OVERVIEW:
Co. reported 3Q17 total operating revenues of $10.9b and GAAP net profit of $624m or $1.28 per diluted share.
CORPORATE PARTICIPANTS

Daniel Cravens

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Donald B. Casey  American Airlines, Inc. - SVP of Revenue Management

Robert D. Isom  American Airlines Group Inc. - President

William Douglas Parker  American Airlines Group Inc. - Chairman & CEO

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PRESENTATION

Operator

Good morning, and welcome to the American Airlines Group Third Quarter 2017 Earnings Call. Today’s conference call is being recorded. (Operator Instructions) And now I would like to turn the conference over to your moderator, Managing Director of Investor Relations, Mr. Dan Cravens. Please go ahead.

Daniel Cravens

Good morning, everyone, and welcome to the American Airlines Group Third Quarter 2017 Earnings Conference Call. Joining us in the room today is Doug Parker, our Chairman and CEO; Robert Isom, the President; and Derek Kerr, our Chief Financial Officer. Also in the room for our Q&A session is Elise Eberwein, our EVP of People and Communications; Maya Leibman, Chief Information Officer; Steve Johnson, our EVP of Corporate Affairs; and Don Casey, our Senior Vice President of Revenue Management.
We're going to start the call today with Doug, and he will provide an overview of our third quarter financial results. Derek will then walk us through the details of the quarter, provide some additional information on our guidance for the remainder of the year. Robert will then follow with commentary on the operational performance and revenue environment. And then after we hear from those comments, we 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, 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 as well as our Form 10-Q for the quarter ended September 30, 2017.

In addition, we will be discussing certain non-GAAP financial measures this morning, such as pretax 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 will also be archived on the website. The information that we’re giving you on the call is as of today’s date, and we undertake no obligation to update the information subsequently.

So thanks, again, for joining us this morning. At this point, I’ll turn the call over our Chairman and CEO, Doug Parker.

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

Thanks, Dan. Thanks, everybody, for being on. It’s not possible to talk about the third quarter without beginning with the hurricanes and what our team did in regard to those events. We’re always proud of our team, but particularly so this quarter. They rallied around each other. They rallied around our customers. Just showed incredible care and concern, and made a huge difference. And it’s times like this that the people of American shine, and they certainly did in the third quarter, and we’re so proud of them and appreciative.

And I should also note, as proud as we are of the people of American, this not a time that -- for all of our competitive juices to get too strong. Our industry did a great job in this regard and we’re proud of everyone in the industry for what they all did, including our competitors. We made a big difference. We continue to make a big difference. And we’re proud of that and extremely thankful and appreciative of our team.

We had an Investor Day not too long ago, just last month, Investor and Media Day. It was very productive and helpful. Thanks to all of you who attended. During that Investor Day, we laid out some themes that are important to us. We talked about how we are playing for the long game. How we are running our own show focused on American and not defining ourselves on others, looking to make long-term decisions and not be overly focused on near-term metrics. Those themes continue. Of course, we’re not going to go through them in great detail, but you’ll hear them running through all of our comments throughout this call.

We also laid out 4 long-term strategic objectives consistent with those themes. Those are: to build a world-class product, to drive efficiencies, to make culture a competitive advantage and to think forward and lead forward. We are -- again, those are themes you’ll hear us continue to bring up because we like the framework and we’re excited about the message.

So with that said, I’ll turn it over to Derek to give you some details on the numbers and then Robert will give more details as well.

Derek J. Kerr - American Airlines Group Inc. - CFO and EVP

Good. Thanks, Doug. And good morning, everybody. And before I begin, I’d also like to thank our more than 120,000 team members. The third quarter brought more than its fair share of weather and operational challenges, and our team delivered. Robert and I were both in Miami shortly after Hurricane Irma and witnessed, firsthand, how our team came together to take care of our passengers and each other. The teamwork demonstrated by everyone at American made us all proud.
As Doug mentioned, we filed our earnings press release and 10-Q this morning, and in that release our third quarter 2017 GAAP net profit was $624 million or $1.28 per share. This compares to our third quarter 2016 GAAP net profit of $737 million or $1.40 per diluted share. Excluding special items, we reported a net profit of $692 million in the third quarter 2017 versus our third quarter 2016 net profit of $933 million. Our diluted earnings per share excluding special items was $1.42 per share versus $1.76 in the third quarter of 2016. Our GAAP third quarter 2017 pretax profit was $1 billion. Excluding net special items, our third quarter pretax profit was $1.1 billion, resulting in a pretax margin of 10.2%.

Looking at revenue, our total third quarter operating revenues were up 2.7% year-over-year to $10.9 billion. Passenger revenues were $9.4 billion, up 2.5% on a (inaudible) of 1.6%. Cargo revenues were up 17% to $200 million, due primarily to higher volume. Our other revenues were $1.3 billion, up 2.2% year-over-year, due primarily to higher baggage and frequent flyer revenue.

Total GAAP operating expenses for the third quarter were $9.6 billion, up 5.3% versus the same period last year. This increase was due primarily to a 13.3% increase in consolidated fuel expense and higher salaries and benefits expense as a result of the mid-contract base pay increase given to our pilots and flight attendants earlier this year, as well as rate increases for our maintenance and fleet service team members that became effective mid-third quarter last year.

Third quarter consolidated ASMs -- cost per ASM was $0.132, up 3.6% year-over-year. Excluding fuel and special items, our consolidated CASM was $0.1043, up 4.5% year-over-year, due primarily to the salary and benefit increases I mentioned earlier. We ended the third quarter with approximately $8.3 billion in total available liquidity, comprised of cash and investments of $5.8 billion and $2.5 billion in undrawn revolver capacity. The company also has a restricted cash position of $393 million.

Since our last call, our treasury team has been very busy. They completed another set of efficient financing transactions including the 2017-2 EETC AA and A tranches as well as the 2016-3 and 2017-2 EETC B tranches at very favorable coupon rates for junior subordinated EETC tranches. In addition, the team refinanced and extended the revolving credit facility, upsizing it to $2.5 billion in the process, and closed on 5 mortgage transactions and 11 sale-leaseback transactions.

During the quarter, the company returned $411 million to its shareholders, including quarterly dividend payments totaling $49 million and the repurchase of $362 million of common stock or 7.7 million shares. Our share count has dropped by 37% from 756 million at merger close in December 2013 to 480 million shares as of September 30.

In addition to our earnings release, we also filed our investor update this morning. Consistent with our previous guidance in the fourth quarter of 2017, we expect our system ASM growth to be up approximately 2%, domestic up 0.5% and international up 5%. For the third -- for the full year, we continue to expect consolidated system capacity to be up approximately 1%, driven by increasing gauge about 2.4%, stage length about 1.5%, offset by a 2.7% fewer departures. We expect full year domestic consolidated capacity to be approximately flat year-over-year and international capacity to be up [about] 4%, primarily driven by the impact of the 777-200 retrofit program, which was completed during the third quarter, and year-over-year impact of new destinations across the Pacific.

We expect our fourth quarter consolidated CASM, excluding fuel and special items, to be up approximately 4.5%, with main line up 5% and regional up 2%. As we stated in our recent Investor Day and consistent with our fourth quarter, we anticipate our unit cost growth rates to continue to trend lower. And we expect 2018 full year nonfuel CASM to increase, excluding the impact of any new labor deals, by approximately 2%. We are forecasting a material increase in fuel in the fourth quarter. And based on the forward curve as of October 13, 2017, we expect consolidated fuel prices to be up approximately 16% year-over-year to between $1.81 to $1.86 per gallon on a consolidated basis.

Using the midpoints of the cost guidance we provided in the TRASM guidance that Robert will talk about in a minute, we expect our fourth quarter 2017 pretax margin excluding special items to be between 4.5% and 6.5%. As we continue with our fleet renewal program for the full year of 2017, we still expect gross aircraft CapEx to total $4.1 billion, which includes the delivery of 57 mainline aircraft and 16 regional aircraft. In addition, we expect to invest $1.65 billion in non-aircraft CapEx for integration work and projects to improve our product and operations, a slight increase from previous guidance as we invest heavily in the installation of Premium Economy, narrowbody retrofit programs, updates to our clubs and other initiatives to improve the airline for our team members and customers.
On previous earnings calls, I provided estimates for our 2018 pension contributions as the airline relief legislation ends for us. While our minimum requirement contribution for 2018 are estimated to be only $62 million, we now expect to contribute approximately $780 million in order to maintain an 80% funded status on all of our plans. We will continue to take a measured approach to matching our planned capacity levels with anticipated levels of demand. We are still in the process of developing our operating plan for 2018, so our formal capacity guidance will come when we report fourth quarter earnings. But on a schedule-over-schedule basis, we currently expect system capacity to be up approximately 2.5% in 2018 on a flat fleet count. We also expect domestic and international capacity to grow at similar levels of approximately 2.5%.

At our recent Investor Day, we also talked about the opportunities provided by our Project One Airline initiative that drive — to drive efficiencies. We have identified $1 billion in cost savings that we expect to implement by 2021, driven principally by increased use of technology, changes to process and procedures and further eliminating post-merger redundancies. We are just getting started on these initiatives and will incorporate approximately $200 million of savings in our 2018 plan. I look forward to updating you on our progress on future calls.

So in conclusion, despite the challenges resulting from the 3 hurricanes, our team has produced another excellent quarter. I would like to thank all of our team members for continuing to take care of our customers, and as important, each other. With that, I will turn the call over to Robert.

Robert D. Isom  -  American Airlines Group Inc.  -  President

Thanks, Derek. Good morning to everyone, and thanks for joining us. Before I begin my remarks about the third quarter, I’d also like to begin by thanking our more than 120,000 team members for all that they have done during a very challenging quarter. The tragic hurricanes in late August and September caused severe damage and disruption as hurricanes Harvey, Irma and Maria made landfall in the U.S. and Caribbean. American canceled more than 8,000 flights due to the hurricanes, and at the peak of the storm activity, canceled all flights at nearly 30 stations. We estimate that these storms reduced pretax earnings by $75 million.

In particular, I’d like to recognize our team members who endured the hurricanes at our hub in Miami and other airports in Florida, Puerto Rico and the Caribbean, as well as those in Mexico City who endured a devastating earthquake. You all have demonstrated courage, leadership and compassion under extremely trying conditions. Not only did you help our airline get back online, but also, and more important, you were all there for each other and for our customers. So a sincere thank you goes out to all of you from your teammates around the system. You made us all very proud to be part of the American team.

As we discussed at Investor Day a few weeks ago, we have identified $3.9 billion in revenue and cost initiatives that we expect to realize over the next few years. While I won’t rehash all of that in detail today, and if it isn’t already obvious, we are very excited about the opportunities ahead of us. We’re already on our way with a full launch of Basic Economy across our domestic system on September 5. Our careful planning and measured rollout over the summer has resulted in a very successful launch with no disruption. Performance has been in line with expectations, with about 50% of customers who received a basic offer choosing to buy up to the main cabin product. Although the rollout was too late to have a material impact on the third quarter ’17, we do expect this to add revenue momentum to the fourth quarter ’17.

In addition, our Premium Economy product continues to gain traction with an average upsell of approximately $400 each way over the coach cabin. Customer adoption of this highly differentiated product has been strong. As expected, the majority of Premium Economy customers are leisure customers looking for an affordable way to enhance their international flight experience. Premium Economy is now installed on 27 of our widebody aircraft. And by year-end, we expect that number to grow to 63. And by year-end 2018, to over 100 widebody aircraft.

Operationally, our performance this summer showed significant improvement versus the summer of 2016. Summer on-time departures improved by 3.9 percentage points and arrivals by 3.2 percentage points, bouncing back from a difficult summer of 2016. In addition, our baggage performance continues to be a focus for our team. This has been our bright spot as the year-over-year mishandled bag rate has improved each month in 2017. When we do mishandle bags, we’re working to minimize inconvenience for customers with the introduction of the new customer bag notification tool, which went live in July of this summer. This tool sends bag notifications to customers and allows them to set up free delivery for delayed bags or advises them to pick up early arriving bags at specific baggage claim locations. The early results are encouraging as nearly 20% of customers notified of early or delayed bags are using customer bag notification to set up a bag delivery.
Turning to revenue. The demand environment remains robust. And despite the operational challenges and difficult year-over-year comparisons, we were pleased with our performance in the third quarter. Our third quarter PRASM was up 0.9% and our third quarter TRASM was up 1.1%, marking the fourth consecutive quarter of positive unit revenue growth for American. Our investments in people, product and new corporate sales initiatives are beginning to pay off. And when combined with our new revenue management tools, changes to our AAdvantage program and our new mobile platform, the results are even more encouraging.

In December, our consolidated PRASM was up 0.1%. We’re very pleased with this outcome -- I’m sorry. In domestic, our consolidated PRASM was up 0.1%. We are very pleased with this outcome as we’ve faced hurricane impacts to our hub in Miami and had very difficult year-over-year comps due to beneficial pricing actions in the third quarter of 2016. On a year-over-year -- on a year over 2-year basis, our performance in the domestic market was materially better than our legacy counterparts.

Our Latin American performance, overall, was very strong with PRASM up 8.3%. Positive Latin PRASM was driven by strong performance in all entities, consistent with what we saw in the second quarter. This is a great outcome as we faced difficult conditions due to hurricanes Irma and Maria. Atlantic PRASM was up 2.6% year-over-year. Premium cabin pricing and yield management initiatives, improved share performance with travel management companies and easing comps from past terror events continue to contribute to 2017 year-over-year PRASM performance.

The United Kingdom is showing the largest PRASM improvement on a year-over-year basis due to improved premium cabin performance. However, the overall environment remains challenged as low-priced carriers grow substantially, resulting in a weaker pricing environment for coach travel. Across the Pacific, PRASM was down 1.6% year-over-year. Japan, Australia, New Zealand and Hong Kong were positive, but this was offset by softness in China and Korea.

Third quarter cargo revenue improved 17% year-over-year on strong volume growth, continuing our positive trend since -- that we've seen since the latter half of 2016. As we look to the fourth quarter, we expect our year-over-year TRASM to be up 2.5% to 4.5%, an improvement from our third quarter 2017 performance, as our revenue initiatives will continue to deliver top line benefits.

Regionally, our domestic PRASM is expected to be positive for the fifth consecutive quarter, helped by our launch of Basic Economy. Atlantic performance is expected to be in line with the third quarter, with Pacific improving as we lap the growth of new routes from last year, and we expect the Latin entity to be modestly positive.

And to wrap up my comments and as we covered at our Investor Day, American has a privileged set of assets, our hubs and gateways in the U.S. and a world-class set of quarters that extend our network even farther. A hub-and-spoke business model allows us to serve an incredibly broad spectrum of customers, getting them to the places they want to fly with the amenities that they value. Our strategy investments and the investments that we’ve made and are making in our fleet, product and especially our team, are working as evidenced by our customer satisfaction metrics and our unit revenue performance versus the industry over the past 5 quarters and expected outperformance for a sixth quarter to close out 2017. And best of all, there’s a lot more to come. And we’re excited to deliver all that value for our customers, team members and shareholders.

And with that, I'd like to turn the call back over to Doug.

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

Thanks, Robert. And before we open up to questions, I want to address an issue that's come up this week, which is the travel advisory from the NAACP. First, that announcement was, obviously, a disappointment to our team. That's because, we, at American Airlines, pride ourselves on inclusiveness and diversity. What we do as an organization is connect people. We like to say we fly over borders and walls and stereotypes and divisiveness to bring people together. And our team members do that safely and professionally every day. And as a result, we make this world a smaller and more inclusive place.

Once we were past the disappointment, we realized this is a great opportunity. Yes, we're proud of our commitment to equality and diversity and the significant impact we make in that regard around the globe. But discrimination, exclusion and unconscious biases are enormous problems
that no one's mastered, and we would never suggest that we have it all figured out. What we know is we want to keep learning and we want to
get even better.

We want to be leaders for all of U.S. industry in equality, inclusion and diversity because we actually think we can make a difference in the world
when we do that. And organizations like the NAACP can help us, so we welcome the opportunity to work with them. Indeed, we're excited about
it and enthusiastic to sit down and listen and learn together. We've reached out and expect to begin working together in the very near term. And
that's good news for the people of American, for our customers and our shareholders. We look forward to what lies ahead as a result of this effort,
and we will keep you apprised as our work develops.

And with that said, Chris, we are ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Michael Linenberg.

**Michael John Linenberg** - Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst

I guess 2 questions here. Derek, I think you threw initially -- or maybe Robert, the capacity growth for next year, the 2.5% on a flat fleet count. Is
that, I guess, is that all gauge? Or is there like a departure or stage length element there as well?

**Derek J. Kerr** - American Airlines Group Inc. - CFO and EVP

Most of it gauge. Probably, 2 points of it gauge and the rest, departures.

**Michael John Linenberg** - Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst

Okay. Okay. That's helpful. And then probably to Don, you know now -- or Robert. Robert, you actually talked about domestic being strong again
or positive again for, I guess, the fifth consecutive quarter on the backs of the success or early success that you're seeing with Basic Economy.
Whether you or Don can just talk about that rollout, I mean, I guess, we're 6 weeks into it, some of the pluses and minuses, any modifications or
changes that you've had to implement since the rollout, that would be great.

**Robert D. Isom** - American Airlines Group Inc. - President

I can start. It's been a smooth rollout. As you know, we took a measured approach with test markets. We really made sure that our team out in the
field was aware and could handle and educated on the product. And so far, so good. We don't see a lot of changes, and our expectation is to hit
the targets that we talked about, Don?

**Donald B. Casey** - American Airlines, Inc. - SVP of Revenue Management

Yes. I had to say, we introduced 1 million new fares into the marketplace, right, so that always takes a bit of time to stabilize. But I think we're at
kind of a point right now where we're at a stable situation. I think we're probably not quite where the whole industry is probably going to end up
from a pricing perspective, but we're kind of happy with where we are right now.
Brandon Robert Oglenski - Barclays PLC, Research Division - VP and Senior Equity Analyst

So maybe this one is for Doug or Robert. But at the Investor Day, I think you guys highlighted to everyone that you've had a lot of internal focus the last couple of years just bringing US Airways and American together. As you look into 2018 and maybe some of those initiatives come off, what are the big priorities that you guys want to focus on improving the experience moving forward?

Operator

And pardon the interruption, Brandon. It looks like the speakers' line just dropped. I'm going to go ahead and leave the queue as is. I'm going to reintroduce music until the speakers are reintroduced. All right, so pause just a moment.

(technical difficulty)

Brandon Robert Oglenski - Barclays PLC, Research Division - VP and Senior Equity Analyst

Listen guys, my question was really, you talked about all the effort you guys have had internally the last couple of years, merging US Airways and American Airlines. And as you look into 2018, I think a lot of those initiatives really trail off. So what is -- what becomes more of an internal focus for you guys in '18 as you can redeploy some people and assets and capital into more productive uses?

Robert D. Isom - American Airlines Group Inc. - President

I'll start. Look, our game plan is to really make sure that we make best use of what we've invested in so far, yet there's a lot more to come. But we take a look at our aircraft, our fleet and the opportunity for utilization and deploying aircraft where we think it makes the most sense. And so that all plays into the one airline initiative as well, where we think that we can grow revenues, we think that we can better utilize our aircraft, facilitate low-cost growth and then, ultimately, deliver more value overall. So it fits very well. But really the focus is, if you take a look at what we've laid out so far, is to first deliver on what we've laid out. We've got a couple of things that are still important in terms of integration, and those are making sure that we get a contract between our mechanics and our fleet service employees, and then, also, making sure that we deliver on getting our flight attendants on all -- on one system and really fully integrate them. And then it's really, at that point in time, it's a merged airline able to focus on what we do best, and that's delivering value for our customers.

Brandon Robert Oglenski - Barclays PLC, Research Division - VP and Senior Equity Analyst

I appreciate that, Robert. And I guess as we -- you guys have attributed a lot of your revenue outperformance this year to some of the changes you've made, [obviously], in your revenue management system. Should we be thinking next year, though, you don't have that level of outperformance on the industry and so you're going to look much more like the average industry participant? Or are there still levers that you're pulling on the revenue side?
Robert D. Isom - American Airlines Group Inc. - President

Well, you saw from our Investor Day that we have a set of initiatives that are laid out. And it deals with everything from revenue management, and Don can speak a little bit about the new optimizer that just came online here recently, to all of our sales efforts and getting back out and really aggressive on that front, to making sure that we're flying and deploying aircraft where they can be best utilized. So we see that all the initiatives that we laid out is playing out over the next few years and continue to advantage American. And in many cases, uniquely so because many of these items are, in ways, catch up. Some of the biggest initiatives that we laid out during Investor Day, everybody’s aware of Basic Economy, of course, but Premium Economy is just in its infancy. And if you take a look at where we're headed overall, I feel really confident that we're going to be continuing to outperform.

Operator

And our next question comes from Hunter Keay.

Hunter Kent Keay - Wolfe Research, LLC - MD and Senior Analyst of Airlines, Aerospace & Defense

So the 2018 capacity growth is about a point higher than I was expecting, which is my own bad modeling, I guess, but I suppose that makes the CASM ex guide look that much less good than I thought, or less okay or acceptable. So given that type of capacity growth, and I guess this sort to dovetails a little bit with what Brandon just asked you, but do you still feel like you can grow RASM faster than CASM next year and expect -- effectively grow margins?

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

Hunter, I'll take a shot and you guys can fill in, I guess. First off, we always talk about CASM ex fuel, of course, so you've got to make your own fuel forecast. But right now, it appears to be up. But if you're talking about...

Hunter Kent Keay - Wolfe Research, LLC - MD and Senior Analyst of Airlines, Aerospace & Defense

And I'm sorry, CASM ex fuel, Doug. CASM ex fuel.

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

So can RASM grow faster than our -- what we have now for our CASM ex fuel guidance? Again, we're not giving a RASM forecast, but that's certainly been the trend of late. And anyway, Don, what do you want to say about that?

Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management

Yes. We had, as we kind of finished the third quarter, 4 consecutive quarters where outperformance was materially better than the rest of the industry. And so as we kind of lap that, we still are going to have, in the third quarter and the fourth quarter, revenue that's quite a bit better than the rest of the industry. So that, I think, just speaks to the fact that we have a long list of initiatives, right, that are layering on top of one another that continue to drive better unit revenue year-over-year.

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

Yes. And Hunter, I'll say this. We -- demand continues to look strong. All the initiatives that we've talked about are -- those aren't things that we hope to get done. They're largely done. They're just kicking in. So we feel very good about that. So I'm happy to tell you, look, if -- I will be disappointed if our RASM next year didn't exceed our CASM ex fuel.
Hunter Kent Keay - Wolfe Research, LLC - MD and Senior Analyst of Airlines, Aerospace & Defense

Okay. Okay. And then on the cash flow. I was looking at 2018, it’s going to be a pretty solid free cash flow for you guys given a few factors, even with the pension contribution. Derek, you said you’re comfortable with the leverage levels and you guys are probably not focused on paying a 2.5%, 3% dividend. So it is safe to pencil in a pretty sizable uptick in the buyback relative to 2017, holding all else equal on margin assumptions and everything like that?

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

Hunter, again, we’re making no assumptions. What -- we can tell you what we can tell you, which is we think a minimum cash balance of $7 billion.

Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management

Liquidity.

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

Liquidity, I’m sorry, at American, which is awfully high, relative to others anyway, is the right number for us just because of the higher leverage. I think that’s -- it’s a better way to protect ourselves against downturns or any unforeseen circumstances than being less levered. So that’s a number we look at. As you do your forecast, to the extent you see us generating cash levels substantially higher than that, we’ve always been of the view that once we’ve invested in our team, once we invested in the airline, once we’ve paid down low-cost debt and invested in projects within the airline that can create returns for our shareholders, that the right thing to do is return to our shareholders. So that would be a rational expectation of where the cash goes. What the actual cash flows are, again, not numbers that we’re projecting, but you’re welcome to.

Operator

And our next question comes from Jack Atkins.

Jack Lawrence Atkins - Stephens Inc., Research Division - MD and Airline, Airfreight and Logistics Analyst

Just to go back to Hunter’s first question there on CASM ex. Derek, could you maybe sort of outline a couple of the items that are maybe driving a little bit greater CASM ex inflation in 2018 than, I guess, you would have thought sort of before you provided that guidance. Just trying to think about some of the puts that are offsetting the efficiency gains that you outlined at the Analyst Day.

Derek J. Kerr - American Airlines Group Inc. - CFO and EVP

Yes. There’s -- I mean, there are 4 things that are -- we believe will be higher next year. I mean, depreciation, of course, because we have the aircraft that are coming in and we have to -- the CapEx that we’ve had year-over-year, so depreciation. Our rents and landing fees, I think, from a -- from that perspective, we project to be, from a CASM perspective, a little bit up next year. Maintenance has a little bit of headwinds in there. And then, of course, salaries and benefits is the other one. But those 4 are the areas that we’re focused on and that we know will be there next year. But we believe we’ll, hopefully, offset most of those higher expenses to hit the 2% CASM that we talked about in the Analyst Day.
That will have a huge -- that won't just be a better airline, that will be an airline that people want to fly. That's a competitive advantage. That's clearly that what they do is incredibly important and that they make a difference so that they go home at the end of the day feeling fulfilled, we know and -- to do their jobs the way they know how to do it, that lets them -- that appreciates what they do, that understood -- helps them understand we would like them to be. And once we know that -- once we have leaders in place that our team knows care about them, that provide the tools is where we think the upside is. We have an airline that -- because of its history, has -- still has our team members not as engaged and excited as ago and will have it even better in the next couple of years. We're going to work to make culture a competitive advantage. That as much as anything all of this work that has just begun in the last couple of years and has the airline already in a much better place today than it was a couple of years not the least of which is a significant investment in our fleet, investment in satellite Wi-Fi across all the aircraft and investment in our clubs, that -- for premium customers and we're doing -- everything we're working on now and is designed to make sure we have a product in place to do that, to compete for all customers. But first and foremost, we want to make sure that we have an airline that's the airline of choice for business customers, to do that. What we expect -- what you should expect from us over time is an airline that has a world-class product. We know full well that we have service to customers that we think is incomparable or certainly hard for others to replicate. And we know there's a good bit of upside in our ability you is we know who we are. We are a global hub-and-spoke airline with, as Robert said, a set of privileged assets that allow us to do -- to provide premium customers and we're doing -- everything we're working on now and is designed to make sure we have a product in place to do that, not the least of which is a significant investment in our fleet, investment in satellite Wi-Fi across all the aircraft and investment in our clubs, that -- all of this work that has just begun in the last couple of years and has the airline already in a much better place today than it was a couple of years ago and will have it even better in the next couple of years. We're going to work to make culture a competitive advantage. That as much as anything is where we think the upside is. We have an airline that -- because of its history, has -- still has our team members not as engaged and excited as we would like them to be. And once we know that -- once we have leaders in place that our team knows care about them, that provide the tools and -- to do their jobs the way they know how to do it, that lets them -- that appreciates what they do, that understood -- helps them understand that what they do is incredibly important and that they make a difference so that they go home at the end of the day feeling fulfilled, we know that will have a huge -- that won't just be a better airline, that will be an airline that people want to fly. That's a competitive advantage. That's clearly
not where we are now, but that’s where we’re moving. We’re going to continue to drive efficiencies, as Derek showed in our presentation. That includes a lot of work that just happens once we get integrated, but even more so, a significant amount of work under the leadership of Maya and the IT team to make sure that we are at the leading edge of technology for our customers and for our team, and we’re going to do all that with the mindset of thinking forward and leading forward, a team making sure that we come out of this past of short-term thinking and have a mindset throughout the organization that is always looking forward and thinking forward. Something that we feel pretty good about, but we know we can do even better and we expect to be leaders in that arena, so.

Helane Renee Becker - Cowen and Company, LLC, Research Division - MD and Senior Research Analyst

So that’s a great answer and I really appreciate it. I just one follow-on question, and that’s when you guys talk about the impact of the Middle Eastern airlines on your business, do you think that as your product improves, their relevance in our market dissipates?

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

Look, the issue of the Middle East carriers is not about their product. That’s a symptom of the problem. When you’re subsidized and you don’t care about making profits, you certainly can put in place a product that’s uneconomic because the flying itself's uneconomic. But no, the answer to the Middle East carrier issue is not for us to have a product that competes with them. The answer to the Middle East carrier issue is for them not to be subsidized and for us not to have to compete against countries, and for our country to step up and do what it needs to do and make sure that we aren’t forced to do that. One of the biggest threats, if not the biggest threat, to everything I just said about the long-term viability of our business is the U.S. government not stepping up and making sure that countries -- that those 2 countries aren't allowed to continue to subsidize flying and to jeopardize U.S. aviation jobs. We can compete against anybody as long as the playing field is close to fair. What we can’t do is compete against oil-rich countries that don’t care about making profits and that seem to have a different objective of trying to help their countries through having an aviation practice that doesn’t make any money but brings people in and out of their countries. So look, the good news on this is we’ve had productive conversations with the administration. Myself as well as the CEOs of American -- the CEOs of United and Delta met with some secretaries this quarter, and we’re encouraged by the reception. Still work to do, of course, but are hopeful because this is as easy as it gets in terms of being able to create a case that shows that American jobs are at stake because of policies of other countries, and we should enforce ours. So anyway, that’s not a product issue. That’s a subsidization issue and a really, really important one that we’re screaming from the mountaintops about, and people are beginning to listen, so we feel good about it.

Operator

And our next question comes from Jamie Baker.


We’re pleased with the fourth quarter guide, Doug, I hope you saw the mea culpa this morning in terms of the PRASM component. Well done, Don, that’s for you, too, but I still need to ask about margins. The gap to Delta is widening. I know there’s seasonality in the business. But the fourth quarter guide looks to be one of the widest gaps ever, post-merger, and that’s even with the profit-sharing change at Delta and otherwise unimpressive ex fuel cost guide from Delta. So my question is, when you decided to revisit the union economics mid-contract, you were pretty insistent or confident that you would see a return on that investment. I’m not seeing it. And maybe I’m just looking in the wrong place, Doug. Maybe the goodwill that you sought to generate is just taking a longer time to filter through to better passenger service. I don’t know. Any thoughts on that?

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

I got a lot. So first off, on the mid-contract adjustment, absolutely positively it was the right thing to do. We told you at the time you’re not going to see it -- if you all want to do is look at the spreadsheet, you should just raise your cost from what your estimate was. We also told you that if we
didn't do it, you should have lowered your revenues in the future because we can't go do all the things I just said we're going to do in the future and ask our team to work for less than their peers at other airline. We're not going to do that. So yes, we're going to sign contracts. When we sign them, they're going to be at those levels and yes. And no, we don't expect that anytime someone else signs another contract that we need to match it. But when we get to a situation like we did with our pilots and flight attendants, where the contract we had put in place with that same sort of mindset and those same sort of objectives, because of just some unforeseen competitive circumstances, has them in a position where they're going to be well below their peers at other airlines for an extended period of time, we think the right thing to do is to correct that. You should expect to see us to do it in the future, if it happens again. I don't expect it will happen again. But if it does, you should expect us to do the same thing because it is the right thing to do for our team. We can't go make culture a competitive advantage by asking our team to work for less than their peers do at other airlines. So that was absolutely the right decision. And we feel extremely good about it and always will. As to relative margin performance, I will reiterate again that we at American are focused on running our own game and don't spend a lot of time focusing on what others are doing. We certainly don't define -- or aren't going to define our success relative to others. So -- but having said that, I'll entertain the comparison right now because I know it's important to you all. The -- what I know is this. On a -- the trend itself, which I know you know because you can see it in the numbers, is a cost trend, not a revenue trend, and the cost trend is due to what I just said. We had to get our -- primarily due to what I said. We had a cost advantage in labor, and we didn't think it was right and we don't think it's right, so we had to close it. So that's the trend. That is not a trend I would expect you would see continue going forward, but that's what's driving the trend in relative margins versus Delta. On the absolute basis, look, margins by region come and go. Margins by hub come and go. And -- but what I can tell you right now is Delta has an airline that flies over 40% of their flights in and out of Atlanta, which is a really, really good hub. And if American flew 40% of its flights in and out of Charlotte, we'd have a margin advantage to everyone in this business because Charlotte's a really, really good hub. But we don't. So be it. It's not about mismanagement or anything close to it, it's about the networks that are currently in place at the airlines that give them that advantage. They also have that advantage, by the way, in valuation. So look, we look at where we are. We know who we are. We know what we have, and we know there's enormous upside for our shareholders if we go execute against the plan we've laid out. And like I said, we're not going to define ourselves against what others are doing. The other key point I would make here is they did their large merger some 6, 7 years ahead of American. We're closing fast. So a lot of the upsides that Robert talked about -- and he rightfully said we're playing catch-up. It's not -- we're not playing catch-up because we were asleep. We're playing catch-up because we did our merger in 2013 and they did theirs in 2007 or '08. So all those things will lead, I think, to the trend not being an issue. And the absolute number, like I say, I mean, sometimes, some of us will be in better conditions relative to others, given where our networks are at any certain point in time and what region of the country we fly in and what the competitive dynamics are, but the valuations will fluctuate accordingly.


Okay. And second, it's a bit of a modeling question. I think it's where Hunter was going. But flown versus flown capacity looks like it's going to be up at least 3% next year, ex fuel TRASM up 2% given where the fuel curve is. I mean, you're going to need something like 5% TRASM if you want to hit that $5 billion pretax figure. And you just said that you'd be disappointed if TRASM doesn't exceed CASM, which is good, but I guess the question is whether you'd be disappointed if TRASM isn't more than twice the rise in CASM. I mean, you've got to admit, for '18 to be one of those midcycle $5 billion pretax years, we really need to stretch our models at this point. Should we just let go of that target for another year?

**William Douglas Parker - American Airlines Group Inc. - Chairman & CEO**

Look, the target's not -- is again, one that we have said consistently is one that we believe over time we'll average. What we say is good years on average, that's what we believe, that's how we set our short-term incentive compensation for our executives, is if we have an airline that makes $5 billion pretax, the incentive payments are 100%. If we don't, they're less than that. If they're below $3 billion, there's none. We've set that in place because we believe that's what the long-term earnings power of this airline is. And we certainly believe that. It doesn't -- we've not said and not saying today that, that means every year, you should go expect we're going to be at that number. I'm not saying we're not either. I'm just making clear that we didn't say we need to make sure that every single year will be that. What we said is we'd be in the range of $3 billion, $5 billion or $7 billion. So 2016's not going to be one of the years. That's now clear. 2017, I'm sorry. '16 was, that's really clear. So -- as was '15. '17 wasn't, I don't know if '18 is going to be or not. We'll see. That's something for you all to do your best and try to figure out based on the information we provide. And a big missing piece of information that we don't provide is what we think our full year 2018 RASM's going to be, but you can make your own
guesses as best as we can. But what I can tell you is we feel really good about the industry dynamics. We feel particularly good about American’s ability to do even better than the industry based upon all the initiatives that Robert and Don have laid out.

Operator

And our next question comes from Kevin Crissey.

Kevin William Crissey - Citigroup Inc, Research Division - Director and Senior Analyst

I’m going to have 2 quick ones. Can you talk about the progress on corporate sales?

Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management

Sure, this is Don. We’ve made good progress. This is now the third quarter in a row where we’ve seen improved performance in our share and share gap. And in this quarter, we also saw an improvement in average ticket value. And as we put more resources into our sales organization, we’ve also focused on getting more small- to medium-size companies with a corporate deal with American. And this year, we’ve added 16,000 small to medium corporate accounts since January. It’s up -- an increase in total small and medium corporate accounts of 50%. So we’re very pleased with the progress we’ve made in that front.

Robert D. Isom - American Airlines Group Inc. - President

I just add a couple of other quick points, and one is the team that we’re bringing on, it will -- that’s something that is in progress, but we’ll have over 130 new people out in the field by 2018. New distribution capability, really allowing all of our customers to be able to access all of our products, was launched back in the June of 2017, will continue to have a positive impact. And then one of the areas that we hadn’t spent a lot of time in, in terms of focus areas, the groups business is something that we’ve been getting back into and seeing some good progress there too. So again, the sales team under Alison Taylor’s leadership is really doing what we had hoped.

Kevin William Crissey - Citigroup Inc, Research Division - Director and Senior Analyst

Second question, maybe for Don. When your -- and I assume it was you along with the team setting the RASM target for the quarter. As I recall and looking at the data as well, the year last year closed quite well and I think close-in bookings did well, particularly in December, and the close-in environment isn’t as strong this year. Can you talk about when you were setting that range, how you thought about that situation?

Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management

Well again, we’ve set the range based on kind of where we are on a current [held] position as well as all of the initiatives that we have in place that are going to continue into the fourth quarter. As far as kind of the close-in yield situation, you know, our -- we saw our close-in PRASM in the domestic business to be off just 2% in July and August, but rebounded quite strongly in September. We think a lot of that has to do with Basic Economy, and Basic Economy appears to be doing exactly what we want it to do, and we think that’s going to help us actually drive near-term yields positive as we go through the fourth quarter.

Operator

And our next question comes from Duane Pfennigwerth.
Duane Thomas Pfennigwerth - Evercore ISI, Research Division - Senior MD and Fundamental Research Analyst

I'm not sure if anybody's already asked this, but can you talk about your revenue outlook by region underlying your healthy 4Q outlook?

Derek J. Kerr - American Airlines Group Inc. - CFO and EVP

It was covered in my opening comments.

Duane Thomas Pfennigwerth - Evercore ISI, Research Division - Senior MD and Fundamental Research Analyst

My apologies.

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

He wasn't on, Derek.

Derek J. Kerr - American Airlines Group Inc. - CFO and EVP

Yes.

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

You want to get it, Don?

Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management

Yes, I'll cover it. So domestic, we're seeing, as we look forward, we're seeing actually yields up. So we're seeing good yield performance in the domestic business. So we're expecting that to hold up as we go through the fourth quarter. Atlantic, we expect to be pretty similar to what we saw in the third quarter, where we see pretty aggressive pricing in the coach cabin related to growth of low-cost carriers, but that's being offset by strength in the premium cabin, and we think Premium Economy is going to really help us as we move forward. Pacific, we're actually expecting to be better in the fourth quarter. This is tied to lapping some of the capacity increases we had last year with new routes, as well as improved share performance we're seeing in specialty channels to Asia and the response to the premium product that we put in the marketplace. We didn't have full lie-flat product in the Pacific until February of this year. We're seeing very good response to the quality of our premium product. And the Latin is the one market where there's the greatest amount of uncertainty. The impact of the hurricane in the Caribbean, although we're seeing right now, it appears so far that, that demand is holding up. Some questions around the travel warning to Mexico, which we've seen a bit of softness in Mexico. And we're seeing some capacity creep into Brazil. So probably, the greatest uncertainty we see right now is in the Latin entity, but we still expect it to be positive year-over-year.

Duane Thomas Pfennigwerth - Evercore ISI, Research Division - Senior MD and Fundamental Research Analyst

That's very helpful. Sorry to make you repeat that. And then did you put any numbers to Basic Economy contribution in the third quarter and what you expect in the fourth quarter?

Derek J. Kerr - American Airlines Group Inc. - CFO and EVP

We didn't, Duane.
Operator

And our next question comes from David Vernon.

David Scott Vernon - Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst

So Doug, I wanted to ask you a longer-term question about industry dynamics. And I think a lot of investors look at changes in supply and demand and think that's going to be sort of the outright change in yield for the industry and for each carrier. Are you seeing any greater ability in the last couple of years to manage your yields independent of what might be happening in supply and demand on a route-by-route basis? Obviously, capacity is going to matter, but is it mattering a little bit less? And if you could talk a little bit about what might be changing there, that will be great.

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

Sure. Although at the end there, it sounded like a short-term question on the longer-term issue. Let me do the longer-term issue, and I'll let Don talk about whether, on the yield, if we're seeing yield be able to manage irrespective of capacity, anyway. I have my own views but I'll let Don answer it better. On the longer-term issue, anyway, again, we can -- all we know about is American’s capacity plans and where we think we have growth. I do happen to believe that what you're seeing in our industry is -- in terms of capacity increases, is entirely consistent with what we believe is where the industry is headed, which is toward -- in the final stages of a maturation process, where you're seeing hub-and-spoke carriers filling out only in their hubs and you see some attempts from ultra low-cost carriers and other carriers to find markets, which they may or may not be able to do, largely point-to-point and they find trouble as they move into hubs. And so that doesn't feel to me like any sort of major trend, but rather, like I say, kind of a -- the end really of getting this industry to where I think we've been going for a long time, which is an intensely competitive business, with 3 large hub-and-spoke airlines that do extremely well doing what we do, and then some point-to-point carriers that can fly in markets where they don't -- where what they do makes sense. And like I say, intensely competitive, but not continually evolving. At any rate, with that said, Don, on this yields versus capacity question.

Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management

Well, I think we have a number of initiatives that are part of our portfolio that's been rolling out that are all designed around increasing yields. So Basic Economy, that increases yields. Because while we were matching the fares before, by now, 50% of the people that were buying these fares before are now going to be paying more than they paid. So that's the increased yields. Premium Economy, which we're going to roll out in the widebody, is again increasing yields. This is really a leisure product, and we're seeing people buy up from economy into the Premium Economy cabin. That's going to increase yields. And we now have the leading product, business class product among U.S. carriers in the long haul and we're seeing tremendous demand, which is allowing us to actually sell up through the fare ladder into the premium cabin, that increases yields. All the initiatives we have in the sales organization, right, it's getting a better share and we're seeing it today in our high-value channels. All of that increases share or increases our yield premium. And on the [RM] side, we've made a number of changes both in terms of our infrastructure and to our business process, which is all designed around selling up more effectively, which will increase our yields. And we have a host of initiatives coming in the AAdvantage program later in 2018 and 2019, which is going to attract more high-yield customers, which is going to increase yields. So I think we've got a big portfolio of initiatives that are all designed around increasing yields.

Robert D. Isom - American Airlines Group Inc. - President

And Don, just to add one more, and that's just around all the work that we're doing with ancillary products as well.
Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management

Yes.

David Scott Vernon - Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst

Appreciate the color, maybe just as a quick follow-up. Could you help us understand where you see the distribution model evolving over the next couple of years? Where -- how many customers are buying directly from you today versus the GDS and how do you expect that to change over the next, I don't know, maybe 5 years or so?

Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management

We've launched our own NDC initiative, with -- which we did this past summer. This is a long-term initiative, right. This is not going to be a kind of knife edge. Our goal here is to be able to offer more products and services to both our corporations and our travel agency partners through our NDC product. It's not to replace GDSs. But it's got a process that's going to roll out over many, many years.

David Scott Vernon - Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst

And do you...

(technical difficulty)

Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management

We lost you, David.

Operator

Looks like the line cut. Our next question comes from Dan McKenzie.

Daniel J. McKenzie - The Buckingham Research Group Incorporated - Research Analyst

Don, with respect to the full launch of Basic Economy across the system, does that mean it's available on 100% of the domestic flights or only where you face the ULCC competition? That's first. And then I'm wondering if you can just help us frame the revenue exposure. Is that, say, 10% or 3% of the revenue base that's facing some of this intense pricing competition? I'm just trying to get a sense of the base exposure today because the revenue guide is, of course, pretty encouraging.

Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management

Sure. When we rolled out Basic Economy, we rolled it out to the entire D 48. And so we have it in all markets, broadly, across the entire domestic system.

Robert D. Isom - American Airlines Group Inc. - President

Exposure.
**Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management**

Our exposure to ULCC. If you take a look at our total revenue pot, so that’s revenue from all sources, and look at the amount of revenue that we currently sell at ULCC fare levels, this was before the Basic launch, it was about 3%. And so of the 3% that we sold at Basic -- or sold at ULCC levels, about half of that now is being -- selling up into the main cabin fare. So it’s probably about a 1.5% of our total system revenue, all revenue, total revenue, that we’re currently selling at ULCC price level.

**Daniel J. McKenzie - The Buckingham Research Group Incorporated - Research Analyst**

Second, Derek, if I can go back to Hunter’s question and help us to get a little bit smarter about forecasting stock buybacks. How do we think about aircraft financing for orders that remain aircraft orders? Obviously, aircraft CapEx slows down a lot, but there’s still kind of a chunk of change going into new aircraft. So 50% financed or bought in cash?

**Derek J. Kerr - American Airlines Group Inc. - CFO and EVP**

I think as we look at, we're all done financing everything in '17 and we also have financed a few aircraft into '18. So our aircraft CapEx for '18 is about $1.2 billion. I would assume that we finance 70% of that, 70% to 75% of that instead of full up. We may do some sale-leasebacks depending on where the market is and do it all. But I think for modeling purposes, I would use like 75% to do that. And just one other thing I just want to correct from Mike's earlier question on capacity, when we talked about 2018 capacity, I had it backwards, I apologize, but departures will be up about 2% where gauge is up about 0.5%. So that’s the 2.5% on a flat fleet. So I just wanted to correct that from an earlier question.

**William Douglas Parker - American Airlines Group Inc. - Chairman & CEO**

Hey, we hate to cut people off that have questions, but we have a hard stop in about 20 minutes and we need to get to the media. We've got a couple of analysts lined up, it looks like, so we're just going to speed answers on those and get to the media, if that's okay.

**Operator**

And our next question comes from Joseph DeNardi.

**Joseph William DeNardi - Stifel, Nicolaus & Company, Incorporated, Research Division - VP**

So Derek, if I back out the ancillary revenue that will be put in to passenger revenue starting next year or the rev rec changes, about 90% of other revenue next year will be the loyalty revenue that goes through other. So is there a plan to either rename or break out that line next year? Why would you continue to call it other when that’s not really what it will be?

**Derek J. Kerr - American Airlines Group Inc. - CFO and EVP**

Well, I think it’s 80% is what the number will be when we get done with it, but we have disclosed a fair amount of it. We already have disclosed what the number is in that line. So that’s -- you will know what that number is when we have it. If we have one line that says that and one that’s other, that’s the other 20%. We haven’t thought about that into next year, but I think that number that is in that line has already been disclosed and will continue to be disclosed.
Joseph William DeNardi - Stifel, Nicolaus & Company, Incorporated, Research Division - VP

Yes, just buried a little in the Q. But -- so Doug, it would seem like one of the maybe unintended benefits from disclosures is to your labor groups, the stability that the marketing company speaks to why they're part of a more sustainable organization than in the past. So has that been a consideration as you think about providing more disclosures and transparency? It feels like you guys are trying to find reasons not to disclose and not really looking at some of the benefits, so what do you think there?

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

We're not trying to find reasons not to disclose. Joseph, we told you in the past, we have confidentiality issues that make it hard. We try to be pretty transparent about it. But nonetheless, I don't -- we don't have any issues in communicating with our team members as is. There's nothing about our relationship with our team members that makes us think, gosh, we wish they understood better how strong this company was. I think they get it. Indeed, they're a big part of why that's the case. So I'm not compelled by that. But nonetheless, we hear you on disclosure and transparency. Look, the long and the short of this, Joseph, is at the end of the day, that's a -- that's just yet another revenue channel for us and it's a place that we collect dollars, even though they come through a credit card company, because people use them and we use that to give people seats that we could sell otherwise. And we aren't -- we don't generally disclose profitability by revenue channel. And indeed, it's really -- while we can talk about the revenues, it's really hard to talk about the profitability because what you're really talking about is the opportunity cost of an unsold seat. So nonetheless, we'll keep working through this with you. I know it's important to you. We certainly agree. It's a key part of our business and our team gets that completely, and they know because they're a big part of the business, as is that program.

Operator

And our next question comes from Darryl Genovesi.

Darryl Genovesi - UBS Investment Bank, Research Division - Director and Equity Research Analyst

So you guys, along with many of your peers, have highlighted some unexpected cost items creeping into your business lately, things like accelerating airport cost inflation, rising [CPA] cost, healthcare, shortening useful lives. I mean, there's been kind of a long list from airline to airline. But if I were to generalize, I can come up with explanations for a lot of these. You've got tighter labor supply, tighter airport capacity, an R&D cycle at Boeing and Airbus, and oil has taken a reasonable bounce. I suppose these are all things that we could highlight as items that also restrain supply growth and afford you and the industry overall some pricing power. That being said, can you see any stabilizing factors on the horizon? For instance, have higher wage rates yet resulted in an increase in entry-level labor supply? Are growth investments in airports accelerating? I mean, anything like that. I mean, overall, I guess what I'm asking is whether these items are -- whether or not, first of all, you think they're real supply constraints? And then secondly, whether you think any of them are going away?

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

Go ahead, Robert.

Robert D. Isom - American Airlines Group Inc. - President

I'll just start with, look, our greatest competitive advantage is our hubs and our gateways. And at the end of the day, the more that we're able to execute our business model and being able to provide connections and serving the broadest market possible, that is something that we think is a sustainable advantage and something that is unique to American and other large network carriers. And it's going to be where we put our time and attention.
William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

And Darryl, on the trends question, I'd just add, and again, I'm not trying to actually reinforce the view that we think there are enormous cost issues here, but certainly, as Derek said, there are some areas like airport -- what's happening is, this is an industry that's been consistently underinvested in for a really long period of time because we weren't profitable, and airports require profitable airlines in order to go invest. The good news is, we have that now and that's what's happening. You're seeing huge capital improvements throughout the industry in airports. But yes, that's not -- that won't continue over time. Once those investments are made, and that's in the cost structure, that doesn't -- I don't think you would see that continue. As it relates to the labor cost, as we said, we had a lot of catch-up to do. Once everyone is on an equal basis -- we certainly are not seeing, at our existing and now raised pay rates, any sort of issue in terms of attracting and retaining great people. So -- and I imagine that's the case at our competitors. So I wouldn't expect you'd see it once everyone gets on a fairly level basis, certainly not at the levels you've seen in terms of wage inflation going forward. So there are -- there is a lot -- there is a good bit of catch-up that had to happen from a -- what was once a horribly inefficient industry to one that is now investing for the long term in its people and its airports. But once those investments are made, you shouldn't expect to see it continue. We need to go to the media.

Operator

(Operator Instructions) And our first question comes from Mary Schlangenstein.

Mary Schlangenstein

I wanted to ask you guys, JetBlue said on their call this week that they don't see tourism to Puerto Rico recovering until the end of 2018. I wanted to see if you have sort of the same view there? Or if you see a -- and they're talking about 100% recovery, if you see that maybe on a shorter time frame?

Robert D. Isom - American Airlines Group Inc. - President

Mary, we just don't know.

Operator

And our next question comes from David Koenig.

David Koenig

I'm sorry if this came up during the analyst session, I was -- didn't catch all of it. But Doug, what do you make of the NAACP travel advisory? Did they tell you that it was coming? And are you worried it will hurt sales? Will people book away?

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

Hey, David. So you weren't on at the start, I guess. I did address that already. Anyway, what we think is it's a great opportunity. We know that we work very hard to make sure that we are -- have a diverse and open environment and an organization that is -- we pride ourselves on those things. We also know we can always get better. And so while the initial reaction was certain disappointment because -- when you look at that and think how can that be true of us? But once you get past that, and think this is a fantastic opportunity because we want to get better. We always want to get better. And what we think is business can lead the way in things like this. It's an important issue for our country and our world. And divisiveness seems to be getting worse, not better. It's things that we always -- within business, you don't -- we can be leaders in this regard because we -- our employees are a diverse group of people. Our customers are a diverse group of people. So we always end up being leaders in areas like this, but
we can also be leaders in making it better. So if the NAACP wants to talk to us and wants to help us get better, we're excited about that. So we've already reached out. We're going to work together to get better, and we appreciate their input and we're excited about it.

David Koenig
And any worry about impact on bookings?

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO
I don't know. We haven't seen anything, but again, that is not the point. The work we're doing has nothing to do as to whether or not -- is not about whether or not it has a financial impact on our company. We're going to do it because it is the right thing to do to make our company stronger. And that we care about. So this isn't about whether or not people fly us. We've got -- people are flying us and that's not the issue. It's about being a stronger company and providing leadership. So we're excited about that.

Operator
And our next question comes from Edward Russell.

Edward Russell
Derek, I wanted to ask about the 5 loans and the 11 sale-leasebacks you mentioned in the third quarter. Are those under the certain aircraft financings in the 10-Q that was released this morning?

Derek J. Kerr - American Airlines Group Inc. - CFO and EVP
Yes, they are.

Edward Russell
Okay. And in terms of those aircraft, what kind of aircraft were those 16 transactions involving?

Derek J. Kerr - American Airlines Group Inc. - CFO and EVP
Mostly narrowbody aircraft. I think all of the MAXs were part of those. Some of those were refinancings of Embraer 175s also.

Edward Russell
So the MAXs that will be arriving through the end of the year?

Derek J. Kerr - American Airlines Group Inc. - CFO and EVP
Yes.
And our next question comes from John Biers.

John Biers from Agence France-Presse. I also have a question on the NAACP. Now, one of the examples they pointed to was of a passenger who experienced discriminatory conduct and responded and was removed from the plane. I wondered what is your policy in this kind of example where a passenger is abused by another passenger? And are you seeing more instances of this kind of conduct on your flights right now?

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

Okay, first, I'll separate your question from the issue with the NAACP because I don't want to conflate those 2 issues. If you're asking are we seeing an increase of customer issues on aircraft, not to my knowledge. We have those from time to time, but our team does a really nice job of deescalating issues and our objective is to make sure we provide a product for our -- that makes all of our customers feel welcome and we'll continue to do that, but we certainly -- we haven't seen any significant trends one way or the other. These are very rare events when they happen. We transport 500,000 people a day at American Airlines. And sometimes we do have issues with customers and that -- and those -- and that's our responsibility just as much as the other 500,000 people, so we take responsibility for them. But there's no major trend going on in that regard, but doesn't mean that they're not important. Anybody else?

It appears we have no more questions at this time.

All right. Thank you all very much for your time. We really appreciate it. Any other further questions from analysts, give Dan a call, and media, contact Corporate Communications. We appreciate your time. Thanks.

This does conclude today's program. Thank you for your participation. You may disconnect at any time.