makes sense when oil is $50 a barrel.

Duane Pfennigwerth - Evercore ISI

Thanks, guys.

William Douglas Parker - Chairman & Chief Executive Officer

Thank you.

Operator

We'll take our next question from Helane Becker with Cowen and Company.

Helane Becker - Cowen and Company, LLC

Thanks, operator. Good morning, guys. Thank you for the time. Doug, this is my question to you. When you think about the capacity adjustments that you guys have made over the last couple of years and markets in which you've reduced capacity, I get the sense that some of the lower-cost guys are coming in and backfilling that. And even on the North Atlantic, you're starting to see low-cost providers like Norwegian come in and backfill capacity that you guys have taken out. So don't you run the risk, if you shrink too much of giving up traffic share, that your traffic share winds up falling below your seat share in some of these markets?

William Douglas Parker - Chairman & Chief Executive Officer

Helane, thanks for addressing that to me, but Scott will probably end up doing most of the answering. But I'll answer from just the larger perspective. Of course, not. We don't look to seat share as a success factor. What we look to is where we're profitable. So to the extent what you're saying is true, which I'm not certain we'd agree with, but to the extent that was true, we would say we're not here to try and have a revenue share or to be the largest, we're here to be the most profitable and the best.

So, if indeed that's the case, that we were unprofitable and we therefore reduced service to a market and it was later replaced by someone else, that's what's supposed to happen. We couldn't be profitable there, and someone else wants to give it a shot. That's what competition is. So I wouldn't be particularly concerned by that, but I'm also not certain we agree with the premise as much as stated.

So, Scott, anything to add?

J. Scott Kirby - President

Yes, look, our capacity decisions are about maximizing profitability. And when we're doing that, we do think about what the consequences of our capacity changes will be and what our competitors will do. And it would be naive not to think of that. For the most part, those two things are exactly the same. We assume our competitors are going to basically be doing what they're doing, regardless of us, and therefore our capacity decision is just about what is going to happen with our profitability and we're not looking at somebody's going to try to backfill it or market share changes.

It's unusual to look at that. If there's one place that's become an exception to that, that we continue to reduce capacity here, it's been in South America where we could see just disaster, catastrophic numbers coming, and started to get ahead, or tried to get ahead of the curve on reducing capacity pretty significantly and saw a lot of competitors continue to grow double digits.

Now the good news is that appears to have stopped. It's gotten bad enough in Brazil, in particular, that everyone is deciding to shrink. But I was frankly surprised at the competitive reaction in a place where you're having RASM declines of 40% two years in a row, to see that, but almost everywhere else we look at the world and just say, whatever's best for American Airlines is going to be the same no matter what the competitive response is.

Helane Becker - Cowen and Company, LLC

Okay. Thank you. And then just on just sort of a maintenance-related item, on the maintenance costs being down 15%, I'm assuming that's with the new fleet and that's like a new run rate of a quarterly spend, or was there something in the quarter that made it be down more, given the shift in the fleet age, blah, blah, blah?

J. Scott Kirby - President

Yes, no, part of it is that and then also there's some timing. It will be higher in the second quarter, but it's just timing of engine overhauls and aircraft overhauls in the first quarter. There were fewer there than there will be throughout the year.

Helane Becker - Cowen and Company, LLC

Okay. Thank you very much.

William Douglas Parker - Chairman & Chief Executive Officer

Thanks, Helane.

Operator

We also ask that you limit yourself to one question and one follow-up. We'll go next to Darryl Genovesi with UBS.

Darryl Genovesi - UBS Securities LLC

Hi, guys. Thanks for the time.

William Douglas Parker - Chairman & Chief Executive Officer

Hey, Darryl.

Darryl Genovesi - UBS Securities LLC

So just to follow up on some of the comments you made around what you think is investors' concern about revenue perhaps decoupling from oil in the longer-term. And I just wonder how you sort of apply that logic to today, right? Because if we just were to think about, for instance, the domestic environment in the second quarter, you saw about a 6.5% revenue decline domestically, and I appreciate that DPIJ is probably playing a role, but maybe you still have a mid-single-digit decline in your unit revenue in Q1. And that saw an industry capacity growth number that's adjusted for leap year and a domestic market of about 5%.

And so if I were to go back and look historically, domestic airline revenue has grown at something like U.S. nominal GDP. So if you have kind of a low, sort of, single-digit, low single-digit to mid-single-digit underlying revenue trend as a result of just general economic activity and you couple that with a 5% supply growth number, then I guess I would have expected something more like a low single-digit kind of RASM decline as opposed to a mid-single digit RASM decline. So just, I guess – sorry for a little long-winded question, I think the worry here isn't so much that capacity decisions have decoupled from fuel, it's more that pricing seems to have decoupled from what's going on with capacity. And I think we're all just struggling to understand that.

J. Scott Kirby - President

Yes, look, I understand the concern. The first quarter, I guess, across the industry domestically was weaker than I think you would have thought fundamentals would suggest. For us, consolidated domestic RASM was down 5.3%, I think you referred to the mainline number. But a 5% PRASM decline, even if a couple of points of that is coming from DPIJ, I thought it was better. I really do think, I think it was the first question on the call I'd go back to, I think there were two big things that caused the first quarter to be worse than it otherwise would have been.

One was the temporary change in the pricing structure, where AAdvantage fares were gone and now they're back; and second was we had a drop in corporate travel demand mid-quarter that coincided with a decline in the stock market. And we've seen that happen before and it comes back. That's the bad news. The good news is as we've moved into April, close-in demand, as those two things have changed, close-in demand actually has picked up pretty well. So our fingers are crossed that we're going to be back to a more normal trend line of the relationship between supply, demand and revenue.

Darryl Genovesi - UBS Securities LLC

Okay. Thanks for that. And then, I guess, Doug, I know you don't have as much of a crystal ball as maybe we expect you to sometimes, but a couple of quarters ago on your Q3 call, oil was at kind of a similar level as it is today, maybe $1 or $2 a barrel more expensive, but generally in the same ballpark. And at the time, you said you thought that there was a reasonable potential that margins would be down this year, but that you would expect a pretty good opportunity for margin expansion in 2017. Just wondering if that's still the way you view the world.

William Douglas Parker - Chairman & Chief Executive Officer

Yes, Darryl, look, what I know I said, and I'm not arguing the way you characterized it, but I don't want to get into the business of forecasting margins from year-to-year. At the time, what we were talking about was a real concern on people's part that, indeed, you might see declines in 2016 versus 2015 and at least articulated by some as a concern that we had peaked as an industry. And what I was trying to point out at that time was that wasn't our view.

Indeed what I said was – we believed and what I said, I'm pretty sure, was 2015 had this phenomenon of incredibly quickly falling fuel prices that fell so fast that capacity couldn't catch it. And in a sense, the 2015 results, because of that, were higher than one would expect them to be in the long-term. So while you might see, therefore, declines into 2016 and margins, you shouldn't view that as the industry had peaked. Rather you should view that as kind of a one-time spike in margins in the industry and that they would normalize in 2016 to a level higher than 2014, which by the way, it appears they're going to.

And therefore, one shouldn't assume that they would continue to fall from 2016 into 2017. So I think all that's still true, but I'm not going to try and make a forecast on 2017 for you because I don't know. But that's what I was trying to point out, that 2015 – the fact that 2016 was going to be lower than 2015, which it's turned out to be, I certainly wouldn't view as some sort of cyclical issue as opposed to rather than this kind of spike that we had in 2015.

Darryl Genovesi - UBS Securities LLC

Okay. Thanks very much, guys. Appreciate the time.

William Douglas Parker - Chairman & Chief Executive Officer

Sure.

Operator

We'll take our next question from Savi Syth with Raymond James.

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

Hey, good morning. I know you've provided a little bit of this color in part as the trans-Atlantic and the domestic market, but I wonder if you could walk through a little bit about the potential progression or just the headwinds and the tailwinds by region, assuming current demands and oil trends persist.

J. Scott Kirby - President

Sure, so expect the trans-Atlantic to get a little worse, and actually all other regions to get a little better. So domestic, our forecast is for it to get better, moving into the second quarter, same for Pacific, not a lot but a little better, and same for Latin. Latin is really based on the comps are getting a lot easier, but all regions with the exception of the Atlantic getting modestly better in the second quarter than the first quarter.

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

And as you look to the second half?

J. Scott Kirby - President

Second half, we don't have a precise forecast, but I think that the trend will continue that all regions will get better in the second half, all four regions will continue to progress better, because the capacity environment progresses better I think in the third quarter and fourth quarter, and as a result, I expect every one of those regions to continue to sequentially improve from the second quarter to the third quarter to the fourth quarter.

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

Got it. And then if I might ask, apologize if I missed this, but you've been making investments in improving operations particularly in Dallas, I believe. I just wondering if you could give an update on how that's progressing and maybe what more might be needed.

Robert D. Isom - Chief Operating Officer & Executive Vice President

Hi, this is Robert Isom. Yes, we've been making considerable investments, and seeing payoff, and as Scott noted in his opening remarks, the best indication of that is operating performance in terms of departing and arriving on time and also baggage performance, as well. So the corresponding impact of that is obviously fewer misconnected passengers and misconnected and lost bags as well. Completion factors are higher. A lot of that is a result of investments that we've made that have been put in place in regard to ground equipment, process changes, people, and then as we look forward into the future, you're going to see some benefits from technology changes as well that will really help as we try to tackle issues when operational disruptions occur. So, all positive on that front.

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

Okay. Thank you.

Operator

We'll go next to Mike Linenberg with Deutsche Bank.

Michael Linenberg - Deutsche Bank Securities, Inc.

Hey, guys, good morning. Just two quick ones here. To Scott, I guess, Derek in his opening remarks talked about certain domestic markets seeing competitive pressures and driving lower revenue. You called out Dallas. What are some of the other hot spots in the market? And then just with respect to close-in demand in April, I know you said that it's picking up. Is that more of a function of volumes or are you also seeing better close-in demand yields? Are we still seeing corporate travel demands under pressure? Thanks.

J. Scott Kirby - President

So, I guess from a capacity perspective, Dallas is the only place that I'd call out domestically, but it's also one of our best performing year-over-year hubs. I think it just would have been really, really good. Dallas economy, despite energy, is doing well. And I think it would have been really gangbuster had it not been for the large capacity growth here in the DFW – or in Dallas, actually mostly at Love Field. It wasn't at DFW.

And what was the second part of the question? I forgot.

Michael Linenberg - Deutsche Bank Securities, Inc.

Just on, you talked about close-in demand picking up in April.

J. Scott Kirby - President

Oh, yes.

Michael Linenberg - Deutsche Bank Securities, Inc.

And the question is, is that really more volumes are picking up? Or are you seeing improvement in yield? Because our sense is that yields are under pressure because of waning corporate travel (1:10:41)

J. Scott Kirby - President

Yes, we are not seeing a pickup in yield. It is improvement, it's certainly improvement in volume. But it's the revenue environment, the booked revenues, are also improving relative to where they were in February and March. In February and March, we had the same yield issue that we have right now, so that's really was no different, but we also had weak volumes. So we still have weak year-over-year yields, but unlike February and March where we had weak year-over-year yields and weak year-over-year volumes, at least now we have higher year-over-year volumes.

Michael Linenberg - Deutsche Bank Securities, Inc.

Great. Thanks for the clarification. Thanks, guys.

William Douglas Parker - Chairman & Chief Executive Officer

Thank you.

Operator

Ladies and gentlemen, at this time we would like to open up the floor for questions from the media. We'll take our first question from Andrea Ahles with Fort Worth Star-Telegram.

William Douglas Parker - Chairman & Chief Executive Officer

Hello, Andrea.

Andrea Ahles - Fort Worth Star-Telegram

Hi. Hello, Doug, good morning.

William Douglas Parker - Chairman & Chief Executive Officer

Morning.

Andrea Ahles - Fort Worth Star-Telegram

Scott, I was wondering if you could actually elaborate a little bit more on what you were talking about with Dallas and the capacity that's gone on at Love Field. I mean since September was sort of when you think it's going to stabilize, but can you talk about are your yields doing well at DFW? Or are you still seeing sort of what you were mentioning sort of the weak demand that you had in February and March?

J. Scott Kirby - President

Yes, fares are lower in Dallas than they were last year. And the growth at Love Field, the last big tranche of growth was September of last year, and so when we get to September this year, we will have overlapped the growth. But fares are lower in Dallas. It's a great time if you're a traveler in Dallas to get out and go somewhere. There's some really attractive prices.

Andrea Ahles - Fort Worth Star-Telegram

And with the Advantage fares that you'd said were not in the market the past few months, are they now back in the market particularly in the DFW area?

J. Scott Kirby - President

They are. They are.

Andrea Ahles - Fort Worth Star-Telegram

They are? All right, thank you.

William Douglas Parker - Chairman & Chief Executive Officer

Thanks, Andrea.

Operator

We'll go next to Susan Carey with The Wall Street Journal.

Susan Carey - The Wall Street Journal, Inc.

On the AAdvantage fare thing, can I just, can you remind me, I thought that was, like, a proprietary thing that US Airways had, which was sort of a cheaper ticket for via a connection, but you're talking about it almost like it's a generic thing now. Could you explain that to me?

J. Scott Kirby - President

It is a generic thing now. You described it correctly. It is when a connecting carrier offers a lower price than the non-stop carrier, the rationale being that an inferior product from a customer's perspective. A customer would rather fly non-stop, and they were offering a lower price, that's something that US Airways uniquely did. We brought that to American Airlines after the merger, and when we did that, our large competitors copied us, and so now it is, you called it a generic thing, but it is really systematic and exists virtually everywhere that there's non-stop service in the U.S.

Susan Carey - The Wall Street Journal, Inc.

And so then to follow up, Scott, you said those fares went away for basically the entire...

J. Scott Kirby - President

For almost three months.

Susan Carey - The Wall Street Journal, Inc.

First quarter. And again, what was the reason those fares went away?

J. Scott Kirby - President

Well, I have to be careful talking about the rationale. But we've had them in place for over a decade. We're in a world with lots of low fares in lots of other places and we wanted to see what would happen. We had lots of other low fare alternatives. When we first started the program we had fewer low fare alternatives. There's lots of other low fare alternatives in place today and so we wanted to see what would happen if we kind of did a reset. It looked like that the results were actually negative, but before we could pull the trigger on changing it, one of our competitors put it back in place ahead of us, so presumably they saw something similar.

Susan Carey - The Wall Street Journal, Inc.

Super. Thank you.

Operator

We'll take our next question from Mary Schlangenstein from Bloomberg News.

Mary Schlangenstein - Bloomberg News

Scott, I wanted to see if you could just clarify for me on the basic and premium economy. I thought that originally you'd said we'd see that in the second half of this year and then earlier today you said next year. Is that a change in timing or is that just a change in like you'll talk about the details this year, but it won't be in place until next year?

J. Scott Kirby - President

Well, we hope to roll out basic economy this year. It will be towards the end of this year. I said second half, but it will be towards the end of the year. But what I was saying on the call is the impact of that, the revenue impact of that, will be a 2017 effect, so even if we rolled it out, even though we still plan to roll out basic economy this year, it really won't affect our revenues until 2017.

Mary Schlangenstein - Bloomberg News

Okay, great. Thank you.

Operator

We'll take our next question from David Koenig with The Associated Press.

David Koenig - The Associated Press

Hi, just real quickly I think, Scott, you mentioned that some of the changes in the multi-city ticketing, the pricing had been rolled back. Has American received any communication, written, verbal or otherwise, from regulators indicating that they were looking into those changes?

J. Scott Kirby - President

Not to my knowledge.

David Koenig - The Associated Press

Okay. Thank you.

William Douglas Parker - Chairman & Chief Executive Officer

Thanks, David.

Operator

Our next question comes from Jeffrey Dastin with Reuters.

Jeffrey Dastin - Thomson Reuters Corp.

Thanks for taking the question. Have leisure or corporate bookings to Charlotte slowed since the North Carolina transgender law passed?

J. Scott Kirby - President

I haven't actually looked at it to give you an answer.

Jeffrey Dastin - Thomson Reuters Corp.

Fair enough. And then a separate question, then, notwithstanding American's large order book, might it have any interest in purchasing the new 737 variant that Boeing is said you'd be considering? And how would you compare this to any interests you might have in the C Series?

J. Scott Kirby - President

I think we have a full order book right now.

Jeffrey Dastin - Thomson Reuters Corp.

But in terms of potential interest years down the line, or you can't say?

J. Scott Kirby - President

Look, we've got lots of other stuff going on. We're not going to be placing an aircraft order in the near-term, so it's not something we're working on.

Jeffrey Dastin - Thomson Reuters Corp.

Great. Thank you.

William Douglas Parker - Chairman & Chief Executive Officer

Thanks, Jeffrey.

Operator

We'll take our next question from Edward Russell with Flightglobal.

Edward Russell - Flightglobal

Hi, thank you for taking my question this morning. On the (77:33) application you submitted last night, I think there was a bit of a surprise that you guys didn't seek JFK. Perhaps you could give some rationale on why you chose DFW as the second market versus JFK?

J. Scott Kirby - President

We thought it was the best market for American to serve. It's our largest hub. Being able to serve the preferred airport in Japan from our largest hub is high on our priority list, so it was just the most rational choice for us.

William Douglas Parker - Chairman & Chief Executive Officer

And by far the best for consumers, because of all that connectivity. The application is so much stronger from DFW because we connect people all over the United States into this very large hub of ours.

Edward Russell - Flightglobal

Great, thank you very much. And one follow-up, any updates on Cuba and when you might be hearing back about those route authorities?

J. Scott Kirby - President

I don't think we know.

Stephen L. Johnson - EVP-Corporate Affairs & Assistant Secretary

I don't think we know for sure. I expect the DOT will issue an order with respect to service to all the cities other than Havana in the next few weeks, maybe even sooner than that, but they haven't given us an indication about when the Havana order would come out, but I'm guessing sometime in the summer.

Edward Russell - Flightglobal

Great. Thank you very much.

William Douglas Parker - Chairman & Chief Executive Officer

That was Steve Johnson.

Edward Russell - Flightglobal

Okay, thank you.

Operator

We'll go next to Ted Reed with TheStreet.

William Douglas Parker - Chairman & Chief Executive Officer

Hey, Ted.

Ted Reed - TheStreet, Inc.

Hey, Doug. Thanks. I have a couple of quick things. First of all, typically Charlotte has been on your list of well performing hubs and it was not on the list this time. Why is that?

J. Scott Kirby - President

Well, it's a great hub and it does really well, but it wasn't the highest year-over-year.

Ted Reed - TheStreet, Inc.

Okay, thank you. Secondly, there's a couple of surveys coming out, or have come out, that show much higher or improving passenger satisfaction with the airline industry in the past year or so. What do you attribute that to, higher passenger satisfaction?

J. Scott Kirby - President

Well, look, we, at American, are running a much better operation. We're investing in our product. We're investing in customer service. And I think we're generally on a trend of from a customer perspective things are getting better.

William Douglas Parker - Chairman & Chief Executive Officer

And in relation to the industry, Ted, this is what we suggested would happen as we got to an industry that could serve customers better. As we got through the consolidation of U.S. carriers to still be an incredibly competitive business, but one that could provide the utility customers wanted to take to have an airline – a series of airlines that could take customers everywhere they want to go. That's one that's much better utility for the customer and it also puts us all in a position of competing much more on the in-flight product and on reliability than simply on where we fly and others don't.

So, in a world where a number of us can take customers anywhere around the globe, what matters more than it used to, and how you compete for high-value customers that can use any of those carriers, the product matters even more than it did before and you're seeing investments in that.

Ted Reed - TheStreet, Inc.

Okay, thank you. A last thing, if I were to write this story now, I would write that American Airlines seems to have so much money it doesn't know what to do with it all. Is that fair that you're able to spend so much money (80:56) is it fair to say that?

William Douglas Parker - Chairman & Chief Executive Officer

It would be an incorrect headline, Ted. What I would say is, the team at American Airlines is doing an excellent job of running the airline, getting two airlines integrated, taking care of their customers and the result of that is that they're profitable. And the result of those profits is primarily being used to invest in its product and its team because its team is critical to its product, and those results are paying off. And the future of American looks really bright. As a result of that, the industry's been transformed. American Airlines has been transformed and you should expect to see more of that in the future.

But, businesses are supposed to be profitable and ours is, and we expect to continue it to be. And to the extent we can generate profits and use those to continue to put in the product and take care of our team, and then to the extent we generate even more than that, that gets returned to shareholders. So it's what business is supposed to do and we're happy to actually be in that position now versus where airlines have been in the past. It's a longer headline I know, but it's the right one.

Ted Reed - TheStreet, Inc.

Thank you. I appreciate it all.

Operator

And that concludes our question-and-answer session. At this time, I would like to turn it back over to our speakers for any additional or closing remarks

William Douglas Parker - Chairman & Chief Executive Officer

We have no additional or closing remarks other than thank you very much for your time and attention, and thanks again, bye.