Operator

Good morning and welcome to the American Airlines Group Fourth Quarter of 2016 Earnings Call. Today's conference is being recorded. At this time, all participant 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 to your moderator, Managing Director of Investor Relations, Mr. Dan Cravens. Please go ahead, sir.

Dan Cravens

Thank you and good morning everyone and welcome to the American Airlines fourth-quarter and full-year 2016 earnings conference call. We've got a lot of people in the room today, but on the call we've got Doug Parker, our Chairman and CEO; Robert Isom, our President; and Derek Kerr, our Chief Financial Officer.

Also in the room with us for the Q&A sessions we've got Elise Eberwein, our EVP of People and Communication; Bev Goulet, our Chief Integration Officer; Maya Leibman, our Chief Information Officer; Steve Johnson, our EVP of Corporate Affairs; Don Casey, our SVP of Revenue Management; and Andrew Nocella, our SVP of Network Planning.

We are going to start the call today with Doug and he will provide an overview of our fourth-quarter and 2016 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. Robert will then follow with commentary on our ops performance and revenue environment, and then after we hear from those comments we will open the call for analyst Q&A 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 cost, forecast of capacity traffic, load factor, fleet plans and fuel prices. These statements represent our predictions and expectations as to future events but numerous risks and uncertainties could cause actual results to differ from those projected. Information about some of these risks and uncertainties can be found in our earnings press release issued this morning and our Form 10-Q for the quarter ended September 30, 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 under the More About American Airlines Investor Relations section. A webcast of this call will also be archived on our website. The information that we are giving you on this 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. 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 with us. We are happy to report our results. Fourth-quarter pre-tax earnings excluding special charges were $773 million. For the full-year on that same number we produced $5.1 billion of earnings. That's the second-best year in American Airlines history, second only to 2015. We are particularly pleased with our revenue performance. Our total revenue per ASM was up 1.3% in the fourth-quarter. That is our first year-over-year increase since the fourth-quarter of 2014, and we are the first major airline to be able to report year-over-year improvement.

Now our unit cost increased more than we'd like, Derek will talk more about that. That's certainly more than we'd like to see on a run rate basis. But that is almost entirely due to increases in our employee expenses. And as Derek will describe that growth should taper off as 2017 unfolds. And we expect additional cost savings in 2018 as we complete our integration. But look, our people deserve these compensation increases and more. They are doing an incredible job of taking care of our customers and managing through this integration.

Our earnings include a $314 million accrual for profit sharing. This will be the first American Airlines profit-sharing payment since 2000. And that's due to a program that we at American unilaterally implemented for our team in 2016 and that we are very excited about.

The fact is the exceptional performance by our team is being noticed. We are honored to be named Airline of the Year by Air Transport World for 2017. That's the first time American Airlines has won this award since 1988. We know we have a lot of work to do. Our team is excited about that fact. But we are back in consideration for being amongst the greatest airlines in the world, and that is a validation of all the work our team has done. We expect and intend to remain there. And we do not intend to wait 30 more years to win this award again.

So with that said I will turn it over to Derek to give you more details, and then Robert.

Derek Kerr

Thanks, Doug, and good morning everyone. We did file our earnings release this morning and in that release we announced our fourth-quarter 2016 GAAP net profit of $289 million or $0.56 per diluted share. This compares to our fourth-quarter 2015 GAAP net profit of $3.3 billion or $5 per diluted share which included a $3 billion non-cash tax benefit resulting from the reversal of our Company's valuation allowance on its deferred tax assets as of December 31, 2015. Excluding special charges we reported a net profit of $475 million in the fourth-quarter of 2016, or $0.92 per diluted share versus our fourth-quarter of 2015 net profit of $1.3 billion or $2 per diluted share.

As Doug said, our GAAP fourth-quarter 2016 pre-tax profit was $550 million. And excluding special charges our fourth-quarter pre-tax profit was $773 million, resulting in a pre-tax margin of 7.9%. For the full-year our GAAP pre-tax income was $4.3 billion and our pre-tax income excluding special items was $5.1 billion. This equates to a 2016 pre-tax margin of 12.6%. As Doug said both the 2016 pre-tax income and margin were the second-best in Company's history.

On a full-year basis excluding special charges and a non-cash tax provision of $1.6 billion our adjusted fully diluted EPS was $9.10, down only $0.02 from 2015 which reflects a 19.1% reduction in our fully diluted average share count during the year. We are pleased to see improved revenue performance in the fourth-quarter of 2016 as total operating revenues were up 1.7% year-over-year to $9.8 billion. Passenger revenues were $8.3 billion, up 0.5% on a yield improvement of 1.8%. This was the first year-over-year increase in PRASM, yield and TRASM since the fourth-quarter of 2014. And Robert will give more detail on this in his remarks.

Cargo revenues were up 1.3% to $194 million due primarily to improving yields. Other operating revenues were $1.2 billion, up 10.2% versus the same period last year due primarily to the impact of our new credit card agreements signed with Barclaycard U.S., Citi and MasterCard in July 2016. Total GAAP operating expenses for the fourth-quarter of 2016 were $9 billion, up 5.4% versus the same period last year. Fourth-quarter mainline CASM per ASM was $0.1293, up 5.7% year-over-year.

Excluding special charges and fuel our mainline CASM was $0.1017, up 10.3% year-over-year, primarily driven by the salary and benefit increases provided to our team members which was worth 7 points, the introduction of our profit-sharing plan 1 point, aircraft maintenance timing 1 point and increased depreciation and amortization 1 point resulting from new aircraft and increased capital investment.

Regional operating cost per ASM in the fourth-quarter was $0.196, down 0.9% from the corresponding quarter in 2015. Excluding special charges and fuel regional CASM was $0.157, a decrease of 2.5% due to the continued shift to more efficient regional jets. Consolidated CASM ex-fuel was up 8.5% for the fourth-quarter. We ended the year with approximately $8.8 billion in total available liquidity comprised of cash and investments of $6.4 billion and $2.4 billion in undrawn revolver capacity. The Company also has $638 million in restricted cash.

During the quarter we completed several financing transactions. These include closing the 2016-3 Enhanced Equipment Trust Certificates with total proceeds of $814 million. We repriced our $1 billion spare parts term loan and refinanced our 2013 Citi term loan with a new $1.25 billion facility.

In the fourth-quarter of 2016 the Company returned $606 million to its shareholders, including quarterly dividend payments totaling $52 million and the repurchase of $554 million of common stock for 12.2 million shares. The $2 billion share repurchase program authorized in April 2016 is now complete. During 2016 we returned $4.6 billion to our shareholders through dividends and share repurchases, bringing the total to more than $9.6 billion since our capital return program started in May 2014. That number includes $9 billion to repurchase 228.4 million shares at an average share price of $39.41 and – sorry, $646 million in dividends.

Including shares repurchases, shares withheld to cover taxes associated with employee share distributions and equity awards and the cash extinguishment of convertible debt our share count has dropped by almost a third from 756.1 million at merger close in December 2013 to 507.3 million shares at the end of 2016. On January 25 the Company's Board authorized a new $2 billion share repurchase authorization to be completed by the end of 2018, and the Company also declared a dividend of $0.10 per share to be paid on February 27 to stockholders of record as of February 13.

With respect to our pension obligations, the Company is committed to being fully funded under the existing airline relief legislation. In order to be fully funded we will make an approximately $300 million contribution in the second quarter of 2017. Upon expiration of the legislation at the end of 2017 we are expected to make contributions of approximately $1.1 billion in 2018 and $850 million in 2019. Taking these planned pension contributions into consideration, our current debt levels, and to protect against the impact of an adverse economic shock, we have increased our minimum target liquidity balance by $500 million to $7 billion, a significantly stronger liquidity position than our competitors.

Turning to 2017, our capacity is planned to be up approximately 1% which is consistent with our prior guidance. Domestic capacity is expected to be flat with 3% fewer departures offsetting a 3% increase in gauge, with international capacity is up 4% primarily due to the completion of the 777-200 retrofit program in the second quarter and a run rate impact of three new Pacific markets that were added in 2016. During the quarter the 1% ASM growth – or by quarter the 1% ASM growth in 2017 is approximately 2% down in the first quarter, up 1% in the second quarter and up 2% in both the third and fourth-quarter. Also consistent with prior guidance we expect year-over-year CASM, consolidated CASM excluding fuel and special items, to be up approximately 4%.

We are continuing to make significant investments to close the revenue and operational gap with our competitors. These incremental investments are focused on our people, our product and our operation. The increase is made up of 2 points in salaries and benefits, 1 point in maintenance and 1 point in depreciation for our aircraft replacement program and increased non-aircraft investments.

Year-over-year unit cost increases are greatest in Q1 as capacity is down by 2% and these salary increases given to our maintenance and fleet service team members are not lapped until the middle of the third quarter. So by quarter consolidated CASM excluding fuel and special items is expected to increase by 8% to 10% in the first quarter, 4% to 6% in the second quarter, 1% to 3% in the third quarter and zero to 2% in the fourth-quarter.

As we talked about on the last call we are close to finalizing the majority of the integration work. Therefore, in 2017 we plan to review our cost structure and eliminate redundancies that still exist post-integration. We also expect improved asset utilization and increased productivity as a number of investments in our operations take hold. We will see the effect of these initiatives in 2018 and beyond. We expect higher fuel prices in 2017 to drive an increase in fuel expenses of approximately $1.4 billion over 2016.

Based on the fuel curve as of January 24, 2017 our mainline fuel price forecast for the first quarter of 2017 is $1.66 to $1.71 per gallon. We do expect to pay $1.72 to $1.77 for the full year. Using the midpoints of the guidance we just provided along with the revenue guidance that Robert will give we expect the first-quarter pre-tax margin excluding special items to be between 3% and 5%.

For 2017 capital expenditures we expect to take delivery of 57 mainline aircraft and 12 regional aircraft, resulting in total gross aircraft CapEx of approximately $4.1 billion. This is the final year of the big capital expenditures for aircraft and it reduces in 2018 and beyond. In addition, we expect to invest $1.5 billion in non-aircraft CapEx for the full year which includes continued integration work and the investments to improve our product and operations.

So in conclusion, we are very pleased with the outstanding results our team produced in 2016 and look forward to another great year in 2017. I'd like to thank our 120,000 team members for all they have done in 2016 to make American the airline of the year.

Thanks again for your time this morning. And I will turn it over to Robert.

Robert Isom

Thanks, Derek. Good morning and thanks for joining us. We took tremendous strides in 2016 integrating our airline. In addition, we enhanced our network, fleet, customer service and operation. Our employees saw changes in the past year as well with the return of profit-sharing, workspace improvement, labor agreements and the rollout of in-depth customer service training programs. Many of these steps weren't easy and I'd like to thank our more than 100,000 team members for their outstanding work throughout the year. As the integration chapter draws to a close a new chapter of innovation is opening.

Following a challenging operating environment in the summer our frontline team rebounded with the fall schedule and quickly brought our operations back to the same trajectory that we saw earlier in the year. In October and November our baggage handling performance reached record levels for the new American. In addition, our November completion factor reached a record high for the Company. While December brought the typical operational challenges that come with winter weather and the increased holiday flying our operational performance still improved year-over-year across the board.

As we discussed on our last call on October 1, we moved to a single flight operating system which allowed pilots and aircraft from each legacy carrier to be scheduled interchangeably. This transition has already paid dividends over the last three months as evidenced by the operational results. Moving forward, running a single flight operating system will not only improve operational results, but it will provide the opportunity to fine-tune the network to serve each market with the approximate mix of frequency – with the appropriate mix of frequency and capacity. It will also assist in recovering from irregular ops as the team and the IOC will have access to a full complement of aircraft and pilot resources to help put the operation back on schedule when things go off.

We are very pleased with our revenue performance in the fourth-quarter. Our fourth-quarter passenger revenue per ASM was up two-tenth of a percent and our fourth-quarter total revenue per ASM was up 1.3%, marking the first positive result for any U.S. carrier in a year and a half and the first time for a legacy carrier in almost two years. And this is the second quarter, consecutive quarter where our unit revenue performance was materially better than the rest of the industry and our legacy competitors in particular.

It's clear that the investments that we are making in our people and our product are gaining traction in the marketplace, and based on published guidance we expect our out-performance to continue in the first quarter, as well. In spite of unfavorable holiday shifts our domestic consolidated PRASM was up three-tenth of a percent. We saw improvement broadly across all hubs with DFW and Los Angeles leading the way. The domestic business benefited from a stable pricing environment and we saw our strongest yield improvements come from flow market. Our corporate share was positive for the fourth consecutive quarter and we did see a bump in volume and yield post-election.

In particular, we saw strength in banking, financials, industrials and in entertainment. Our Latin performance overall was very strong as well with PRASM up 10.2%. Although Brazil led the way, Mexico, Central America and Venezuela were all positive for the quarter. On a year-over-year basis our Brazil PRASM was up 53%. However, it still remains negative on a year over two-year basis. Our Caribbean performance continues to remain under pressure from low-cost carrier capacity additions throughout 2016 which has resulted in a weak pricing environment.

The Atlantic was our worst performing international entity with PRASM down 7.7%. The main drivers of this performance are continued capacity increases specifically from low-cost carriers and negative foreign-exchange impact resulting from the strengthening U.S. dollar. American is highly exposed to the pound with half of our transatlantic capacity in the UK. The weakened pound negatively impacted UK PRASM by about 5 points. Across the Pacific PRASM was down 4.9% on capacity increases of 39% as we grow into the new services from Los Angeles to Hong Kong, Canada, Sydney and Auckland.

Looking forward we continue to see positive trends overall in the forward revenue environment and expect positive year-over-year TRASM in each quarter of 2017. Regionally our domestic first-quarter PRASM is expected to continue to improve versus the fourth-quarter as the pricing environment has stabilized and competitive capacity growth has moderated. In Latin America we expect another quarter of strong year-over-year improvement while the Pacific entity is expected to decline at a similar level to the fourth-quarter.

Lastly, the Atlantic region is showing modest signs of improvement due to easing comps from past terror event as well as our capacity reduction.

However, it remains challenged as low-priced carriers continue to grow and the British pound remains weak. With that, we expect fourth-quarter total revenue per ASM, not passenger, but total RASM to be up 2.5% to 4.5% year-over-year. As we look beyond the first quarter we are excited about the commercial initiatives that our team has worked so hard on. We recently announced our new Basic Economy product which will begin selling in February. Basic Economy will not only allow us to offer a tailored product to all of our customers, but will help us compete more effectively with the growing number of ultra-low-cost carriers.

In addition, we have begun to roll out our Premium Economy product on our widebody fleet. And when fully implemented we believe that Basic and Premium Economy combined are worth more than $1 billion in incremental revenue. In conclusion, we took great strides in 2016 to position American as the next industry leader. Our res systems and loyalty programs have been combined, our workgroups have come together and our systems have been merged to create a strong and capable airline that is now delivering positive unit revenue growth.

While we have a lot of work to do we look forward to reporting on future successes. And with that I'd like to turn the call back over to the operator to start our Q&A session.

Doug Parker

Excellent. Thank you, Derek, thank you Robert. Yes, operator, we are ready for questions, please.

Question-and-Answer Session

Operator

Thank you. The question-and-answer session will be conducted electronically. [Operator Instructions] Our first question will come from Rajeev Lalwani with Morgan Stanley.

Rajeev Lalwani

Hi, good morning. Thanks for the time.

Doug Parker

Hey, Rajeev.

Rajeev Lalwani

Just first question for you, can you just walk through the approach that you are taking with Basic Economy. Just color on how you're thinking about domestic versus international, the market, the rollout timeline and so on. And then just specific benefits you are looking for in 2017 on Basic Economy?

Robert Isom

Well, Don Casey can help me out, but the idea behind Basic Economy and Premium Economy is segmentation and getting a product and a price to customers at every stage of the demand curve. And so the game plan right now is that we are going to be really smart in terms of how we roll out Basic Economy. We are going to start with 10 different markets and that will start here in the next couple of months. And from there we plan to roll it out and to make sure that we can do it effectively at the airports and to really understand how our customers react, as well.

Our hope is to have it fully rolled out over the course of 2017 and early 2018 throughout our domestic network. Right now that's where we stand. From a Premium Economy perspective, of course that's starting with our international fleet and with the 787-900s, and then from there we will be reconfiguring our fleet, our widebody fleet to allow that to be sold throughout the international network. So we do continue to see the demand for the product. And we think that it's going to really help us with competition from low-cost carriers and defending our hub. Don?

Don Casey

Yes, clearly the product features that we have are not changeable, not upgradable, reduced elite qualifying miles as well as no seat selection in our effective barriers for business customers. This is really all about tapping into the willingness to pay for existing product that's difficult to get at given the current distribution model which just shows the lowest fare. So those product attributes we think business customers are going to be interested in paying a bit more for our product that we offer today. And as we've talked to our appropriate customers since we've made the announcement they don't want us to distribute the basic product to them because they don't see it as attractive.

But there's also an opportunity, we believe, to capture an increased willingness to pay for leisure customers, as well, that are buying further out. And for that we think the carry-on bag restriction or the checked bag-only policy related to the product is actually quite critical to tapping into the willingness to pay for leisure customers.

Rajeev Lalwani

And in terms of that $1 billion of benefit that you talked about for Basic and Premium, how much is for Basic?

Doug Parker

This is Doug. I don't know that we have broken it out. But anyway, know that we believe the value is there, and as Robert just described given the size of the value we want to get there as quickly as we can. We also need to make sure we manage it properly. So as anxious as we are to get it in throughout the system we are not going to go in a way that we can't manage well and our people can't manage well.

So I think as you go to model this side I would, again, if it were me I wouldn't build a whole lot into 2017 because we are going to ramp it up, but and then hopefully we will surprise you on the upside, but know that it's going to be there in 2018.

Rajeev Lalwani

Okay. And then Doug, a question for you. In terms of domestic capacity you are keeping it flat this year obviously. When does that start to reverse itself and what are the metrics you are looking at to figure out whether or not to start pushing it up? It seems like the RASM trends are clearly in your favor, so just how you are thinking about it.

Andrew Nocella

Yes, this is Andrew. It's flat this year. As we look at the balance of international versus domestic it wouldn't shock me if we slightly toned down international and add a little bit to domestic this year, but that's not the current plan. We will just watch the trend. And if those trends continue I tend think you'll see a little bit more next year given that's where the RASM growth seems to be given the international environment capacity and demand environment right now.

Rajeev Lalwani

Thank you, gentlemen.

Doug Parker

Thank you.

Operator

Our next question comes from Duane Pfennigwerth with Evercore ISI.

Doug Parker

Hey, Duane.

Duane Pfennigwerth

Hi, thanks for taking the questions. Just on January, I know you don't disclose monthly but can you give any sense for trends that you are seeing in South Florida and perhaps the Northeast so far in the month of January?

Doug Parker

Is there something specific you think we should be seeing that you are asking?

Duane Pfennigwerth

Just if there is anything off-trend specifically in South Florida as you rolled up, as you started January relative to the rest of the network.

Andrew Nocella

This is Andrew. I think capacity in South Florida and the Caribbean is really elevated. So it is putting pressure on our Miami hub and I think all South Florida operations. That looks like it's going to continue for the next few months or quarters at this rate.

Duane Pfennigwerth

Okay. And then on regional capacity I just had a minor detail question. It looks like you are modestly down year-over-year as we roll through the year and you are taking some deliveries. So just wondering is that optimal or was this a function of pilot availability constraints? Can you just talk through the mix shift there?

Andrew Nocella

I'm not sure I'd say it was optimal. We are working through our regional jet requirements and making an assessment of where we want to be for 2018. We did as you see from the stats reduced departures and grow ASMs, and we'd like that trend and we did, in fact, plan for that. As we look forward for next year I do think we will stop shrinking the regional capacity at this rate because we don't want to cut our scheduled depth far more than we already have.

Duane Pfennigwerth

Okay, that’s great. Thanks for taking the questions. Out of respect for the other people on the phone I will keep it there. Thank you.

Doug Parker

Awesome, thanks, Duane.

Operator

Our next question comes from Darryl Genovesi with UBS.

Darryl Genovesi

Hi guys. Thanks for the time. I guess, Derek, I think you said you had some cost reduction initiatives that would help your numbers in 2018 and 2019. Can you give us a sense of what the magnitude of these things might be?

Derek Kerr

We really haven’t gone through that process yet, so as we talked about on the last call there’s opportunities. We just haven’t been through it. When we get through all of the work we are going to do on it in 2017 we will give you some guidance going into 2018. We have given you where we think 2017 is going to be and it comes down throughout the year. But as we’ve talked about on last calls I believe the next two years can be, obviously, no more than 2% and should be we can get it below that.

So we haven’t really gone through it. We are not going to peg a number at this point in time. But we will give you more as the year goes on probably at the end of the year as we go into 2018.

Darryl Genovesi

Okay.

Doug Parker

We understand your desire to know more. We just don’t have much to tell you at this point because we need to go do the work. We, frankly, haven’t spent a lot of time doing that just yet because it’s a ways off because we are still working through the integration. But we wouldn’t mention it if we didn’t think it was a material number, but we don’t have any idea what it is yet. And we wouldn’t want to give you a number and not have it be something we’ve given more thought to it.

Darryl Genovesi

Okay. And then I guess if I can just ask you a little bit more about 2017 and specifically on free cash flow, Derek, you just took everything you knew today with your pension contributions that you laid out and then whatever you think is an appropriate revenue assumption for the year, would you expect to generate free cash flow this year?

Derek Kerr

Well, we haven't given you the full year on RASM. So I think that would give you an answer of what we think our RASM is going to be for the year. I mean – no, no. What I was going to say is we have the aircraft CapEx at $4 billion. We've talked about continuing to finance aircraft. We believe we will finance somewhere in the 70%, 75% of that range, so if you take that with the debt payments at $2.1 billion and the pension payment at $300 million, you can use that information to get where you are with whatever your RASM number is for the full year.

Darryl Genovesi

And then if I could just squeak one in for Robert or Don, I think you've said that your Basic Economy product is going to allow you to compete more effectively with ultra low-cost carriers. But I guess I was wondering once you think Basic Economy is fully ramped up, would you expect to be putting more inventory or less inventory towards matching Spirit and Frontier and those kind of competitors down the road than you do today?

Don Casey

From an inventory perspective, I mean both the main cabin product and the Basic product they share the same inventory. So we are always going to have both products available for our customers. But we will continue to match the ultra low-cost carrier pricing with our Basic product and the Basic product is going to exist on all of the flights that we operate in each market.

Darryl Genovesi

Okay, thanks guys.

Operator

Our next question comes from Hunter Keay with Wolfe Research.

Doug Parker

Hi.

Hunter Keay

Good morning. So thanks for the – I'm going to come at one of Darryl's questions a little bit of a different way. In terms of the cost savings opportunities, can you maybe give us some context in terms of the overall opportunity as it relates to the outlook for the next couple of years? Which do you think is a greater opportunity for you to close the margin gap or to get your margins where you want them to be, is maybe a better way of putting it, revenues or costs? Which is the greater degree of opportunity?

Doug Parker

It's not even close. It's cost – it's revenue. So you can do the analysis here, Hunter. If you look at our gap in margin versus Delta it's more than 100% revenue, so that's where it is. That's the good news, by the way, because that is, one, you are starting to see it close now and we have a number of initiatives that we have to put in place that they to their credit already have in place like Basic Economy. And a number of other things that Don and Robert can talk about, but that's where the upside is without a doubt.

The leverage in this company is in revenue performance to closing the revenue gap, that's why we are investing so much in the product and that's why we are investing in the team because we know that's where the leverage is. It is to close that revenue gap and that is the entirety of the margin gap, indeed it's more than 100% of it.

Hunter Keay

Okay. So is that regaining lost share or is that growing the wallet share from your existing customers?

Doug Parker

Well, again, I will turn it over to the experts first who can give you more details. But know this. Some of it is just where we fly. If you have a large operation in Latin America right now, while that's a source of the improvement year-over-year it's also the lowest margin client in the world right now. So some of it, and you will see this from time to time in each of our airlines as we move forward, there will be certain pockets that we fly to that are producing lower margin and others just because the world economies vary. But that's not the entirety of it by any means. I just want to point that one out. So you see some of that. But look American Airlines are not too long ago didn't have a RASM gap to Delta Airlines. We've gone through a lot. And they've been well ahead of us in terms of getting a merger done and being ahead. So that's where the upside is, and, again, I will let Robert and Don give you more details.

Derek Kerr

Hunter, I think it's a combination of both. It's making sure we get our fair share and growing the pie too. So look, the categories that we've got ahead of us and now that so many of the merger constraints and integration are behind us, really exciting to go out and pursue it. As Doug said, many of these things are really things that other carriers have, frankly, had the chance to go pursue. So we are working on schedule and simplifying our design and our rollout for that and potential disruption as we move from schedule to schedule. We think that there is a lot of advantage to that. You know about Basic Economy, you know about Premium Economy. We think that there are things that can be done even further where we are with those categories in terms of rolling out quicker and potentially expanding into other regions.

Long-haul interior improvements, you know we are in the final stages of the conversion of our 777-200 and having lie flat seats for all of our international widebody service. And that's very exciting and showing a lot of results. There was density that came with that, as well. We think that there is actually additional opportunities in terms of density specifically in our narrowbody fleet that we'd like to consider that, again, would get us back to where others in the industry are.

There's work that we are doing in our sales organization, as well. I will let Andrew talk a little bit about this, and I want Don to speak to some of the revenue management issues. But, quite frankly, we have not invested in our salesforce really as we'd like and should have, and that's had an impact over the last few years. And we are going to turn that around. So with that, Don, why don't you talk a little bit about your arm stuff and Andrew maybe a little bit more on sales, too?

Don Casey

Yes, just to touch, basically go back quickly to the segmentation. All the segmentation we are doing, as I mentioned earlier, is it's just capturing willingness to pay that we are unable to capture without the discounted segmentation model. And that's really growing the pie. We don't have to take traffic from anyone else to be able to increase revenues. Just on the revenue management side of things we've been on a journey here for the last few years for reinventing how we do yield management and revenue management here at American Airlines.

We already started in the summer of 2015 when we launched – got a new forecaster, but the new forecaster isn't really just a black box that suddenly now gives a different number. We completely redid the entire workflow and process within our yield management function. And that was a very, very big change of management process. So we changed the role of the analyst, what they do, how they do it and what they focus on. It did take a while for us to bed that down and get our feet underneath us.

Certainly some of the benefit that we've seen over the last six months is just better execution on the YM side of the business as we get better and better at the execution in our new field management process. And we're really not done with that either. That's really just the first step down this path. We have implemented an entirely new inventory system in October that gives us a lot more capabilities based on the new inventory system and the structure we've created in our forecasting model.

We've implemented a new optimizer which, again, optimizes revenue across the network. That was done in November. And at the same time we've reorganized the way we use our inventories which gave us more inventories. We are selling the premium cabin in our domestic business. And we have seen quite material benefits of that, as well. But the optimizer, the new inventory system, more inventories for selling premium product, those are benefits that are going to materialize as we look forward.

Hunter Keay

All right, thanks.

Andrew Nocella

On the sales front, Hunter, I think as we look back over the last 12 to 18 months we undersized the salesforce, we have not enough boots on the ground to deal with the potential of corporate contracted revenue that's out there. That's, obviously, some of the best revenue in the pool to grab, so we are taking a close look at that. We are going to expand the salesforce. We have worked a lot of process out so we can empower the salesforce to be much more competitive out there.

And we do think as we look at the number of contracts we have relative to our primary competitors we have fewer. We are going to close that gap over the next 12 months. We just brought in a new global senior salesperson, Alison Taylor, who is leading that effort. And it's going to have a really, I think meaningful impact, over the next 12 to 18 months.

Doug Parker

Look, Hunter, so of all that you just heard I mean everything, most everything Don talked about is not share shift but actually just doing a better job with the existing revenue base. And then what Andrew talked about, obviously, is just getting back to our natural share. It's not trying to go steal share. We've gotten to a point where we have less of that traffic that Andrew talked about that we believe in airline of our size and quality should. So we are going to given all the investment we've made we believe it's natural we should get that share back. Look without, anyway, I will give you my best guess. It's 80% of the gap closure is going to be doing a better job of just managing our revenues better and 20% of it is getting back some of our natural share.

Hunter Keay

Yes, that's great. Begs a lot a follow-up questions, but I will leave it there. Thank you so much.

Doug Parker

Thanks, Hunter.

Operator

[Operator Instructions] Our next question comes from Jamie Baker with JPMorgan.

Jamie Baker

Hey. Good morning, Doug. I will let somebody else ask you about relative margins for a change. My question has to do with costs. I know that you attribute the bulk of 2017 CASM to labor. I get that. But what am trying to understand is whether all the investments in the business, investments that hopefully allow you to run as efficient an airline as Delta, are these investments currently being made or is that more of a 2018 issue?

The reason I ask is that I don't want to be too optimistic in believing that you could have the best year-on-year cost performance of any airline next year as we anniversary labor. I guess another way of asking is whether you believe you will be running the airline you want to be running by the end of this year or is there still a lot of cost wood to chop in 2018? Let me put it that way.

Doug Parker

Can you say it again? I just want to make sure I got you right.

Jamie Baker

All right. What's your 2018 ex-fuel CASM forecast? Simple enough, but if you want to confuse that with revenue you can tell me that number.

Doug Parker

Look, I think we've tried to answer that. Here is what we believe. And once we get through what we've built into our 2018 plan for expenses, we believe, I'm sorry, 2017, thanks Derek, we believe in 2017 what we have built into our 2017 expenses and therefore what you see in what Derek gave you for guidance, we believe we have everything we need to go compete.

Jamie Baker

Okay.

Doug Parker

So and, again, that's the belief. Other airlines go and make other changes. We may need to adjust accordingly, of course, so caveat as we should. But this isn't, we feel really good about once we get through 2017 we've got the investment in the airline we need to go run it. Look, I've got to tell you there's one other thing going on, though, as you should know which is the reason we have a cost advantage that I talked about is because we still have some of our employees making less than are being paid at other airlines.

That's something that, again, we have contracts in place and things like that that you need to be thinking of that as you go forward. You should not expect that we are going to try and run our airline as we sign new contracts with a cost advantage versus those airlines because we don't intend to. Our people are the best there are. So know that. That cost advantage no one should expect to be long-term sustainable.

Jamie Baker

Okay, understood. I appreciate that. And the second question for Bev. Could you just outline with a little bit more granularity, and feel free to geek out if you want to, what are the relevant integration exercises that are yet to take place and what's the approximate timing and approximate risk of each one, or associated with each one?

Bev Goulet

Well, Jamie, you know me well enough to know that I like to geek out. But I will try to…

Jamie Baker

We've known each other a while.

Bev Goulet

Really three major projects left to get done. First of all is getting our flight attendants into a common system. Hard at work on that right now. It's a complicated matter. We are essentially taking an LUS contract and modifying the LAA system to accommodate it. But a lot of really good work going on right now. You know, we don't have a firm plan yet, but we are optimistic within the next 12-plus months we ought to see something there. Also putting in a state-of-the-art HR and payroll system, again a lot of work there when you consider that it covers 650,000 people or so. And then finally we don't have our tech ops organization integrated yet. And that is a long-term process, best case probably another three to four years.

Jamie Baker

Okay, very good. Thanks to both of you. I appreciate it. Good luck.

Doug Parker

Thanks, Jamie.

Jamie Baker

Thanks, Doug.

Operator

We will go next to Savi Syth with Raymond James.

Savi Syth

Hey. Good morning. So I just wanted to ask on the cash returned to shareholder standpoint, I'm guessing we are going to get a slowdown from the last couple of years. But just wanted to maybe understand a little bit better how you think about that regarding share buyback and also dividends. I know from a dividend yield standpoint you are kind of behind some of your competitors. How do you think about those items?

Doug Parker

Okay, we've got to be a little careful about what we talk about, obviously, in the future and how we plan to return – how we plan to redistribute to shareholders, but I will say this. We are happy with the dividend that we are providing shareholders at this point. As we talk to our shareholders, at least those shareholders of American Airlines today they seem more excited about share repurchase activity, the dividend activity. That, of course, could change and we will keep talking to them. So as it relates to the share repurchase, I will let Derek talk about where we are on that activity.

Derek Kerr

I think the third and fourth quarter slowed down versus the first and second quarter as we, the two things that we did is we looked at our minimum cash levels and we've raised that from 6.5 to 7. So we have probably less excess cash than we have had since the beginning of the merger. So I would expect it to slow down a little bit, but that all depends on timing and where we go with things and what the forecast looks like.

So I would hate to project what we are going to do during the year. We just announced the new $2 billion program, so I won't project how quick we are going to do that. It all depends on what the outlook looks like moving forward and where we are going to end the year and we adjust it quarterly depending on how everything looks.

Doug Parker

I will just add this. We remain bullish, that's for sure.

Derek Kerr

Yes.

Doug Parker

We talked at length about the upside we think we have on the revenue side. And we continue to believe the industry in total is being undervalued just because of shareholders who are concerned that this really, the issue really hasn't changed the way we believe it has. So we are really quite bullish. We think there's now some – we think the industry multiples are lower than they should be and within the industry we think American has more upside than anyone else.

So long as we continue to produce earnings that we expect, so long as having used those to continue to invest in the business at the level we think makes sense, which by the way we are investing more capital in this airline than has ever been invested in an airline in the history of commercial aviation and we are proud of that. We are going to be putting out a product that's so much different than what the customers of American have seen in the past as we move forward.

And we are excited about the that. But, anyway, as we continue to be able to do that to the level we need to and we still continue to have excess cash which we expect we will be returning that to our shareholders as we should, particularly at peak moments.

Savi Syth

That's helpful. Thanks, Doug. And if I may follow up with you are coming, gone through most of the integration process here. I think there was talk about maybe having an Analyst Day this year. Just thoughts on that, and then maybe what we should expect from it.

Derek Kerr

Yes, I think we are still working through that. It most likely we will have it later in the back half of the year, probably in the third of fourth quarter. No expectations yet. I mean we have – we'll go through where we are at that point in time. But our plan is to have one later in the year and have a Media and Analyst Day at the same time.

Savi Syth

Great, thank you.

Operator

We will next to Dan McKenzie with Buckingham Research.

Doug Parker

Hey, Dan.

Dan McKenzie

Good morning, thanks guys. Well, leave it to me to kick a dead horse here because you guys gave a really good answer on the margin parity question. I just wonder if I can put a little finer point on it. At least as I look at it there's about $3 billion in revenue that needs to be made up.

And Doug, I appreciate your commentary. You've got some geographic exposure which I put at a $2 billion revenue hit. So at least as we think about today, should we think about this as a three-year catch up, a five-year plan, a four-year plan? And I guess as we look at these categories that you laid out for us this morning, do they really capture that $3 billion deficit, or are there other initiatives that need to yet be rolled out at some point?

Doug Parker

Okay, Dan. Really hard to say how many, particularly when you are talking about the piece that is related to global economies, when they return and where those go. So as I know you appreciate hard for us to – and by the way, we are not endorsing your split between how much of that is the relative economies versus things we can do. But you can do that work and come up with whatever number you'd like.

But there are certainly some related to that. Of the things that we can control, all the initiatives we've talked about, I think, again, you will see a lot of it start to come in 2017 but not be full run rate 2017. Certainly things like Basic Economy. By 2018 you see I don't know, Don, I don't want to hang you out there too far. What would you say 2017 versus 2018 – or the 2018 kind of the run rate on these type of revenue initially?

Don Casey

Well, I mean it – it really varies by very dramatically by initiative, initiative by initiative. The big ones we have talked about, so Premium Economy or Basic Economy, reality is they're probably going to be 20% this year and 80% next year just based on the where we are in terms of the rollout plan. Some of the things we are doing in the sales side of the business and we are doing on the revenue management side of the business we are going to get to probably I'd say about 60% to 70% of that probably in 2017, the rest of it coming in 2017.

Doug Parker

So anyway, the short answer is yes, we believe we can close all of it. Clearly the economies may vary and we will see. And we think we can do the majority of that through 2018.

Dan McKenzie

I appreciate the clarification. Thanks. I guess…

Doug Parker

And, again, I probably should be clear, completing it in 2018 then really closing in more 2019.

Dan McKenzie

Understood. Robert, I appreciate the commentary on improved ops. But what are the specific goals as you look ahead, what have been the biggest challenges? And I'm guessing that those might have been tied to the MD-80s and the 767s, and I guess just as you think about the ops, how much of an earnings tailwind do you think a better operation is going to be in 2017 versus what you experienced in 2016?

Robert Isom

Well, if you take a look at the last few years I think we've had our hands full with integrating the airline. In many respects we've run two if not three separate systems when you think about pilots, flight attendants and the aircraft. The great news is we got our pilots and our aircraft altogether. That allows us to start making sure that we have our hubs set up and resourced appropriately. It takes a lot of complexity out of the system. Big upside for us I think is completion factor. Big upside I think is production of mis-connected customers.

And then when you take a look at the rework that defaults with the off-schedule operation, I can probably talk more about this, we have a lot of investments we've been making in the last three years on top of integrating that are going to come to fruition in the next couple of years. So, for instance, in terms of bag mishandling I think there's a step function improvement that we're headed towards, not the least of which is just due to general improved operations but also technology that will help us reunite customers with mishandled bags in a much more expedited and hopefully cost-effective fashion.

And so that's going to be a benefit. I think in irregular operation, which has been really the biggest source of issue and concern with customers, it's tough to put together two systems as opposed to one when things go off schedule. And the good news on that front is we have tools, technology both to get our aircraft and our crews and, importantly, our customers to give them choice to get back on schedule without having to wait in a line or go straight to reservations. That technology I think is all keyed up to come out this year and in 2018, and it's going to be, again, a big step function improvement for us and something that other competitors have already done.

Dan McKenzie

Thanks for that clarification. I appreciate it.

Robert Isom

Thank you.

Operator

We will go next to Joseph DeNardi with Stifel.

Joseph DeNardi

Hey. Thank you very much. So Derek, when you guys announced your credit card agreement over the summer, you indicated that the incremental revenue from that was 100% margin. Essentially that the pre-tax income matched the revenue, in other words. So it's clear that there is no recurring cost allocated against that revenue. If that's the case, why shouldn't we think of the $1.5 billion in marketing revenue you guys disclosed in the 2015 10-K as similarly a very, very high-margin revenue, say over 90%?

Doug Parker

Okay. Hey, Joe, it's Doug. I'm sorry, what's…

Derek Kerr

I think, Joe, what we had said at that point in time, you are right, because all that changed in that transaction was a higher dollar amount for each mile paid. So, in other words, the program was in place, we were getting X for what we were for those miles and that number went up and changed. So that increase was, but the base program is not all incremental and not all single margin, but that increase at that point in time was just a higher paid fee to us per mile.

Doug Parker

[Indiscernible] $1.5 billion number he's talking about?

Derek Kerr

Well, we announced that it was going to be $200 million in the first year, $250 million in the first year, $500 million in the second year and $800 million in the third year. So that was the three-year combination to get to the $1.5 billion of the increase for the next year.

Joseph DeNardi

Derek, just do so I'm clear, the $1.5 billion you guys in your 2015 10-K disclosed that marketing revenue from the credit card was $1.5 billion. That's separate from what you announced over the summer. I guess what I'm asking is…

Doug Parker

Thanks. That's what I was trying to get at. Okay. So you gave a number for the 2015 K, we're $1.5 billion. We've disclosed that we have indeed signed a new contract and we've talked you about the incremental increase. But I think you should add those two numbers and come to a total number, butit'sup to you to decide how to estimate where we are now. So anyway look, as Derek was saying the increase is entirely due to just getting a higher rate per mile for the credit card.

So, of course, that will fall almost entirely to the bottom line. Now the initial $1.5 billion you're talking about, that number is the number that we were collecting at that point in time and, of course, we have to redeem those miles. So there is some cost to that, costs we don't disclose. But you can rightfully assume that it's a nicely profitable business or we wouldn't do it. So we were happy with what we were collecting before the new agreement and now we have a new agreement where we are collecting more.

So those I think are facts as we can disclose them. But look, on a bigger point I just want to point out, Joe, you know we've noticed what you've written on this and look, we agree with you. This is the amount of revenues that the airlines, and particularly American, collect on our – on these marketing agreements, these credit card agreements are different kinds of cash flows than airline cash flows. They are tied to purchases on credit cards not due to airline economy.

So I think you are right to suggest that investors should look, should do their best to look through and understand the level of those cash flows and the certainty of them. To which point you are going to say, well, then why don't you give us more information? And which we will tell you we are tied to confidentiality. But let us go work on it. Let us figure out what we can do to give you more information. I think it is important to our shareholders. I think it is an area where shareholders have understood more how much of our profits and how much of our revenues are tied to things that aren't really related to the ups and downs of the airline environment, that they would have even a better appreciation for why we are so bullish on this airline.

And as we do that what you would learn, of course, is that there is none better than the American Airlines AAdvantage program and our relationship with two providers Citi and Barclays. So we agree with you. Just let us do what we can. We have to live within agreements and we can't violate those, of course. And we won't, but we also want to do our best to let our shareholders understand the certainty of the cash flows.

Joseph DeNardi

Okay, I will leave it there. Thank you.

Doug Parker

Thank you.

Operator

We will go next to Helane Baker with Cowen and Company.

Doug Parker

Did you say…

Helane Becker

Thanks. Hi guys, it's Helane Becker. I just have, okay, so first I just have one housekeeping question. I just want to understand RASM improvement, is it sequential, you are talking about the improvement for – you are talking about positive for the year, but are you also talking about sequential improvement from one quarter, two quarter and so on?

Doug Parker

All the numbers we give are year-over-year numbers.

Derek Kerr

Yes.

Helane Becker

Okay, then fine. Thank you. My other question, Doug, when you think about the Atlantic and the numbers that you provided and you see the capacity growth that's coming from especially the low-cost carriers, if you don't grow, or if you shrink too much you cede market share and that puts you, I would think, longer term in a tougher position because your goal is, obviously, to be the best. Not necessarily the largest, but certainly the best and to want business travelers to choose American first. And I'm just trying to make sure I understand that the changes that you are talking about making aren't going to put you in a position where yields just keep declining in that market as these new low-cost competitors come in.

Andrew Nocella

Well, Helane, this is Andrew. I think American's position across the Atlantic combined with our joint venture partners, particularly British Airways, is really strong. What we did in the first quarter was cull some flying that was incredibly unprofitable, so you see our ASM shrinking just a bit. But that capacity has moved to the third quarter which is a lot more lucrative for us and, obviously, the industry. So we've moved capacity where we think it needs to be. We don't intend to cede our position across the Atlantic to anybody.

And we are working with our JV partners to make sure we have an effective plan going forward to compete. And that is continued segmentation of the product as we talked about for the future. So we feel bullish about that. It's definitely going to be a really tough competitive environment, particularly I think over the next year, year and a half as we see these capacity inflows. But our position is it's good, London Heathrow is the best hub in Europe and we feel good about it.

Helane Becker

Okay, great. Thank you. Those were two of my questions. And I will turn the mic over. Thank you.

Andrew Nocella

Thanks, Helane.

Operator

We will go next to David Vernon with Bernstein.

Doug Parker

Hi, David.

David Vernon

Hey guys, thanks for making the time. Just a question for you on the cadence of changes in the ASM forecast. Obviously, you are starting off with very good guidance on the TRASM number. If market conditions stay where they are, should we expect a pickup in the rate of ASM growth to be a little bit of a headwind on that number? Or is that not going to be as sensitive as the unit cost number?

Derek Kerr

You mean the pickup on ASMs versus…

David Vernon

Yes, it seems like the ASMs dip and then they accelerate to about 2.4% by the end of the year. I'm just wondering if the unit revenue growth that we should be expecting would be impacted by that changing mix at all? Obviously, I would think it's impacting the unit cost growth a little bit. As you get more volume you are seeing a lower rate of unit increase.

Doug Parker

We are not giving forward RASM growth. But absolutely, if you see higher growth in ASMs, all else equal you would expect to see the RASM growth decline and the CASM growth decline. That's correct. So, again, make your own revenue forecast, but certainly capacity growth matters.

David Vernon

Yes, I was just looking to make sure that there wasn't something I was missing in that if there was anything specific…

Doug Parker

No, you're not. Okay

David Vernon

And then as you think about the guidance on interest expense, the step-up of $90 million or so, is that anticipating additional leverage or is that just associated with some of the variable-rate debt?

Derek Kerr

There is a little bit of increase in debt just due to the aircraft coming on. So it's really driven by the year-over-year increase in debt is that because we took some on last year. Project debt to be up somewhere, net debt to be up or total debt to be up somewhere in the $800 million range, so just slightly up in 2017.

Operator

Thank you. Our next question comes from Andrew Didora of Bank of America.

Doug Parker

Hi Andrew.

Andrew Didora

Hi, good morning everyone. Just one question, one for Robert as a follow-up on Basic Economy. It's clearly an offering that you and your competitors think will be a nice positive. Whenever I hear that I tend to question it a little bit what everybody thinks is going to be good. But I guess what do you see as the biggest risk in the product and maybe Robert what are the key metrics that you will be watching just to judge whether this product is a success or not?

Robert Isom

The risk that I see out there is really execution. So making sure that we have our customers educated on the product and our airports and employees all set to deliver I think is the big risk. But in terms of performance we are going to be watching it on all fronts, certainly from an operations perspective. But revenue performance is what this is designed to address. And so on all levels we will be keeping an eye. Don?

Don Casey

Obviously, the key thing is trying to figure out what the price premium can be for the main cabin product compared to Basic. And that is going to be a function of the competitive environment. And we are just going to have to figure that out as we go. Obviously, where we compete with Southwest but that does not have a bag fee we are going to have to, again, test to see what kind of premium we can get for our main cabin product versus the Basic product.

Andrew Didora

Can you give us a sense for just in terms of that premium what the way you see demand shaping up for the Basic Economy product what you think is a reasonable revenue premium?

Don Casey

Our pricing for the product is going to be in the marketplace in the middle of February. And so until we get the pricing in the market I don't think we really can talk about what kind of premium we are going to see.

Operator

Thank you. Our next question comes from Michael Linenberg with Deutsche Bank.

Michael Linenberg

Hey, good morning everybody. Just two quick ones here for Derek. Derek, when we think about CapEx and debt I guess this is the year of the peak, 2017?

Derek Kerr

Right.

Michael Linenberg

Is that? Okay. Then just with respect to the pension, it looks like that you are either pulling some of the contributions forward? Or was there an accounting change there that's driving you to the higher numbers?

Derek Kerr

No, we just pulled it forward into 2017 just to make sure that we are fully funded from an airline relief act. That's the only thing that we did. We used to have $1.4 billion in 2017, we just pulled $300 million of it forward in 2017 and left the $1.1 billion in 2018. So that's the only change to the pension payment.

Michael Linenberg

Okay. And then just on the pension, what was the liability at year-end and then those numbers that you threw out there for 2017 and 2018, presumably that's still using a lower discount rate, right?

Derek Kerr

2017 is. 2018 is not, because that's when the relief act goes away. The liability, our total liability was $17 billion and our assets are about $10 billion.

Michael Linenberg

Okay, so let's call it…

Derek Kerr

At the end of the year.

Michael Linenberg

Okay, very good.

Derek Kerr

That's from a GAAP perspective.

Michael Linenberg

Absolutely. Okay, great. Thank you.

Derek Kerr

Thanks.

Operator

We would like to now take our questions from media. [Operator Instructions] Our first question come from Mary Schlangenstein with Bloomberg News.

Doug Parker

Hi, Mary.

Mary Schlangenstein

Hi, that was close. I had two quick questions, please. The first is when Beth was talking about the FOS for flight attendants and she mentioned a 12-month time frame. Is that 12 months to have everything in place and done, or is that 12 months to get your plan and then have to put it in place?

Bev Goulet

Yes, Mary, I think I said 12-months plus. We are still working out the details of the plan and, obviously, the most important thing is to get it right. It's complex, there's a lot of change. We want to make sure we have our employees fully trained and ready to go. So we will be back to you a little bit later in terms of a firm plan.

Mary Schlangenstein

Okay. Are there any numbers or figures on how much you are not getting, how much of a benefit you are not getting by continuing to run two systems or I guess how much an extra cost that is?

Robert Isom

It's hard to quantify it. But I will tell you what, the vast majority of the integration benefit is really with the aircraft being able to be moved around. So there is inefficiency in the system. But it's something that really at the end of the day is more an issue that we want to get, we want to take care of for our employees, that they are able to be based where they want to in an unrestricted fashion so they have the benefit of moving around, as well. So we are trying to get it as quickly as possible but I can tell you the biggest benefit I think will be for our employees. Maya you want to…

Mary Schlangenstein

Okay.

Maya Leibman

Just to add to what Bev said, to your question, Mary, we will have a plan with a firm date no later than the end of this quarter.

Doug Parker

That was Maya Leibman.

Mary Schlangenstein

Right, right. Okay, great. So you would hope to have FOS in place or have the two flight attendants all integrated by the end of 12 months after that or the end of this year?

Doug Parker

It's the best – we don't – at the end of this quarter we will have a better idea of exactly.

Mary Schlangenstein

Media Of plan. Okay. Then quickly my second question was you've talked a couple of times about redundancies. And I know you staffed up to take part, to take care of some parts of the integration, especially the IT issues to make sure everything went well. When you are looking at redundancies is there a possibility of us seeing some job cuts at American?

Doug Parker

Right

Robert Isom

Look, when we talk about redundancies we've hired a lot of folks here over the last few years. I think some order of magnitude almost 20,000 employees when you take into account attrition that has happened, as well. My view is that as we take a look going forward we are going to continue to have attrition within the Company. And the real benefit comes in not having to hire at such a fast pace than in the past. So the redundancies, and you take a look at how the airline is working, I really do think that it's something that we take care of over time and are able to do in a really cooperative way with all of our employees.

Doug Parker

This is Doug now. So thanks for asking, Mary, because we worry. It's important that we let our shareholders know where we think our cost structure may be headed, but we care a lot more about how our team knows they are going to be treated going forward. So we get really nervous when we start talking about redundancies, and that's why we are being very careful about what we see in the future. The last thing we want our team to think is that we have some large reduction in force coming because we are not going to do that. We are here because of our team. And to the extent we have the ability to manage the airlines, we get to one airline with fewer people, we will make sure we do that in a way that is cognizant and respectful of the people that have gotten it to here. So we will manage that through attrition and we will manage it through, perhaps, early outs. We will do all sorts of things to make sure we do it right. By no means are we going to do something that doesn't fully respect all of those that got us to this point.

Operator

We will go next to Susan Carey with Wall Street Journal.

Susan Carey

Good morning, everybody. Just wanted to check on the RASM outlook. I think Robert said 1 Q RASM will be up 2.5% to 4.5%, and you will have positive year-over-year RASM every quarter of 2017. Is that correct?

Robert Isom

That's what we said, yes.

Susan Carey

Okay, good. Secondly, do you guys want to say anything or – secondly, what kind of comment do you have about what Alan Joyce said overnight about you resubmitting your API with Qantas to the DOT?

Andrew Nocella

This is Andrew. We are excited to get this resolved with the DOT. We think there is a lot of consumer benefits and we are anxious to make our case and get a fair review going forward. So we will get that going in the near future.

Susan Carey

Well, Mr. Joyce did not say he's going to do it. He said you may do it, and he's going to think about it and later tell us what you are going to do. Am I misunderstanding that you actually are going forward with this?

Andrew Nocella

I think we intend to refile.

Susan Carey

Okay. Thank you.

Doug Parker

Thanks, Susan.

Operator

We will go next to Andrea Ahles with Fort Worth Star-Telegram.

Doug Parker

Hi, Andrea.

Andrea Ahles

Hello, good morning. Sort of continuing on with what Susan was asking with the Qantas deal, are there other initiatives or things that you are thinking about either refiling or talking with the Trump administration now that we have a new Presidential administration in office, different policy ideas you think that you are advocating for that you think that the administration might be more receptive to than the previous one?

Doug Parker

Sure. Well, as Andrew said we are hopeful that the Trump administration will give the Qantas JV application a second and more favorable look. We also have an industry effort underway, United and Delta and American together are advocating that the United States government take another look at the Open Skies agreement with the Gulf countries. It's pretty well-known. A hallmark of the Trump campaign and certainly something that we've heard a lot about in the first few days of the administration is the President's focus on making the world economy one in which American companies can compete better and we think our Gulf carriers campaign is very much that. So we are looking forward to having the opportunity to speak with the new administration, the new State Department, the new DOT about that campaign as well.

Andrea Ahles

Have you had any discussions yet with the new administration?

Doug Parker

Well, no, because the new administration, while the President is in place and very energetically starting to his administration, the rest of the agencies that are important to us haven't been stood up yet and secretaries haven't been confirmed.

Andrea Ahles

All right. Thank you.

Doug Parker

Thanks, Andrea.

Operator

We'll go next to David Koenig with the Associated Press.

Doug Parker

Hi, David.

David Koenig

Well, my question was really asked and answered but let me use of the floor. This is for Robert, and I wanted to follow up on one of the analysts who asked about your upcoming op challenges. So, Robert, could you please take another run at that answer? What specific investments are going to improve on time, are going to improve bag handling? How would you summarize that or explain that in terms that ordinary passengers and even a dumb reporter can understand?

Robert Isom

Sure. So in terms of on-time performance, on-time performance is generally a function of your schedule that you produce and maintenance reliability and then how well you execute day in and day out. The investment that we've made in bolstering our maintenance capabilities in our hub is significant with both manpower and systems and parts which is going to pay off. In terms of better decision- making, you are aware of the Integrated Operations Center that we've built which is state-of-the-art. I think best in the industry, and we are going to be able to take full advantage of that now that we are integrated. So the integration and having aircraft that are fully swappable throughout the system provides backup that we really didn't have in many places before.

So I do think that we are going to have a material impact in terms of on-time performance and in terms of completion factor and those will reduce cancellation or delays and mis-connected customers. I think there are scheduling opportunities that we can take a look at to make sure that we optimize our schedule for efficiency and making sure that we have redundancies where we need them and that’s a process that we are really finally getting started in earnest, as well. So we will start with a better schedule and we will have more tools out there.

Now when things do go wrong with either mishandled baggage or passengers mis-connected or disrupted because of weather or whatever, we don’t have the tools today. But fortunately we’ve invested in automation that will help us, again, reunite customers with baggage and then also getting customers back on the way. So on those fronts today we don’t have a dynamic re- accommodation tool for our customers where they can go directly to the web or mobile to be able to get on new itinerary. That’s something that we will be incrementally rolling out over the next year and a half.

There are new notification tools for customers in order to let them know what’s going on with their trip and with bags that we will be rolling out over the course of the next 12 months, which is fantastic. And so whether it’s baggage, whether it’s on- time performance, whether it’s the whole overall experience we are going to be doing a better job and, again, I think most of these things are upside for us that some others in the industry already have in position.

David Koenig

Okay. Thanks.

Doug Parker

Thanks. David. I don’t think we’ve ever done this before, but we are running out of time. One of the things we like to do at American, at certainly the new American is same day we announce earnings we go have a big system-wide call with the all of our employees that have been calling in here but what is going on the state of the airline with live downstairs with people that are here, but also for people listening in. And that is due to start in 10 minutes. We need to get downstairs. So apologies if we are cutting anyone off. I think we have time for two more. So operator, two more please.

Operator

Thank you. We’ll go next to Alana Wise with Reuters.

Alana Wise

Hi, good morning, thanks so much for taking our questions. I wanted to ask quickly about American's interest in possibly reworking the joint venture with Qantas now that Trump is in office. They told us yesterday that you currently reviewing the process of refiling the paperwork and that they have been reviewing the implications on how to cooperate on routes. So I'm just curious if this is something that American is currently looking into?

Steve Johnson

Hi, this is Steve. One of the reporters asked that question a couple of minutes ago, and we answered it more fully. But I will just say in the interest of time, yes, we do plan…

Alana Wise

Apologizes.

Steve Johnson

No problem at all. We do plan to refile the application with Qantas. It probably is a few weeks down the road just for the reason that I mentioned before is that the new administration isn't in place yet, but we are looking forward to doing that and having another opportunity to make our case.

Alana Wise

And as a quick follow-up, I'm curious about Trump yesterday, the administration the other day saying that they are going to implement a border tax and what American thoughts on that are?

Steve Johnson

Well, I never like to talk about politics or religion on earnings call. So I'm going to pass.

Doug Parker

Thank you.

Alana Wise

Thank you.

Operator

Our final question will come from Edward Russell with Flightglobal.

Edward Russell

Hi, thank you for taking my question today. What is the status of the JV with LatAm? I know that's been pending for a while now.

Steve Johnson

We filed that application…

Doug Parker

This is Steve again.

Steve Johnson

Yes, Steve Johnson, again. We filed that application sometime early in 2016. We also filed similar applications in the other countries that are relevant to the JV, most especially Chile and Brazil. The United States application is not going to be acted upon by the DOT until the Congress in Brazil ratifies the Open Skies treaty with the United States. We don't know when that is going to occur, but you won't see much action at the DOT until then. And then we'd expect it's a complicated process and a pretty significant joint venture. So I would expect it would be another nine to 12 months at least after that happens before we have an answer for you.

Edward Russell

Understood. Great, thank you so much.

Doug Parker

Great. Thanks. Thanks everybody. Apologies if we didn't get to your questions. Obviously, onto corporate communications and they will be happy to get you responses or if it's investor questions call into Dan Cravens, Investor Relations. Thank you all very, very much for your interest. These are exciting times for us at American. We appreciate your interest in all that we have going on. Talk you soon. Thanks, bye.