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AAL - Q1 2020 American Airlines Group Inc Earnings Call

EVENT DATE/TIME: APRIL 30, 2020 / 12:30PM GMT

OVERVIEW:

Co. reported 1Q20 GAAP net loss of $2.2b, or $5.26 per share.

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PRESENTATION

Operator

Good morning, and welcome to the American Airlines Group First Quarter 2020 Earnings Call. Today's conference call is being recorded. (Operator Instructions)

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

Daniel Cravens - *American Airlines Group Inc. - MD of IR*

Thanks, Cindy. Good morning, everyone, and welcome to the American Airlines Group First Quarter 2020 Earnings Conference Call. With us in the room this morning, we have Doug Parker, our Chairman and CEO; Robert Isom, our President; and Derek Kerr, our Chief Financial Officer. Also on the call for our Q&A session are several of our senior execs, including Maya Leibman, Chief Information Officer; Steve Johnson, our EVP of Corporate Affairs; Don Casey, our Senior Vice President of Revenue Management; and Vasu Raja, our Senior VP of Network Planning.

The focus of today's call will be our response to COVID-19. Like we normally do, Doug will start the call with an overview of our quarter and the actions we're taking. Robert will then follow with commentary about our team members, customers and network. Derek will then walk us through the details on our fleet, cost outlook and liquidity. And then after we hear from those comments, we'll hear -- or we will open the call for analyst questions and lastly, questions from the media. (Operator Instructions)

Before we begin, we must state that today's call does contain forward-looking statements, including statements concerning future revenues, costs, forecast of capacity, fleet plans and liquidity. 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 release that was issued this morning, along with our Form 10-Q as of March 31, 2020.

In addition, we will be discussing certain non-GAAP financial measures this morning, which exclude the impact of unusual items. A reconciliation to those numbers to the GAAP financial measures is included in the earnings release, and that can be found on our website. A webcast of this will also be archived on our website and the information that we're giving you on the call is as of today's date, and we undertake no obligation to update the information subsequently.

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

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

Thanks, Dan. Good morning, everybody, and thanks for joining us. Before I go to the numbers, I want to offer a few thoughts on the challenging times that we and our entire industry are facing.

The spirit and efforts of the American Airlines team during this crisis have been nothing short of extraordinary. The human and economic toll of COVID-19 has been enormous. And like others, we've lost members of our own team, and our hearts are heavy for their families, friends and coworkers.

But in the face of this great loss, the American team continues to rise to the challenge and meet the needs of our customers and the communities we serve. They're putting on their uniforms every day and transporting first responders to where they're most needed and other Americans to where they feel most safe. Our team members are frontline heroes in this battle, and they are what makes American great. So on behalf of the entire leadership team, I want to thank our team from what they continue to do every day.

Turning to this quarter's results. By far, the most important recent event for our industry's long-term viability has been the passage of the CARES Act, which provides up to $50 billion of much needed liquidity to U.S. airlines. This unprecedented assistance recognizes the value that commercial airlines provide to our country. It is designed to keep our hardworking team members employed and ready to serve the flying public whenever we start moving again. So I want to again thank the administration and Congress for their exceptional support of airlines and our employees.

And I think it's important to note that this would not have been possible without a tremendous amount of work and advocacy on behalf of airlines and our team members. So I'd like to also thank Nick Calio and his team at A4A as well as my fellow A4A CEOs: Ed Bastian, Robin Hayes, Peter Ingram, Gary Kelly, Oscar Munoz and Brad Tilden. We work in an intensely competitive business, but in response to this crisis, we pulled together to save our industry and save jobs, and I'm proud to have been a part of it.

We also had great support from our team members and the unions they represent. So I'd like to also publicly thank all of our American Airlines union leaders as well as those who represent other airline employees. We absolutely could not have gotten this done without their leadership and a joint desire from all of us to fight for our team.

So as important as the CARES Act is, it certainly doesn't solve everything. CARES provides the industry the breathing room we need to manage through the worst parts of the crisis and to pay our team members that we otherwise would have needed to furlough. But it does not fix the core problem that all of us have, which is revenue generation. Industry revenues have fallen an estimated 95% year-over-year in April. And while no one has a perfect crystal ball, I think we all expect that recovery will be slow and demand for air travel will be suppressed for quite some time.

So in this environment, there are 3 critical issues that any airline must manage: First, ensuring the safety and comfort of the team members and customers; second, maintaining ample liquidity to ride through a sustained crisis; and third, planning for an uncertain future. We at American are taking aggressive steps in each regard. I'll provide a quick overview, and then Robert and Derek will provide more detail on each.

First, as it relates to safety, we dramatically increased the frequency and intensity of our aircraft cleaning. We're limiting seat sales on every flight, including not allowing half of the main cabin middle seats to be assigned. We've reduced food and beverage service on planes to limit contact with others. As of May 1, we will begin the gradual ramp-up of providing customers with PPE kits, which include masks and sanitizing wipes as well as requiring our flight attendants to wear mask in-flight.

Turning to liquidity. These efforts for all airlines come in 2 sets of initiatives: raising cash and conserving cash. On the first, American's absolute liquidity position is very strong. We ended the first quarter with $6.8 billion in liquidity, and American's share of the CARES Act proceeds is $10.6 billion, which results in $17.4 billion when you combine our quarter-end liquidity and CARES Act access. And importantly, outside of our recently arranged $1 billion 364-day delayed draw term loan, we do not have any meaningful non-aircraft debt amortization payments for more than 2 years.

So we feel confident with that level of liquidity, but in this uncertain environment, we'll continue looking for additional sources. We have more than $10 billion of unencumbered assets at our disposal. And that excludes the value of our AAdvantage program. Our plan is to first work with the Treasury Department to secure our CARES Act loan of $4.75 billion at attractive rates and then explore other initiatives as needed from there.

As to conserving cash, Derek will describe our initiatives in more detail. We've enacted a comprehensive cash conservation plan to eliminate all unnecessary operating and capital expenditures. We expect this will reduce our daily cash burn rate from an expected average of $70 million per day in the second quarter to approximately $50 million a day for the month of June. As a result of all that, we expect to end this quarter with approximately $11 billion of liquidity and a significant amount of unencumbered assets still in place. And that forecast assumes little to no increase in demand for air travel throughout the quarter.

Third, and perhaps the most difficult thing for airlines to do at this time, is to properly plan for the future. We're using this opportunity to make our airline stronger in a number of ways, and we expect to emerge a more efficient and more streamlined airline. And to do that most efficiently, we need to begin making decisions soon about how large an airline we want to run in the summer of 2021 and beyond. As you all know, things like aircraft availability, pilot training and maintenance programs do not have short planning horizons. That's always been an issue in our business. But today, those capacity plans are severely complicated by the extreme uncertainty regarding the anticipated level of demand for air travel, not just for the next few months, but for the next few years.

So we at American decided to err on the side of being smaller than we might like rather than larger. As Derek will describe, and as our first quarter financials indicate, we made the decision to retire our entire 757, 767 and A330-300 and Embraer 190 fleet as well as certain regional aircraft. These decisions alone will reduce our 2021 fleet count by approximately 100 aircraft versus our prior plans, and we'll continue to assess further reductions as we move forward.

So in conclusion for me, these are unprecedented times for our world, our country and our industry. The uncertainty about the future weighs on everyone and for a good reason. There's no way to overstate the gravity of the situation for the airline industry and difficult decisions lie ahead for all of us. But in the end, the leadership that got us through the CARES Act process will be the leadership that gets us through the coming months and years, leaders who understand the importance and the nobility of what our people do and, therefore, work selflessly in support of them and side-by-side with them.

I'm confident our industry will fight through this successfully, and I'm particularly confident that American Airlines will be among those leading the way. I am humbled and honored to be a part of the American Airlines team, and I'm incredibly proud to stand alongside them today and into the future.

With that, I will turn it over to Robert.

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

Thanks, Doug, and good morning, everyone. As Doug said, the downturn in demand for air travel has been dramatic and unlike anything we've ever experienced. Across the industry, cancellations have rapidly outpaced new bookings. While we have faced dire circumstances in the past, the American team has always persevered, and I'm confident we'll do so again.

The safety of our team members and customers is paramount. We are taking a proactive approach to ensure that our team is safe by reducing contact points, providing personal protective equipment like face masks and gloves and provisioning sanitizer and wipes. These steps are critical to ensure our team feels safe and can instill that confidence in our customers as well. Like Doug, I'm humbled by our team's spirit and proud to stand by them in these challenging times.

American continues to provide critical air service to those who need to travel during the pandemic. From the outset, we have met or exceeded CDC guidelines, and we'll continue to coordinate with public health officials on all health and safety requirements. To enhance our already thorough cleaning process, we've implemented additional safety measures to ensure aircraft cleanliness and to accommodate social distancing. Specifically, we are enhancing our cleaning procedures through expanded fogging on board and the use of EPA-approved disinfectant in high-touch areas. On board, this includes everything from bins and galleys to tray tables, arm rests and seatbelt buckles. In airports, it includes the gate areas, ticket counters as well as other areas frequented by our customers and team members.

We've also purchased face masks for frontline team members and made them required for flight attendants starting May 1. And we have started distributing sanitizing wipes or gels and face masks to customers. This will expand on all flights as supplies and operational conditions allow. And to that end, American Airlines strongly encourages customers to wear face masks when they travel.

Additionally, we have temporarily relaxed our seating policies and adjusted our airport procedures. Through May 31, American will limit the number of passengers on each aircraft. We will not assign 50% of the main cabin middle seats on every flight, and we'll use those seats only when necessary. Our team will also reassign seats to create more space between customers or to accommodate families who need to be seated together. We're also using stanchions to encourage social distancing at gates, ticket counters, and we've reduced onboard food and beverage service to limit contact.

To give customers as much piece of mind as possible when it comes to planning travel, we've extended waivers to anyone who has travel occurring through the end of September, allowing them to change plans and travel through December 2021 without incurring any change fees. Additionally, we have waived change fees for customers who purchased new tickets by May 31, 2020, for future travel. And for our corporate customers, we've introduced more flexible travel waivers and free name changes.

We recognize the interruption of travel for most people, so we're making it easier for our customers to earn AAdvantage Elite status this year. And we've extended 2020 AAdvantage status into early 2022 for all members. Additionally, we have extended all paid Admirals Club memberships by 6 months. We remain committed to making sure that our customers are able to fly when they want to fly, they feel safe and comfortable even in these extraordinary times.

We've adjusted our network to meet drastically lower levels of demand, taking swift action to rightsize our schedule with systemized capacity cuts and flight consolidations across our network. We've also delayed entering several new markets planned for launch later this year. New service between Austin and DFW, Christchurch and Los Angeles, Bangalore and Seattle will all be pushed into 2021. In addition, we have delayed the start of other new routes, including London Heathrow to Boston, Tel Aviv to Dallas/Fort Worth, Casablanca to Philadelphia and Krakow to Chicago.

While we have reduced our schedule dramatically, we have started operating cargo-only flights in March to transport critical goods between the U.S., Europe, Asia and Latin America. These are the first cargo-only flights American has operated since at least 1984. We are currently able to transport more than 6.5 million pounds of critical goods weekly on our cargo-only flights, and we'll look to further opportunities to expand this service and bring medical supplies and protective gear to the areas that are most in need.

While we continue to provide essential air service to those who need it most right now, our team has also extended their service outside the operation. Team members have donated more than 100 tons of food in several of our hub cities, distributed thousands of supply kits to patients and health care workers, and sent care packages to U.S. military members in quarantine. In addition, through our partnership with the American Red Cross, our team and customers have helped raise nearly $3 million to support our frontline health care workers fighting COVID-19.

So in closing, we're squarely focused on getting through this period of uncertainty and we're closely managing our capacity and costs while taking care of our team members and customers. We're going to have more to share in the coming months as we ramp up our operation post-COVID-19.

And with that, I'll pass it on to Derek.

Derek J. Kerr - *American Airlines Group Inc. - Executive VP & CFO*

Thanks, Robert, and good morning, everyone. I, too, would like to thank our entire team for doing an amazing job during these uncertain times. Their dedication and determination to get through this crisis is inspiring for all of us.

As you saw in our press release and Form 10-Q this morning, we reported a GAAP net loss of $2.2 billion or $5.26 per share. Excluding net special items, we reported a net loss of $1.1 billion or $2.65 per share. We began the quarter on-track to exceed our guidance, however, the COVID-19 pandemic and unprecedented drop in demand during March radically changed our outlook. Given the unpredictable nature of this event, we suspended our guidance for all of 2020.

In light of the current environment, our sole focus is to ensure we have sufficient liquidity. To withstand this crisis, we have driven efficiencies in our operation by accelerating our fleet simplification plan, and aligning our cost structure to our significantly lower capacity levels. We will continue to match capacity with demand and optimize our cost to our level of flying and identify additional ways to improve our cash burn rate moving forward.

As Doug mentioned, the significant falloff in demand has given us an opportunity to accelerate our long-term fleet strategy. We have officially retired the Embraer 190 and Boeing 767 fleets, which were originally scheduled to exit by the end of 2020. We have also accelerated the retirement of our Boeing 757s and Airbus A330-300s. Both fleets were expected to retire over the next few years. In addition, we have removed a number of smaller regional aircraft from our fleet.

By removing these fleet types, we avoid significant future maintenance expense, remove complexity from our operation and bring forward the efficiencies associated with operating fewer aircraft types. These savings include reduced aircraft sparing, reduced parts inventories and crew scheduling efficiencies, all of which will have a significant effect on our cost structure going forward. Even with these changes, we retain the flexibility to pursue efficient growth through increased utilization or further reduce our fleet to match demand across our system and hubs.

We have reduced our estimated 2020 operating and capital expenditures by more than $12 billion. In addition to lower fuel, these savings have been achieved through a wide range of initiatives, including reductions in flying and heavy maintenance expenses. Beyond just volume-related reductions, we have taken a hard line on discretionary expenditures. Specifically, we have deferred marketing events and training expenses, consolidated our footprint at airport facilities, and reduced the use of contractors. We have also suspended all nonessential hiring, paused noncontract pay increases, reduced executive and Board compensation, and implemented voluntary leave and early retirement programs to lower our near-term and long-term labor costs. While we have done a lot to address our near-term costs, we will continue to take the necessary steps to rightsize our cost structure for the lower levels of capacity we expect in the near future.

Finally, on liquidity, we've moved quickly to preserve and bolster our cash position. We ended the quarter with $6.8 billion in liquidity. During the first quarter, we raised $2 billion through the issuance of a $500 million unsecured note, a $1 billion 364-day delayed draw term loan facility and approximately $477 million in aircraft financings. We were also able to reduce the pricing of our $1.2 billion term loan and extend it out until 2027.

During the quarter, we also finalized the initial terms of the financial assistance we will receive as part of the CARES Act. This will come in 2 forms: direct financial assistance of $4.1 billion, and a low interest rate loan of $1.7 billion. Separately, we have applied for a loan from the Treasury

Department of approximately $4.75 billion. These funds as well as relief on various taxes, including fuel tax savings, payroll tax deferment and ticket-related taxes, will provide much-needed support for us to navigate this extraordinary environment.

As Doug referenced, we ended the quarter at $6.8 billion liquidity and American's shares of the CARES Act proceeds is $10.6 billion, which results in $17.4 billion when you combine our quarterly ending liquidity and CARES Act access. Importantly, outside of our recently arranged $1 billion 364-day delayed draw term loan, we do not have any large non-aircraft debt maturities for more than 24 months.

We also have additional sources of liquidity. We recently engaged third-party appraisers to evaluate some of the company's unencumbered assets. Based on these appraisals, we believe the value of our unencumbered assets is in excess of $10 billion, excluding the loyalty program. And we expect to pledge a portion of our assets for the secured loan we have applied for under the CARES Act.

With respect to capital expenditures, we currently have committed financing for nearly all of our 2020 deliveries. Beyond this, we have removed $500 million from our projected non-aircraft capital spend planned in 2020 and another $200 million in 2021. We'll continue to aggressively pursue other opportunities to conserve cash and working capital. As for cash burn, our average estimated second quarter burn rate is expected to be approximately $70 million per day. However, as our cost initiatives gain traction, our daily cash burn is expected to decline over time. We expect that burn rate to improve to approximately $50 million per day for the month of June. Based on our current forecast, we expect to have approximately $11 billion of liquidity at the end of the second quarter, which assumes no incremental financing beyond the government loan and little to no increase in demand for air travel. In accordance with the CARES Act, we have suspended our capital return program, including share repurchases and the payment of future dividends.

In summary, we are facing a challenge like -- that is like -- unlike anything we have ever seen. In a short period of time, our team did a phenomenal job taking costs out of the business and increasing liquidity. I couldn't be more proud of what they have all accomplished. But we are by no means done, and we are prepared for a long road to recovery. While the situation remains fluid, we will do everything possible to protect our business and ensure American emerges from this crisis more efficient and competitive than before.

And with that, I'll turn it back to the operator.

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

Thanks, Doug -- thanks, Derek. Operator, we are ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from David Vernon from Bernstein.

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

Sorry about that guys. Work from home fun. So Derek, just to clarify, the $11 billion of liquidity at the end of the second quarter, that assumes the inflow from the CARE -- both portions of the CARES Act, the grant and the loan, is that right?

Derek J. Kerr - *American Airlines Group Inc. - Executive VP & CFO*

Correct. There is a portion of -- there's 10% of the grant that does come in the second quarter. So there's about $600 million of the grant that shows up in July. So -- but for the most part, yes, it includes about $10 billion of the government grant and loan and then $600 million of it comes in July.

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

Okay. And then as we think about the moving parts to get down to that $50 million burn rate, how much of the actions that would get you to $50 million would be either temporary through voluntary sort of time-off arrangements? I'm just trying to get a sense for how much of an additional sort of cut to the cash burn rate you guys are going to need to make in that September time frame as the CARE loans come off. Because $50 million a day, $10 billion left, you got to -- gets you through the first part of next year, but it seems like there's still some work to be done on the cost side there. Can you give us a sense for how much more you can get out of that $50 million a day?

Derek J. Kerr - *American Airlines Group Inc. - Executive VP & CFO*

Yes. I think what -- I'll tell you how we get there. I mean we -- the difference between where we are now and where we get to is there's been a significant amount of refund. So those -- that has caused the number to be higher now than it has. As disbursements take hold, those take a little bit of time. So those are now starting to take hold and will stay in place as we go forward. The voluntary leaves and early outs, the early outs will be there forever. The voluntary leaves, we have some 3 months, some 6 months, some 9 months. And we believe if we need to do that in the future, we can do that again. The CapEx reductions are permanent, and those are out throughout the whole time. And some of this is reductions in departures.

So the $50 billion (sic) [$50 million] assumes really very minimal receipts. So the difference -- I think from a cost structure perspective, all of this is in place and can stay in place. The difference of that burn rate, as Doug talked about earlier, the issue with the industry right now is revenues. And to get that burn rate from a cost perspective, we have some more levers to go to bring it down, but the major difference in the burn rate is going to be receipts coming back and having some revenue coming in the door versus refunds outpacing revenue and having no receipts come in the door.

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

And David, it's Doug. I would just add what Derek said in his comments to your questions, which is that $11 billion at quarter end does assume the government loan, but it also assumes we've done no other financing. So we would expect to end the quarter with -- still with a significant amount of unencumbered assets still in place. So there will be more to do beyond that if we need to.

Operator

Your next question comes from Mike Linenberg from Deutsche Bank.

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

Just a couple of questions here. So when I look at your CapEx, I guess, it was $3.3 billion coming in. And Derek, I think you indicated that $500 million of non-aircraft there will be taken out. So I think it was $1.6 billion. We're looking at about $1.1 billion of non-aircraft CapEx. If you could just talk about what that $1.1 billion is.

And then the $1.7 billion of aircraft CapEx, you indicated that you've already -- it's already funded. Presumably, those aircraft deliveries are actually cash accretive, can you talk about maybe how that's structured?

Derek J. Kerr - *American Airlines Group Inc. - Executive VP & CFO*

Yes. I'll take the second one first. The answer is yes, they are cash accretive. They're 100% financed, if not more. So all of those, we do plan on taking all of those deliveries, and they are positive to the 2020 forecast. Most of the deliveries are in the back half because there are MAXs that have been pushed out, but those are all cash accretive as we go forward.

As far as the CapEx, we're down to about $1.1 billion. We've cut out everything that we can. The biggest project that's in the CapEx is our -- consolidating the fleets and making sure that the configuration on both of the fleets is the same. That project is going to continue, and we are going to -- with the aircraft on the ground, we'll have the ability to speed that up a little bit. So we don't plan on pulling back on that project because I think it's very important for our operation, it's very important for the team to get that one done. And that takes up at least 40% of that CapEx.

The rest of it is just mandatory stuff we have to do with parts. There are some other IT projects that we'd still like to move forward with, and those are involved in that. But that's kind of the gist with where we are at. Anything that doesn't have to be done, any type of facility things that don't have to be done, have all been taken out of the capital plan for the next 2 years.

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

Okay. Great. And then just my second question, just on the fleet, you're 950 airplanes main line. I think you identified close to 100. That said, you have a relatively new fleet. And so when we look at the next 850, fleet reductions become a bit more difficult since you have a lot of new airplanes. And so I'm curious, what would you target next? And just sort of a nuance there, the A330s, you're pulling out the 300s, but you have 15 200s. Are those planes next? Are they -- is it more about just the way that they're financed and the lease agreements?

Derek J. Kerr - *American Airlines Group Inc. - Executive VP & CFO*

No. I think there's 2 fleet types that we've looked at that it's just a question of the timing of the return, and do they come back depending on where we are. So the flexibility, as you talked about, the 33-2s (sic) [A330-200s], there's 15 of those. We have 737s. There's 42 older aircraft that we've looked at. So those are a couple of the areas that we would go. We have lease expirations, 26 in 2021 and 21 in 2022. So those are out there. So I think -- and we do have some older A320s that you could look at. But I think there's the levers to go down farther and the 33-2 is more fleet simplification for sure if you went down that path. But as you said, they're financed out a ways. But we're looking at -- those are the fleet types that we're looking at as we go forward. And then maybe you have some lease expirations that you let go next year.

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

And Derek, 50 ceasures, a corresponding amount of 50 ceasures as well.

Derek J. Kerr - *American Airlines Group Inc. - Executive VP & CFO*

Yes. Yes.

Operator

Your next question comes from Jamie Baker with JPMorgan.

Jamie Nathaniel Baker - *JP Morgan Chase & Co, Research Division - U.S. Airline and Aircraft Leasing Equity Analyst*

Your negotiations are going well or you wouldn't have put the government loan in your liquidity build. But is there a plan B in case the Treasury turns you down? And as a follow-up, have we also confirmed with Treasury, and I may have just overlooked this, that 100% of the proceeds could be drawn all at once?

Derek J. Kerr - *American Airlines Group Inc. - Executive VP & CFO*

We're having a -- we've been working with Treasury. I mean the government grant process went really well. We really appreciate everything they've done for this program. We've put in for the loans 1 week ago, 1.5 weeks ago. So we've started to have some conversations. But our working with the Treasury team and the PJT team has been great. We've had constructive conversations as we move forward. And with the collateral we have, we believe that there's -- we can get a deal done and that everything is -- they're going to be reasonable about it. So we're moving down that path. We believe we're going to get it done.

And so that's our #1 goal as we move forward, to get that complete first. And then with the extra collateral we will have left in the end is to go down and look at other opportunities as we move forward. But I'm confident that working with the Treasury Department and the team that we can get the government loan put in place.

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

Yes. And Jamie, it's Doug, if you don't mind. So just to -- it gives me a nice opportunity to thank some people in Treasury as well. Look, you and I were amongst those that were around in 2001, and I was running an airline that needed help to get through that from the Treasury Department, and it was extraordinarily difficult. This is -- this feels dramatically different than that time. This Treasury Department is working night and day to do everything they can to get much needed liquidity into the U.S. economy, to make sure that the economy is able to get running again. And that includes how they are -- certainly includes how they are treating this airline support. So it was clear with the payroll support program, I think, how they handled that. They are doing what they have to do, of course, which is make sure that the U.S. taxpayer is paid back. So it came -- when it came to the payroll support program, that they could absolutely guarantee were getting paid back with things like unemployment savings and higher income taxes. Some 70% of the grant was indeed a grant. That that wasn't, went into a loan, but a very low interest loan, over 10 years.

As it relates to the loan program itself, they have -- at the time, we talked about the payroll support plan, we talked -- they were going to talk to all of us about the loan program itself and recognized, again, that they want to be sure that the taxpayers are repaid. But I think they know the best way to do that is ensure that airlines have liquidity to get through a liquidity crisis. So what they have -- again, we'd still have to get through the work here in the next few weeks. But you're right. We wouldn't have talked about how we're looking to that as our next source of most efficient capital if we didn't feel confident that it would be the next source of efficient capital.

But their view is 5-year loans, different rates for carriers based upon credit rating, as we were told. For us, it's LIBOR plus 350. In today's LIBOR, that's a little over 4%, 5-year money. That is the most efficient financing out there for American Airlines. And they're looking for -- it needs to be secured, but I think they're willing to be more than reasonable about collateral and also looking to just -- for appraisals that we have that we feel very confident that we will be able to raise that loan and still have significant unencumbered collateral after it.

Jamie Nathaniel Baker - *JP Morgan Chase & Co, Research Division - U.S. Airline and Aircraft Leasing Equity Analyst*

Got it. Doug, that perspective is actually really, really valuable because you're right, the united precedent with the ATSB was clearly on my mind. So I appreciate all of that commentary.

A quick follow-up to your earlier comment, Doug, about resizing the franchise, and this might have been sort of where Mike was going as well. My phone was cutting in and out. But not looking for a 2021 capacity guide, unless you want to give us one, but my question is how much could you shrink relative to the 2019 baseline if you only put down owned aircraft and allow leases to expire? I guess, put differently, how much could you

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shrink before there begins to be a cost in terms of parking aircraft? Not thinking about facilities, not thinking about the toll on labor, just a specific aircraft question.

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

Additional airplanes above the 100 that we've already announced?

Jamie Nathaniel Baker - *JP Morgan Chase & Co, Research Division - U.S. Airline and Aircraft Leasing Equity Analyst*

Well, you still have owned and fully depreciated aircraft. You have rights expirations coming up that I don't have particularly good clarity. And if you allow those to expire and put down owned aircraft, there's no real expense to that. My question is how much, on a percentage basis, could you shrink ASMs before contemplating putting down an airplane for which there is still an ownership cost or a lease expense? Is that 10% relative to 2019? Is it 20%? And if you don't have the figures, that's fine. I mean we've done some back of the envelope. I was just curious to hear your take.

Vasu Raja - *American Airlines Group Inc. - SVP of Network Strategy*

Jamie, this is Vasu. The figure is a little bit different on an airplane basis versus an ASM base, because our gauge will change. So on an ASM basis, we estimate that number between 15% to 20%, depending on how you draw that time period. And my number includes all jets, regionals, narrowbodies, widebodies. But on an ASM base, that number is probably more in the 10% to 15% because, of course, the things we would look to do were take out smaller jets, like 50 seaters, and keep more economical things like bigger 737s, 321s, things like that, right?

Operator

Your next question comes from Joseph DeNardi from Stifel.

Joseph William DeNardi - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Airline Analyst*

Can you just talk about the nature of the unencumbered assets that you have? Kind of realistically, what sort of capital you could raise against that? And then what is the value of the loyalty program, since that's kind of a pretty big moat between -- that's still out there for you?

Derek J. Kerr - *American Airlines Group Inc. - Executive VP & CFO*

Yes. I think going to #2, I mean, you're the one that has done the best work on the loyalty programs by far. And your number is pretty good from where we have on an appraisal of the program. So I think the value of that program is high. And I think you have pointed that out rightly so. And you have -- are in the range of the appraisals that we've gotten back for that. So that has a very high value to us.

Of the $10 billion, about $2 billion is aircraft, spare parts, engines, those kind of things. About $5 billion is slots. So it gets us to $7 billion. We've got AR about $1.8 billion and real estate about $1.2 billion. So there are different things we can do with different products. So of that $10 billion, 40% maybe loan-to-value on certain things, 40% to 50%, just in the fact that I think some can do more than others and gain more cash from an LTV basis than other collateral, but maybe the, I'd say, $4 billion to $5 billion. We also have in our slots, gates and routes, $364 million deal that we have to refinance at some point in time. There is $4.4 billion of collateral in there, which will be used at some point in time to refinance and probably do a bigger transaction as you combine that with other collateral that we have.

Joseph William DeNardi - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Airline Analyst*

Okay. Yes, that's helpful. And then maybe for Vasu, what is getting as much smaller as you think you might be on the other side of this mean for the hub structure of the network?

Vasu Raja - *American Airlines Group Inc. - SVP of Network Strategy*

Yes. Thanks for the question, which I'm going to interpret to mean, does this mean that we shrink hubs or eliminate one? So let me be very direct about this. We have no plans to close any hubs. In fact, far from it. As we see this -- look, the core of our customer proposition is providing connectivity. And indeed, that is something that we do not just versus all other airlines, but even all other network airlines. We are uniquely good providing connections from customers in small cities across the Americas, North and South America, that connect them to the global marketplace. So as dark and daunting as this crisis is, this is the moment for real clarity. And so this is not about dismantling our customer proposition, but sharpening it and refocusing it.

And so with that in mind, the way we are thinking about trying to get a lot of the same value that historically people try to wring through hub closure is, first and foremost, as Derek and Doug mentioned, through fleet simplification, right? Which just -- if we just take out fleet, of course, you take out direct expense. So when we simplify away fleets, then you take out more intractable expenses like indirect costs of parts and tooling, fixed overheads, things like that. But importantly, that makes the airline a lot more lean and a lot more nimble, a lot more capable of being able to move fleets around markets, respond to a recovery when and if it comes. I mean do many of the things that have been difficult for us to do, frankly, over the last 4 or 5 years.

And then, two, the other thing that we look to do with that kind of agility is really put the capacity even more aggressively to where the demand is. And without going too far into it, I think I can very confidently say, you won't see us de-peaking DFW through this whole process. In fact, far from it.

And then the third thing, which is really different from past crises for us, is really the power of our partnerships here. Because now we have things such as our growing partnership with Alaska on the West Coast, that and a lot of markets that are challenged. Our growth is inhibited because of constraints on slots or gates or routes. What we're now able to do is offer the customer a much larger network that can compete with bigger rivals and oftentimes, unwinnable market. So that means that we should be able to see that in higher-quality revenues for American Airlines, at lower -- at a lower amount of investment.

So we do not plan for mass-scale type of closures. In fact, our hubs are a massive asset to us as we think about a really very focused customer proposition coming out of this.

Operator

Your next question comes from Duane Pfennigwerth from Evercore.

Duane Thomas Pfennigwerth - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Doug, regarding your commentary about a multiyear recovery and what this looks like in the long term, just curious if you could share what the financial targets are that will shape your plan. So as we think about the crisis here and now burning over $6 billion in cash just this quarter, your exit rate implies about a $4.5 billion burn rate into 3Q, net debt on its way to perhaps $40 billion this year. What are the financial targets that will shape your 2021 plans? Burn less cash?

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

Yes. Thanks, Duane. At this point, we're working again, as I think all of us are, getting through the current liquidity crisis rather than building 2021 plans. But for certain, as we come out of this -- prior to this, American had gotten to the point where we were happily through a large CapEx program, and we're moving aggressively toward using our free cash flow to delever the balance sheet. That will certainly be the case as we come out of this now. As we do move to generating free cash flow in the future, the proceeds of that free cash flow will be going to pay down debt and to pay down as aggressively as we can. So that's what you can expect to see when we get to that point. But nothing more concrete than that in terms of estimates or metrics for 2021 at this point.

Duane Thomas Pfennigwerth - *Evercore ISI Institutional Equities, Research Division - Senior MD*

And then just on the $11 billion liquidity target, what are you assuming for the working capital headwind related to the air traffic liability? We had a lot of questions around this for a number of airlines, not just American. But can you walk us through the mechanics of why the ATO did not decline in the March quarter and the outlook for that into the June quarter, considering things like cancellations, et cetera?

Derek J. Kerr - *American Airlines Group Inc. - Executive VP & CFO*

Yes. I mean the ATO didn't decline in the quarter because it was positive by about -- our ATO for the quarter was positive 665. We had positive 785 in January, positive 487 in February and negative 618 in March. That is the time when ATO does build for us. I mean it -- this -- if you -- no, this didn't even really hit until middle of March. So those 2 happened. We did have refunds during the quarter of about $900 million. So we did have ATO grow. We had refunds of $900 million, really driven by sales in the first 2 months of the time period.

We do believe that ATO will decline in the second quarter. Our projections, I think April, we had refunds -- we haven't finalized it yet, but we think it's in the $600 million range, if not more. And we do project about $400 million in May and about $200 million more in June. So the quarter is going to be hit by some $1.2 billion to $1.3 billion worth of refunds, and that is built into the daily cash burn numbers that we gave you. That's why we talked about receipts being really low in a 50 -- or the $70 billion -- $70 million a day daily burn. So that is built in. We do have an ATO that we think is going to be negative. But in the first quarter, it was positive really because the -- as we entered March, things looked really good from where we were. And I think for all people, that was pretty much the same picture. We just had the burn coming in, in March.

Operator

Your next question comes from Hunter Keay from Wolfe Research.

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

So I know -- this is kind of a follow-on to the question. You don't want to talk about '21. But I mean how do you plan on digging out of this debt pile here, Doug? I mean based on what Vasu said, it doesn't seem like you guys are going to be really gutting costs. So I mean, pragmatically speaking, like how do you dig out of this debt pile? How do you generate that free cash flow once you get through this crisis?

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

Through earnings. Again, so we were nicely forecasting positive free cash flow prior to this. We need to get back to a point where we're generating free cash flow in the future. And as we do that, like you say, we'll use that to pay down the debt over time. The -- as Derek noted, while we do indeed come out of this with more debt than we would have liked, as it relates to the actual cash flow situation regarding the debt, we don't have any major amortizations for the next couple of years. And I can say, as we come out of this, like all carriers and get to a point -- we need to get to a point again where we're generating positive cash flow, which we certainly will at some point. And when we do that, we use that to pay down the debt as we go forward.

Derek J. Kerr - *American Airlines Group Inc. - Executive VP & CFO*

And Hunter, we are really good -- I mean the work that's been done to get the cost structure where it is right now, it's only beginning. So Vasu and his team are working through what the schedule is going to look like in 2021. The whole purpose of retiring fleets was to simplify things and to drive the cost structure where it needs to be, and we're still looking at other opportunities to do that. So we will go through a comprehensive look at the expenses of the airline over the next few months here to rightsize the expenses to where Vasu is going from a network perspective.

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

Okay. And then of the 39,000 volunteers for early retirement and the like, how many of those 39,000 are permanently retired?

Derek J. Kerr - *American Airlines Group Inc. - Executive VP & CFO*

There were -- there's 4,500 early outs.

Operator

Your next question comes from Myles Walton from UBS.

Myles Alexander Walton - *UBS Investment Bank, Research Division - MD & Senior Analyst*

Doug, I just had a question for you on customer behavior and specifically as you alter some of the procedures for safety onboard the plane. And something like blocking the middle seat. How long do you think something like that lasts as -- if customers get used to it? I mean is it potentially that you're putting it in there and it has to stay through the vaccine development next year? And just how is that going to feed into your building of 4Q type of projections and scheduling?

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

Yes, a really good question. All this is rapidly evolving. And we -- today, it's not much of an issue, obviously. We have over 80% of our flights are going out with lower than 25% load factors so that constraint comes into play on a very, very rare basis. So we think it's the right thing at this point in time. We -- again, I can't really answer your question other than to tell you it will continue to evolve over time.

Today, what we're seeing is much more of a push toward facial coverings to give customers a level of comfort. We certainly are strongly encouraging that. And indeed, as we said, we'll soon -- tomorrow, we'll begin providing customers with masks to strongly encourage that they use them. So we'll see.

Right now, we think that's an important part of the message to our customers to know that we're not going to have every seat on the airplane filled. There will be some seats available for those that require -- and so we think we, as other airlines right now, think that's an important part of the messaging. But again, we'll see where that evolves over time. I don't know if I can answer any better than that.

Myles Alexander Walton - *UBS Investment Bank, Research Division - MD & Senior Analyst*

No, that's fine. It's just a slippery slope when you start to put something in place. You don't know exactly when to peel it back. I just wondered how you were thinking about it.

And then maybe just a clarification on the CARES loan. How much of the encumbered assets are you proposing to pledge against that, so we can know kind of quarter end, what your unencumbered assets are?

Derek J. Kerr - *American Airlines Group Inc. - Executive VP & CFO*

We don't know yet. I mean we're still working with the Treasury to finalize that. So it hasn't been determined, and we'll just continue to work with them on what the right collateral value is for the $4.75 billion loan.

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

Yes, but back to what earlier what we said. Of the $10 billion plus the AAdvantage program that we have available today, we certainly expect that we will have ample collateral available for the Treasury Department to feel good about their $4.75 billion loan being secured and still have significant unencumbered assets after that process.

Operator

Your next question is from Andrew Didora from Bank of America.

Andrew George Didora - *BofA Merrill Lynch, Research Division - Director*

Just want to kind of actually go back to the CARES Act. I guess my understanding of the government loan program is that government's kind of here to be a lender of last resorts, and you need to exhaust a lot of your other avenues of financing before accessing the program. Based on your explanation, I think it's fair to assume -- would you agree that I'm maybe off on this interpretation?

And then as a follow-up to Myles' question. In your discussions with the Treasury, have they indicated the type of collateral that they would be willing to take? Because just trying to get a sense of what you could have left if you need to go to the public markets.

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

Yes. Sure, Andrew. Let me start and then Derek can fill in with details. I mean as to the lender of last resort point, again, I don't have the legislation in front of me. But it says something to the effect of carrier has to show that they don't have reasonable access to other -- to public markets or something like that. And again, in discussions with them, and I can't stress enough again how exceptionally reasonable and helpful they're being to all of us. We propose things. We mentioned it in things such as -- for example, in February or March or sometime earlier this year, Derek, we did -- we were able to do a C-tranche on a EETC at...

Derek J. Kerr - *American Airlines Group Inc. - Executive VP & CFO*

Well, we did unsecured at 3.75.

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

We did an unsecured deal at 3.7 so we could do a C-tranche on a EETC. It's something lower than that. Today, if we try and do a C-tranche on a EETC, it's a double-digit number. They're certainly not saying go do that. They view that as financing not being -- reasonable financing not being available in reasonable terms. So that's -- again, it's for them to ascertain, but certainly, their view seems to be not that you need to go raise -- use all the collateral you have and come to them only when there's nothing else you can do irrespective of the cost. And so again, which I think is, one, the right thing to do for what they're trying to accomplish, which is ensure the industry has liquidity it needs at reasonable rates and what we've been told we're going to do.

So again, I'm going to use this opportunity to thank them, not just Secretary Mnuchin, that we thanked a lot, but

Undersecretary Brent McIntosh, Deputy Secretary Justin Muzinich. The entire team has just been really very helpful about this.

So -- and then as to the collateral, again, all we can say is that's what we need to work through with them. We have $10 billion of unencumbered assets plus the AAdvantage program, which has appraised values of, as Derek indicated, awfully high. So given all that, we feel good about our -- what we have said, which is that we will go raise the government loan and still have significant unencumbered assets, not -- outstanding.

And then let me use this opportunity to one more, give credit where credit is due, to Derek and the Treasury team. We -- these numbers we're giving you, $11 billion at year-end -- sorry, at quarter end with the government loan has us thus far, the most expensive debt we will have raised in that analysis is this government loan. So not to say that we won't need to do other things in the future, but we've been going about this going to go to the most efficient source of financing throughout. And I think we've done so really well. Feel good about that, and we'll continue to do that. And right now, that's the next most efficient tranche to go after. So that's where we expect to go to the extent. Beyond that, if we need to do other things, we obviously will do so.

I heard, I think, Gary Kelly on Southwest call said this well, there's an asymmetrical risk right now for cash. Not having enough is really expensive, having too much may be somewhat expensive, but you just use that to pay down the debt sooner. That's certainly the way we view it, and we're going about it in a way of raising that which is most efficient first and getting to those that are less efficient later.

Andrew George Didora - *BofA Merrill Lynch, Research Division - Director*

Great. And lastly, Derek, just a quick modeling question here. In the $50 million daily cash burn rate in June and beyond, what are you assuming? What is EETC amortization assumptions in that number?

Derek J. Kerr - *American Airlines Group Inc. - Executive VP & CFO*

So the EETC amortizations for 2020 is about $2.2 billion for the full year.

Operator

At this time, we will take questions from the media. (Operator Instructions) Your first question comes from Alison Sider from Wall Street Journal.

Alison Sider;The Wall Street Journal

Yes, I was wondering if you could tell us anything about sort of the -- any supply chain issues you're seeing for masks. Like where are you getting all these masks for crew and for passengers? And is it getting easier to find them?

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

Ali, it's Robert. I'll give you what we know. Look, there's a lot of planning that goes into provisioning masks and sanitizers. And when we contemplated making changes to our cleaning programs and also any type of amenities for our customers, things have changed rapidly in just 2 or 3 weeks. So as we take a look forward, with sanitizer, we see ample supplies. With masks, it is a logistical issue of getting inventories to the right place. But we have sufficient quantities for our team, and as our commitment to offer masks and sanitizer to customers in flight, you'll see us rolling that out in our supply chain. It will take a number of weeks, but it's not an issue of months at this point. And so I can't point you to the exact sources of supply.

But I will say that things have certainly eased -- constraints have certainly eased over the last few weeks to the point that we are able to make commitments like we have to both our team and our customers.

Alison Sider;The Wall Street Journal

Got it. And I mean we've heard -- I know you can't say exactly where, but we've heard of other airlines having to go to Asia or to China, in particular, to get masks. Is that kind of where some of the sourcing is?

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

We're sourcing wherever we can get the quality product that meets our needs throughout the country. But I don't have the specifics on what percentage comes from where.

Operator

Your next question comes from Kate -- Kyle Arnold from Dallas Morning News.

Kyle Arnold;The Dallas Morning News

You mentioned the 39,000 employees that took the early out, leave and reduced hours. Can you talk a little bit about what your permanent workforce situation might look like after that CARES Act restrictions sunset? And how are you going to be looking at the immediate from the size of the airline during the next few months?

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

Yes, Kyle. It's Doug. Look, obviously, hard to tell given the uncertainty around demand, where we will be and how fast the consumer returns and how much they want to fly. But certainly, I mean, given what we announced today with the retirement of all these aircraft, we will emerge from this in the fall with a smaller airline than we had anticipated prior to the virus, of course, and go into 2021 as a smaller airline. So we will indeed -- we will, certainly, irrespective of where demand is, go into the fall with more team members than we have worked for, which is a challenge for certain. We hope to get through that same way we've gotten to this point, the fact that we had 40,000 -- 39,000 of our team members volunteer for leaves and early retirement, I think, is an indication that we hopefully can be able to manage through that without having to do furloughs. That's certainly will be our goal, to go through and make sure that we have the airline rightsized, properly sized, a good bit smaller than it is today, but do this in a way that takes care of our team, which has been front of mind for this entire process.

So we'll look to do that. But yes, those decisions are things we're going to have to make when we get to that point. And that's a goal at this point, one that I hope we can meet, but not a certainty. So again, this is not unique to American. I think we're all working through this at this point.

As for right now, we're working through the summer and through the terms and conditions of the CARES Act itself. And as we get into the fall, we'll have to work -- we will certainly be working productively with our team to make sure we're rightsized.

Operator

Your next question comes from Mary Schlangenstein from Bloomberg News.

Mary Schlangenstein;Bloomberg News

I wanted to ask, when you all have been mentioning the AAdvantage program as not being included in your unencumbered assets, can you talk about your willingness or your unwillingness to have to use that as collateral?

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

Derek, do you have anything for Mary?

Derek J. Kerr - *American Airlines Group Inc. - Executive VP & CFO*

Well, I think -- well, there's willingness to use all of our collateral that is necessary for us to increase the liquidity to where we need it to be.

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

Yes. We weren't putting constraints on the program, if that's what you're asking. I mean like that, if indeed that is an asset that we can use to raise much needed liquidity in this time, we're absolutely willing to consider it.

Mary Schlangenstein;Bloomberg News

Okay. And if I can also ask on the worker leaves, do you have any information in terms of -- since there are 3, 6, 9, what percentage of those folks would be coming back right around September 30 when the restrictions on the CARES Act loan go away?

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

I don't know if we have that information, Mary. But again -- I don't think we have that.

Mary Schlangenstein;Bloomberg News

Okay. Just wondering if that's going to complicate your decisions going forward on whether you need to have furloughs or not, if you've got a bunch of folks coming back off of leave at that time. So if that becomes available, and I could get that, I'd appreciate it.

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

Yes. Well, anyway, Ali, do you want to answer?

Alison Taylor - *American Airlines Group Inc. - SVP of Global Sales & Distribution*

Yes. Mary, I can call you offline about that. I would tell you that some of these leaves, the 3, 6, 9 months, we'll be going back out and looking at extending those wherever we can, if needed.

Operator

Your next question is from Leslie Josephs from CNBC.

Leslie Josephs;CNBC

On the open labor agreements, how does coronavirus and then this need to be a smaller airline affect those? And as you think about furloughs, how do any of the existing labor contracts affect those discussions?

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

The existing labor negotiations, the flight attendants and pilots renegotiations. Those negotiations -- obviously, it has an impact on us as we all work on the pace of those negotiations. We'll still continue to talk and work through those to the extent we can. But right now, all of our team is working to make this work into take care of our team members through this issue. So nothing -- certainly, nothing to report about those moving forward beyond where they were at this point. And again, as it relates to the labor contracts, as I said, our goal is to get through this without furloughs to our team. I'm sure our unions would support that goal. And we'll work together to figure out, hopefully, ways that we can do that so that we have the workforce rightsized, but have those that want to avail themselves of leaves or early outs, doing so; and those that need to be working, doing that as well. So we'll work with them on that, I will note again. Yes, go ahead.

Leslie Josephs;CNBC

And on the leaves, do you have any sense of why so many people are taking those leaves? Is it child care? I can't go to another airline now. But...

Elise R. Eberwein - *American Airlines Group Inc. - EVP of People & Global Engagement*

Yes. Leslie, it's Elise. It's a combination of things from child care needs to wanting to take the summer away from flying. So it's a variety of needs. It all depends on the individual.

Operator

Your next question comes from Edward Russell, TPG.

Edward Russell;The Points Guy

Vasu, I was wondering if you could go a bit more into your statement on all the hubs coming back. Should we expect some hubs to come back faster or more robustly than others? I know you've been talking in the last few years about Charlotte, Dallas and Washington being the strongest hubs.

Vasu Raja - *American Airlines Group Inc. - SVP of Network Strategy*

And Ed, thanks for the question. It remains to be seen, quite frankly. As Derek mentioned, we are just now starting kind of a clean sheet exercise for what 2021 might look like. And so I couldn't tell you with a lot of clarity. But for right now, as you look at our schedule, clearly, we have our biggest connecting complexes that are out there, primarily so that we can serve the vast majority of communities under the CARES Act with a minimum of resource expenditure. And so that's all you kind of see in our existing schedule today, and everything beyond it remains to be seen yet.

Edward Russell;The Points Guy

Great. And then one point of clarification. Robert, you mentioned some older 737s that could be retired. Was that -- how many were they? Were they 42? I missed that number.

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

Yes, 42.

Operator

There are no further question at this time.

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

Excellent. All right. Well, thanks, everybody, for your time and attention. I will close. Where I closed my comments with is, obviously, it's a difficult time for our industry and our country. And -- but we couldn't be more proud of how our team and our industry is managing through this. We will get through this, I'm certain of that. I know our industry will get through this, will fight through this successfully. And I'm particularly confident that American Airlines will be among those leading the way. We will keep you apprised as we move forward. If you have any further questions, please contact the Investor Relations or Corporate Communications. Thanks a lot.

Operator

Ladies and gentlemen, this does conclude today's conference. Thank you for participating. You may now disconnect.