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US Airways Q1 2008 Earnings Call Transcript

Executives

Elise Eberwein - Senior Vice President, People, Communications, and Culture

W. Douglas Parker - Chairman of the Board, Chief Executive Officer

Derek J. Kerr - Chief Financial Officer, Senior Vice President

J. Scott Kirby - President

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Analysts

Michael Linenberg - Merrill Lynch

Jamie Baker - JPMorgan

William Greene - Morgan Stanley

Gary Chase - Lehman Brothers

Daniel McKenzie - Credit Suisse

Ray Neidl - Calyon Securities

Bob McAdoo - Avondale Partners

Frank Boroch - Bear Stearns

Media

Mary Schlangenstein - Bloomberg News

Melanie Trottman - Wall Street Journal

Tom Belman - Philadelphia Inquirer

Chris Kahn - Associated Press

Jefferson George - Charlotte Observer

Donna Hogan - East Valley Tribune

Ted Reid - TheStreet.com

Ann O'Keefe - WSOC-TV

Tom Fontaine - Beaver County Times

US Airways Group, Inc. (LCC) Q1 2008 Earnings Call April 24, 2008 12:30 pm ET

Operator

Good day and welcome to this US Airways first quarter 2008 earnings conference call. This call is being recorded. At this time, for opening remarks and introductions, I would like to turn the call over to Ms. Elise Eberwein, Senior Vice President, People, Communications, and Culture. Please go ahead, Ms. Eberwein.

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Elise Eberwein

Thank you, Peter and good morning, everyone. Thanks for joining us for our first quarter 2008 earnings call. With us in the room today in Tempe is Doug Parker, our Chairman and CEO; Scott Kirby, our President; Robert Isom, our Chief Operating Officer; Derek Kerr, our Chief Financial Officer; Janet Dillon, General Counsel; and our manager of -- excuse me, Director of Investor Relations, Dan Cravens.

As we usually do, we are going to start this morning's call with Doug. He'll provide general comments on our results today and provide an industry overview. Derek will then take us through detail on the quarter, including our cost structure and current liquidity. Scott then will follow with commentary on the revenue environment, performance in the quarter, and also provide an update on our integration. And then after we hear from those comments, we'll open the call for questions and lastly, we'll have questions from the media after we take questions from the analyst community.

Before we begin, we must state that today's call contains forward-looking statements, including statements concerning future fuel prices and our future financial performance. These statements represent our predictions and expectations as to future events but numerous risks and uncertainties could cause actual results to differ materially from those projected. Information about some of these risks and uncertainties can be found in our earnings press release, which we issued this morning, our Form 10-Q for the quarter ended March 31, 2008, and other SEC filings on the company.

In addition, we will be discussing certain non-GAAP financial measures this morning, such as net loss and CASM excluding unusual items. A reconciliation of those numbers to GAAP financial measures is included in the earnings release and that can be found on our website at usairways.com under the investor relations tab.

Lastly, a webcast of this call is available on our website, usairways.com, and that will be archived on the website for one month and the information that we are giving you on the call is as of today's date and we undertake no obligation to update the information subsequently.

That's it. At this point, I will turn it over to Doug. Thanks again for joining us this morning.

W. Douglas Parker

Thanks, Elise. Thanks to all of you for being on. As you have now read, we have reported a first quarter loss of $236 million. That was driven by higher oil prices. If jet fuel had just stayed constant at where it was in the first quarter of 2007, our fuel expenses would have been $260 million lower.

Oil is causing significant financial turmoil and the need for action in our industry and we'll talk a good bit about that, both in our comments and I am sure in the questions. But I want to begin by pointing out the incredible operational turnaround that our team has accomplished, which is evidenced in this quarter's performance.

For the quarter, US Airways had on-time performance of over 73%. That's about 16 points higher than our performance in the same quarter of '07 and that performance is not just improved versus our own last year but it is industry leading. Our first quarter on-time performance is about seven or eight points higher than the industry average and we are highly confident that we'll be number one among the big six airlines in on-time performance when the DOT releases the industry's first quarter results next week.

Those of you who have been following US Airways know how an important an accomplishment that is, to go from last in on-time performance last spring and summer to first so far in 2008 is a phenomenal achievement and I want to thank Scott Kirby, Robert Isom and the rest of the operations leadership team, along with our 35,000 hard-working employees who really made this happen.

Based on the feedback I've received from our customers lately, I know they appreciate it as well so thanks to all of you so much.

On the financial results, again our results are indicative of the financial turmoil that is affecting the industry. Oil prices have risen so high so quickly, the shockwaves have been dramatic. We've seen large losses at almost all carriers, bankruptcies and bankruptcies that have quickly become liquidations, in many cases, and liquidity concerns about larger airlines as we look forward.

Fortunately, US Airways is prepared for this environment and we have significant cash on hand. We recently improved our credit card agreement. We have debt agreements that have minimal debt payments through 2013 and no financial covenants other than a minimum cash balance to us. We've done a nice job of keeping capacity in check and we are running a great operation for our customers.

As we go forward, we plan to do more. We are going to further reduce capacity. We'll accelerate our a la carte pricing program. We are looking to modify our pricing structure and reducing our capital expenditures, and Derek and Scott will talk

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more about all those things.

One of the things we also do is investigate consolidation opportunities. I obviously can't comment much on specific consolidation speculation so I will say what I can say now, and that is we've been a long-time proponent of industry consolidation. We believe the industry is far too fragmented and we also believe that a healthier, less fragmented industry would be in the best interest of our industry shareholders, customers, and employees.

To that end, we are supportive of the consolidation efforts that have begun and we will continue as always to investigate any opportunities that might be in the best interest of US Airways employees, customers, and shareholder.

In some way all this -- we think the financial turmoil that we are in, while none of us like to see this level of losses, the turmoil that we are in actually provides an opportunity for our industry and particularly for US Airways. We have been encouraged by some of the comments and actions of our competitors recently and we are hopeful this has been a wake-up call that was needed to finally force all of us to treat this industry as a business that much generate adequate returns on capital. The capital markets seem to be enforcing that discipline upon us and we think that's good.

One of our competitors was quoted recently as rightfully noting that there is no playbook for this environment. To that we think thank goodness. Those old plays never worked. We keep running them anyway just to stay in the game. This is an opportunity for a new set of plays that focuses on doing what's right for the long-term in our business. We at US Airways welcome that environment. It's an environment that we perform well in and one that we believe we are well-positioned to manage through.

So with that said, I will turn it over to Derek and then Scott, and we'll take questions after.

Derek J. Kerr

Thanks, Doug. We filed our first quarter 10-Q this morning and in that Q, as Doug said, we reported a net loss of $236 million, or a loss of $2.50 per diluted share, which compares to a net profit of $66 million, or $0.70 per share a year ago. When you exclude the special items, our net loss for the first quarter was $239 million, or a loss of $2.60 per diluted share versus a net profit of $34 million, or $0.37 per diluted share in the first quarter of last year.

The company's first quarter 2008 results include special items which net to an expense of $3 million. The major items on the expense side are $26 million of merger related transition expenses, a $13 million impairment loss considered to be other than temporary on available for sale auction rate securities, which I'll talk a little bit about later, and a $2 million write-off of debt discount and debt issuance costs in connection with the refinancing of certain aircraft equipment notes.

These expenses were offset in part by a $36 million non-cash credit for unrealized net gains related to airlines outstanding fuel hedge contracts and an $8 million gain on forgiveness of debt.

For the quarter, total capacity was 21.9 billion ASMs, down 0.3% from 2007. On the main line side, it was 18.3 billion ASMs, down 1.2%. Express capacity was up 4.4% to 3.6 billion ASMs.

As a result of the record high fuel prices, we have once again taken steps to reduce our capacity in the second half of the year. Reductions were made through a combination of lower utilization flying and returning three more aircraft to leasers as leases expire in the fourth quarter. There's now a total of six aircraft, three more than what we had previously announced and most of this will have a bigger impact on 2009; since it will come out in the fourth quarter, it will have an impact on the fourth quarter ASMs when I give out the guidance here in a little bit.

We now plan on ending the year with 355 aircraft. Throughout the year, we will continue to replace older aircraft with new fuel-efficient aircraft. This will continue over the next few years as we complete our fleet modernization.

In 2008, we now plan to return 22 aircraft during the year, four 757s and 18 737s, while adding 14 Embraer 190s and five A321 aircraft.

ASMs are now projected to be 74.4 billion for the year, which is down approximately 2% versus 2007. This breaks down by quarter at 19.4 billion in the second quarter, 19.5 billion in the third, and 17.4 billion in the fourth, which is 4% down in the fourth quarter versus 2007.

Our operating revenues for the quarter were $2.8 billion, up 3.9% from the same period in 2007. Main line passenger revenues were $2 billion, up 2.5%. Main line revenue passenger miles were 14.5 billion, resulting in a load factor for the first quarter of 79%, which is 1.3 points higher than the same period last year.

Total RASM -- total passenger RASM was up 4.1% in 2008 to $0.119. For the same period, combined yields increased 2.7%, and Scott will go into the revenue environment a little bit more after I am done.

On the expense side, the airline's operating expenses for the fourth quarter were $3 billion, up 16% compared to year-ago.

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Main line costs per ASM were $0.1256, up 16.7% versus last year. Record high fuel costs continue to be the story for us in the industry, including related taxes and realized gains in 2008 and realized losses in 2007 associated with our fuel hedging program. Our average main line fuel price for the quarter, excluding tax, was $2.60 per gallon versus $2.01 per gallon in the first quarter 2007.

As Doug said, if fuel prices remained constant at $2 per gallon, that first quarter fuel expense would have been $260 million lower.

For the first quarter, we had 50% of our fuel consumption hedged, which resulted in a realized gain of $81 million, or $0.28 per gallon. Fuel conservation continues to be a top priority for us in 2008. As I said previously, we are in the midst of an aircraft renewal program and we continue to implement where feasible, fuel conservation strategies such as arrival fuel, APU burn, and adding wing lifts to our 757 fleet.

For the full year, we are forecasting fuel price to remain high in the range of $3.00 or $3.05, and this is based on the April 15 forward curve. Our forecast breaks down by quarters as follows: $2.95 to $3.00 in the second quarter; $3.15 to $3.20 in the third; and $3.29 to $3.34 in the fourth.

In terms of fuel hedging, we continue to actively increase our hedge positions, even in this environment. We have 56% hedged in the second quarter, 41% in the third, and 26% in the fourth, for 44% overall for the year. The second quarter fuel hedges are capped at $28 per barrel, or $2.62 per gallon. The caps increase throughout the year and top out at $85 per barrel in the fourth quarter. The value of our unrealized fuel hedges in place at the end of the quarter was $157 million.

Excluding special items, fuel, unrealized gains and losses on fuel hedged instruments, our cost per ASM was $0.0857 in the quarter, an increase of 8.8% versus 2007.

Express operating cost per ASM ex fuel was $0.1347 for the quarter, down 0.5% versus 2007. As we have discussed previously, the increase in costs excluding fuel in the first quarter was driven by higher maintenance costs due to more engine overhauls performed in 2008 period versus 2007 and the continued implementation of our operational improvement plan.

We continue to take necessary steps to improve our operational reliability and have seen significant improvement, as evidenced by our on-time rankings during the quarter.

Moving forward, we expect non-fuel unit costs to increase at a much slower rate, despite the reduction in capacity.

In terms of CASM ex fuel guidance for the remainder of 2008, we are forecasting main line CASM ex fuel to be up 3% to 5% versus 2007. As we said on the last call, a big portion of that increase is due to the higher year-over-year engine overhaul volume throughout the year, as we project 72 overhauls versus 41 we had last year. This breaks down by quarter as follows: the second quarter should be up 1% to 3%, while the third and fourth quarters should be up 2% to 4%.

Express CASM for the full year should be down 1% to 3% in 2008.

The slight increase in the second quarter main line CASM from that previously announced is due to the increase in maintenance costs for returning the six aircraft in the fourth quarter. The increased cost of returning the aircraft is a short-term P&L hit but a positive long-term benefit for the company.

Now I'll talk about the balance sheet. We finished the quarter with $2.8 billion of total cash and investments, of which $2.4 billion was unrestricted. The unrestricted balance does include $295 million of auction rate securities that currently are reflected as non-current assets on our balance sheet.

At current value, we have $411 million of auction rate securities. Of this, we have written down approximately $23 million as other than temporary and another $93 million as temporary. We do believe over time we will substantially recover the par value of these securities.

In April, we amended an agreement with Chase Bank, our credit card processor, to extend the term of the agreement, reduce pricing, and provide for the reduction of collateral requirements for the reserve account required to be maintained by the company. We have now capped in holdback in a percentage no greater than where we are today and have certain financial triggers that enable us to reduce it further.

As a result of the amendment, we expect $67 million to be released from our reserve account by the end of the month due to the reduced reserve requirements.

During the quarter, we were successful in accessing the difficult financial markets, completing three transactions. We entered into an agreement to finance 13 A321 aircraft. This means that all our single aisle aircraft deliveries are financed through mid 2009. We also completed a PDP financing for $80 million for our A320 family deliveries that are on firm order and we refinanced certain [inaudible] debt.

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Our debt payments for the first quarter were approximately $45 million. For the remainder of the year, we only have $85 million of scheduled debt payments with most of our significant payments pushed out until 2014. Also, as you may recall, the only restrictive financial covenant in our bank loan is a minimum cash balance requirement of $1.25 billion of unrestricted cash. We have no fixed charge covenant to comply with.

Looking at CapEx, we have put in new restrictions on capital spending and are revising our outlook for 2008. We have reviewed all capital items, giving priority to projects that are mandatory and are in line with our operational and product improvement plan. And we have reduced our discretionary spending in 2008 by $75 million. We are currently forecasting total CapEx to be $360 million in 2008. This includes non-aircraft CapEx of $240 million and net aircraft CapEx including deliveries and pre-delivery payments of $120 million.

So in summary, high fuel prices continue to be a major concern for us and the industry going forward. Fortunately we have taken the steps to prepare for this environment. We have a strong balance sheet with significant cash on hand, minimal debt payments through 2013, and we have made significant progress on our operational improvement plan.

We still have work to do to drive down our unit costs and maintain our liquidity position. We know that watching capacity, reducing unnecessary capital spending, increasing our focus on cost discipline, and wisely investing in our airline is the way to do that.

With that, I will turn it over to Scott to go through the operation and revenue picture.

J. Scott Kirby

Thanks, Derek. The first quarter was a busy one for us. I'll take a minute to talk briefly about our operational results and some labor highlights for the quarter, and then turn to the revenue environment.

Operationally we had our best quarter since the merger in 2005, with top three in on-time performance in all three months and overall we believe number one performance for the quarter across the industry.

I would like to thank all of our 35,000 employees for the truly remarkable operational turnaround that we have seen since just last summer. Additionally, we have made huge operational progress in Philadelphia, thanks to our new headquarters regional management team led by Susanne [Boda] and Bob [Siminelli]. Our Philadelphia employees had significantly great cooperation and help from the Mayor's office and the Philadelphia Department of Aviation in Philadelphia.

For some specific statistics, our on-time arrival performance in Philadelphia improved by 16 points year over year. Our on-time departures improved 23 points year over year, and our mishandled baggage ratio declined by 30%.

In addition to the very strong operational results, we also had a very productive quarter with labor agreements, including signing a new ratified agreement with our mechanics, reaching a tentative agreement with our fleet service employees, and reaching a tentative agreement with our maintenance training instructors.

Turning to the revenue environment, during the first quarter we saw revenue similar to the fourth quarter with consolidated RASM up 4.1%. Despite the well-publicized concerns about the U.S. economy entering a recession, demand remained strong throughout the quarter.

Going forward, the demand environment continues to look robust and we see very little if any evidence of a macroeconomic slowdown impacting airline revenues. We expect April RASM to be roughly flat year over year due largely to the shift of Easter but currently expect May and June RASM to each be up in the 4% to 6% range.

Despite a still robust demand environment, however, 4% to 6% increases in RASM are simply not large enough to keep up with the stratospheric cost of fuel. While we are aggressively controlling all costs, there is simply not enough cost reduction opportunities to counteract the dramatic increase in fuel prices. Therefore, revenues have to go up for US Airways and all other airlines. The most straightforward approach for that is through capacity reductions and we are encouraged to see all airlines, including US Airways, pulling back their capacity plans.

But minor reductions in capacity alone can't compensate for the dramatic increases in fuel prices and so we have begun implementing a la carte pricing initiatives that lets customers pay for the services that they desire, such as the new fee for a second bag and charging for premium seats. We expect the initiatives announced to date to generate over $100 million in annualized revenues and we are working to further expand and significantly increase the a la carte revenue streams over the coming months.

In addition to the a la carte initiative, fares simply must go up to cover the cost of jet fuel. Now the numerous fare increases that make headlines on legacy carrier structure fares are helpful in that regard, they only apply to a small percentage of the tickets purchased by customers since there usually lower fares available in the market that aren't impacted by the structural fare increases.

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To try to address the low-end of the fare structure where many more tickets are actually sold on a day-to-day basis, US Airways has cancelled all non-sale fares below certain price points based on length of haul. As pointed out in the press release as an example, in short-haul markets that are less than 500 miles, US Airways is no longer offering non-sale fares that are less than $69 one way. This is an effort on our part to not sell tickets at prices that can't cover the costs of operating a flight and purchasing the fuel needed for the flight.

In conclusion, we are extremely pleased and grateful for the fantastic job our employees have done turning around the operation. Industry capacity discipline is encouraging. We will have to do more as an industry to generate revenues as long as fuel stays at these levels. US Airways is moving aggressively in that regard to raise fares commensurate with the increased cost of fuel and pursuing a la carte pricing initiatives.

With that, I'll turn it back to Doug.

W. Douglas Parker

We are ready to take questions, please.

Question-and-Answer Session

Operator

(Operator Instructions) We'll go first to Michael Linenberg, Merrill Lynch.

Michael Linenberg - Merrill Lynch

One question here; you know, I realize that you have some cost headwinds and you saw it with your unit costs up 8.8%. I mean, you talked about engines and maintenance, et cetera. But when we look at your margin relative to other carriers, I mean, if you look over the last couple of quarters, even versus a year ago, you've gone from call it a position of leadership to one where this quarter, you are lagging the industry. And I am curious sort of your thoughts -- is it structural, is it the fleet? Or is it just the fact that you don't have as much international exposure as some of the other main line carriers and so you are not tapping into call it regions where GDP is a lot higher, the currencies over the, the point of sale is much higher versus the dollar.

I mean, what's lagging? Because usually the March quarter is a good quarter for you, given your at last U.S. geographic footprint.

W. Douglas Parker

This isn't one of our better seasons, Mike, if you go look but nonetheless, your point is right if you look at year-over-year change, even. And I think the primary reasons are two; one that you touched upon, which is less international flying and those that have more international flying, I know have all noted how much better their international markets are doing on a margin basis than their domestic markets, so I think that's -- I know that is one large reason.

The second one is that fuel, as fuel increases it impacts our margins more than it does other airlines. We are more sensitive to it despite having a younger fleet. It is not because of fleet issues. It is because our other costs are lower than other airlines. We have lower non-fuel costs than other airlines primarily in labor and in ownership costs. So if you go through that, which again work you can do easily, but if you go look at our sensitivity to fuel increases, you will see that as fuel goes up, our margins decline at a faster rate than the rest of the group.

Michael Linenberg - Merrill Lynch

And I guess as a follow-up to that, Doug, can you refresh us on where international capacity is as a percentage of your total capacity, how that trends out over the next couple of years? I think Scott has maybe thrown that number out in the past and I think it was mentioned when you came out and announced the order for the A350s. Where should we see that go? Because it seems like that is part of the problem.

J. Scott Kirby

Well, it is certainly part of the -- it's a relatively less strong -- domestic is relatively less strong than international right now, so that does affect current results. And also from a seasonality perspective, the first quarter is one of the weakest quarters for us relative to the group -- first and fourth, actually, because of less international exposure.

But we are currently at about 20% international and starting in 2009, that will be growing by about 15% a year, so it would go from 20 to 23 to 26 to 29 for each of the next three years, approximately.

Michael Linenberg - Merrill Lynch

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Okay, good. That's helpful. Thank you.

Operator

We'll go next to Jamie Baker, JPMorgan.

Jamie Baker - JPMorgan

Good morning, everybody. First question I guess for Scott; I know there is a minimum main line fleet requirement in your ALPA contract. I see that you are moving a little bit closer to that with today's 737 announcements but it isn't clear to me what sort of flexibility you still have on the regional side. Are you already at contractual minimums with those contracts, or is there more downsizing you can do in that regard?

J. Scott Kirby

The only downsizing we can do of any material amount is reducing utilization. We have a couple percent more that we can go on the main line in terms of fleet and we can go several more percent in terms of reducing aircraft utilization, some of which you will see starting in September that we'll be reducing utilization.

On the regional side, we have significant flexibility with our turbo prop operations, of which we have about 70 aircraft. Our RJ -- we could reduce that as much as we want and on the RJ operation, we are contractually limited. I mean, we are at our core minimums, though we could reduce utilization more.

Jamie Baker - JPMorgan

Okay, got it. And secondly, you have slots at La Guardia and Reagan, I guess, pledged as collateral in the credit facility. I'm just curious whether you've given any thought as to how the whole proposed slot auction at La Guardia might affect that issue. Probably a question for Derek or -- but no, no, I'm sorry. Go ahead.

J. Scott Kirby

We are opposed to the government nationalizing slots.

Jamie Baker - JPMorgan

You don't say?

W. Douglas Parker

Jamie, I think you know that what's proposed by the DOT is something that we are heavily opposed to, and one that we will -- that we think is not right. I mean, those slots we already paid for. It was the value of -- one of the large values of US Airways at the time we had the merger was the network and indeed we and our investors paid for those slots as part of the network. So we don't think it's right for the government to even talk about, you know, confiscating those and auctioning them off. And we feel extremely strongly about that, as does the rest of the industry and we don't believe that that auction proposal the DOT has put in will ever actually take place.

Jamie Baker - JPMorgan

Okay. Thank you very much, everybody.

Operator

(Operator Instructions) We'll go next to William Greene, Morgan Stanley.

William Greene - Morgan Stanley

Doug, I have a question for you on Southwest's efforts; so we know you have a fair amount of overlap with them and if they raise fares, that's helpful. But they are also trying to do some non-fare revenue initiatives. And it is not clear to me how exactly that could affect what you would be able to do. I see you obviously -- you are going down this path but is there a lot of opportunity there as they go down, or are you kind of just limited to the revenue pie that is out there?

J. Scott Kirby

I'll answer that. I think that there is significant opportunity for Southwest, for US Airways, and other airlines. I think unlike some published fare pricing, it is probably less dependent on what the competition does, though easier to push through increases on bag charges and assigned seating or premium seating if other airlines are doing, have similar programs in place.

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But I think you are going to see the whole industry going to much more a la carte type pricing and as I said, the two initiatives we've announced to date are worth $100 million. We expect material increases in that number as we roll more programs out. The only thing that is really holding us up on that is getting technology and infrastructure in place to roll more a la carte increases out. But I think you will see that for -- you are already seeing that for Southwest and you are seeing it for other airlines as well.

William Greene - Morgan Stanley

And you don't think there will be a customer reaction in terms of starting to calculate the total cost of flying instead of kind of getting into the airport and saying oh, I guess I have to pay this extra $25, $50 as well?

J. Scott Kirby

There may be but I also think that flying still represents a huge value and a great value proposition since 1980. I've said this on a couple of other calls but yield for prices in real terms are down over 50% in the last 28 years and unfortunately, our costs haven't declined anywhere near 50%.

So the fares are going to go up one way or another and this is just one way to do it and I think it is better for customers in the long-term rather than charging all customers for services that they don't want, for those customers that care about sitting close to the front of the airplane or that want to bring two bags, charge only those customers. That allows us to keep fares as low as possible for the majority of customers and only charge those customers that want to pay for the extra services.

William Greene - Morgan Stanley

Okay. And if we look at -- you know, one of the reasons that Delta Northwest threw out there is they think their merger will go well is because of the systems integration because they've got an alliance and there is already some tie-ups there. So obviously you guys went through that with your merger with USAir a little bit. I am wondering if you can kind of talk about how critical is that as we think about these mergers going forward? Is it more important to be members of the same alliance for this reason or is that not all that critical?

J. Scott Kirby

Well, it is certainly helpful. I can't tell you honestly that it would be a factor that would stop a merger from happening but it is one of those things on the margin that makes it much easier to do it if you are in the same alliance. It's not just the systems; it's the process of de-linking everything. And it would be a significant one-time expense to try to switch alliances for anyone.

William Greene - Morgan Stanley

All right. Thanks for your help.

Operator

We'll take our next question from Gary Chase, Lehman Brothers.

Gary Chase - Lehman Brothers

I think one for each of you here. Derek, in the credit card agreement, there are no covenants at all -- is that right?

Derek J. Kerr

No, in the credit card agreement, there is a fixed charge but what we have capped it now, the holdback capped at where we are at today, which I have talked about on other calls but -- we capped it where it's at today. It moves it from where it is today down and only back up to where it is today. So it is capped at that percentage on a fixed charge coverage ratio.

Gary Chase - Lehman Brothers

Okay, so there is no exposure?

Derek J. Kerr

To where we are today, correct.

Gary Chase - Lehman Brothers

Right, okay. Where you were as of the 10-Q?

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Derek J. Kerr

Correct.

Gary Chase - Lehman Brothers

Second, I think this is for Scott, when the pilots de-certified ALPA, the US Airways pilots, what implications does that have for the integration? How do you move forward? Can you proceed with the integration as it was? How does this affect the process?

J. Scott Kirby

Well, we are largely done with the integration process and all we are lacking is labor agreements, two labor agreements now, presuming that the other two that are outstanding get voted in, but labor agreements with pilots and flight attendants. This allows us to get back to the table and start negotiating again. As you know, since we haven't had a -- or as you may know, since May of 2007 we have not had a negotiating session, formal negotiating session with our pilots because they were going through this process related to the seniority arbitration and then ultimately the representational action on union. So this is encouraging to us that after almost a year, we are going to be able to get back to talking to our pilots and having formal negotiations with them.

So it doesn't change anything in the immediate term about where we were because we had to get an agreement between the two ALPA groups last time and now we have to get an agreement with USAPA to take the next step. But now we are able at least to start talking to the union so we view it as a good thing -- a good thing that it's done, not without regard to which union group we are trying to preference because we were neutral. A good thing that it's over and allows us to get back to the table.

Gary Chase - Lehman Brothers

But it still is required that you negotiate --

J. Scott Kirby

You broke up there but for us, for us to take the next step of integration, we have to get an actual agreement. From the company's financial perspective though, that is a $10 mm kind of savings. It's not a big number. The synergies are almost all in our numbers today, so we do need to get an agreement. It's the right thing to do to get all of our employees working on a single agreement, but there won't be a big positive financial synergy from getting to a single agreement.

W. Douglas Parker

I just want to comment on that because it still seems to be at least stated by -- I thought the financial community mostly understood this but there is no large financial benefit that we are not receiving because we have -- because we don't have one integrated pilot contract right now, or one seniority list.

As Scott said, it is something in the order of $10 million a year which is a savings but to get there, we are going to have to pay a lot more than that to get pay scales coordinated. Actually, whenever we sign it, it would be a net negative to the financials, which we've disclosed. But I just want to make sure everybody knows, it is not as if there is some large integration benefit that we are not receiving because we don't have an integrated seniority list and an integrated contract.

It's something we want to get because we think it's the right thing -- we want to get everyone working off the same contract and working as one team instead of two, but we are not missing any -- nothing that you could build into your spreadsheet that we are not generating now simply because of this.

Gary Chase - Lehman Brothers

I just didn't understand, Doug, if this put you in the position where you were going to go to that synchronization or harmonization that you had put out there in the past, and what I am hearing is no.

W. Douglas Parker

Not immediately, no. Now it just gets us back to the table, which we haven't been for a while, as Scott said. Okay, I understand. Thanks, Gary.

Gary Chase - Lehman Brothers

And then the question for you, Doug, is you referenced the industry running some new plays because the old ones clearly don't work. I just want to make sure I understood you there. Were you referring to the a la carte stuff that you were describing, consolidation, or was it the capacity reductions we've seen?

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W. Douglas Parker

Yeah, it's all of that and hopefully more. I mean, that's the point. It is really -- look, we tend to -- in the past, anyway, the industry would see difficult times, you'd see okay, we are going to reduce. Some [inaudible] are holding a little capacity and all of a sudden things get better and everything goes back to the way it was. We are highly hopeful that that's not going to be the case this time and that more long-term fundamental change will happen because it is being forced upon the industry finally and that all of those things that you indicated and even more outside of the box thinking that force us now to go do things in the business.

Now again, of the ones you've mentioned, I will say that I believe of those levers, the most powerful we believe is consolidation and we know how powerful that one is from our own experience, and there is tremendous value that can be created there. I think the a la carte pricing is also very powerful, however, and clearly pulling down capacity, it doesn't work nearly as well as -- it works well but it is harder to do as everyone does it a little bit at a time versus having, you know, if indeed you can do it through a less fragmented industry, you'd see I think a better effects of the same type of pull-down.

So I think it is all those things and again, hopefully even more. But what it really is is an industry that needs to stop trying to just do enough to get through a down cycle but rather needs to go fix itself fundamentally so that it can withstand these type of cycles and it can have the pricing power when it costs go up this much to actually pass it along to consumers, like other industries that have high fuel composition in their expenses do and don't go to these things that we tend to.

And again, we are hopeful this time that's what happens, and encouraged somewhat by what we are seeing from others and we have been long-time proponents of these type of changes in our industry, so we are hopeful this gets us there. But I think it is all those things, Gary, and not any one, which is really what has been needed for a while.

Gary Chase - Lehman Brothers

Okay, appreciate it, guys.

W. Douglas Parker

And I'll just add that one you didn't add in, Gary, which is pricing the product to cover the costs of transportation, which is one of the things Scott mentioned. We've just got to get ourselves to where we don't charge less than it costs to transport people, but we do that as an industry all the time. But it is all those things.

Gary Chase - Lehman Brothers

But isn't that a function of -- I mean, Scott was talking about all the different --

W. Douglas Parker

[It's a function of capacity.]

Gary Chase - Lehman Brothers

Yeah. Okay. Thanks.

Operator

We'll go to our next question, Daniel McKenzie, Credit Suisse.

Daniel McKenzie - Credit Suisse

Good morning. I know you mentioned you are potentially in merger discussions here so you can't talk about it, but I wonder if we can just talk about the flipside of that and that is --

W. Douglas Parker

That is not what I said, by the way.

Daniel McKenzie - Credit Suisse

Okay.

W. Douglas Parker

I did not say anything like that. I can't engage in speculation, so -- we haven't confirmed that we are doing anything, or are in

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talks with anybody, and won't.

Daniel McKenzie - Credit Suisse

Okay, well thanks for that clarification but I was going to try to take the flip side of that anyways, and that is talking about the anti-takeover provisions. I was wondering if you could talk about your -- you know, any poison pill or other anti-takeover provisions that US Airways currently has in its corporate by-laws?

W. Douglas Parker

We don't have any.

Daniel McKenzie - Credit Suisse

Okay.

W. Douglas Parker

And yeah -- anyway, I'm looking to our General Counsel. We don't have anything like that, nor do I think we should.

Daniel McKenzie - Credit Suisse

Okay. Thank you. And then Doug, I think one of the things that you like to say and that you have liked to say in the past is nothing is more expensive than running a bad operation and in the first and second quarter of last year, it looks like from DOT stats you guys were 20 out of 20 carries in on-time performance and this year, of course, running one of the best operations in the industry.

What is your sense, or I'm wondering if you can quantify the savings from running a good operation this year versus last year.

W. Douglas Parker

It's difficult to quantify, Dan. But I think you see it in the guidance Derek is giving you going forward versus what you just saw on a year-over-year basis. And a number that we know it cost us a good bit last year. It's really hard -- again, it's hard to quantify primarily because you don't know how much revenue you lost you could have had otherwise.

We certainly know things like our interrupted trip expense were much higher than we expected to be going forward, but it is not a number in and of itself that I think [feel] comfortable trying to tell you what it is. But what I will tell you is implicit in the guidance Derek gave you is the assumption that we are going to keep running the airline as well as we are and we are committed to doing that and we believe that if we do, we will be able to bring in the -- bring in numbers consistent with the guidance Derek gave you, which again given the capacity we are pulling down, essentially we are keeping costs flat as we move through the year on a year-over-year basis, because the CASM is only going up about the same amount the capacity is going down.

Daniel McKenzie - Credit Suisse

Okay, no, I appreciate that, thanks. And in fact, you actually got to exactly what I was looking for, and that is whether or not it was included in your guidance, your current guidance.

Operator

(Operator Instructions) We'll go next to Ray Neidl, Calyon Securities.

Ray Neidl - Calyon Securities

Just a couple of general things; one is if consolidation does happen and US Airways is not a participant, which I can't imagine, do you have enough cash set aside to maybe buy some surplus assets? Just as an example, maybe the Dulles hub operation of United Airlines.

W. Douglas Parker

Again, I can't -- it's hard for me to speculate on not just what we might do but certainly what others might do and what might be freed up. What I can tell you is we at this point, as I've said, feel good about how we have ourselves positioned relative to the industry, in a really incredibly difficult industry situation, at least on a relative basis we feel good about how we are positioned because of our cash balance, because of our debt agreements, because of the operation we are running. And that we feel good about.

As opportunities arise, we will look at each and every one of them and do anything we can to do even more for our company

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and our employees and our shareholders. But I just can't start guessing as to who is going to do what and then what we do as a result.

Ray Neidl - Calyon Securities

Okay. And it looks like one of the casualties is not going to be Virgin America with their fresh capital infusion. I'm just wondering what kind of affect, if any, are they having on your western operations?

J. Scott Kirby

Virgin America at the current moment has pretty limited impact on us. The only market we compete head-to-head with them is San Francisco - Las Vegas and surprisingly RASM is still up in San Francisco - Las Vegas, and the trans-cons is where they are much bigger and so just very limited overlap. Not a big impact one way or the other.

Ray Neidl - Calyon Securities

Okay, great. Thank you.

Operator

We'll go next to Bob McAdoo, Avondale Partners.

Bob McAdoo - Avondale Partners

If I go my numbers right, the capacity pull-downs that you are talking about seem to be quite a bit less than a lot of the other guys are talking about. I guess I am curious about whether you think this is going to be enough, if we still have $115, $120 oil or what is the process or how flexible are you to cut deeper if that seems to be the deal?

J. Scott Kirby

Well, 2% to 4% I think is actually consistent with where others are. It also comes on top of two years of dramatic reductions, year-on-year reductions at US Airways. So we started this process ahead of everyone else. We have less flexibility because we are getting close to our minimum fleet size and minimum utilization requirements on the main line.

With fuel at $115 to $120 a barrel, I don't think that from an industry perspective the current level of capacity cuts are sufficient to return the industry to sustained profitability, which is why we need, as Doug said, a new playbook -- things like a la carte pricing, things like new focus on fares, and consolidation and other ideas. But all else the same, no other changes.

I doubt that the current levels of industry capacity cuts are enough to return the industry to sustained profitability in the face of $115 to $120 a barrel fuel.

Bob McAdoo - Avondale Partners

But you are saying that you really don't feel like you've got a lot more flexibility -- you said you were going to be down 4% in the fourth quarter?

J. Scott Kirby

We have some but we don't have flexibility to be down 20%. We could go from 4% to 6%, but we couldn't have a double-digit percentage decline.

Bob McAdoo - Avondale Partners

And that's because of labor restrictions or --

J. Scott Kirby

Correct.

Bob McAdoo - Avondale Partners

Okay. All right, that's what I had. Thanks a lot.

Operator

We'll go next to Frank Boroch, Bear Stearns.

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Frank Boroch - Bear Stearns

Scott, I was wondering if you could maybe give us a breakdown of -- for the first quarter of RASM international versus domestic, as you have in the past?

J. Scott Kirby

Yeah, they were very similar. Domestic was up 4.2%, Europe was up 3.2%, Latin was up 6.2%. What we talked about in the fourth quarter, I think we underperformed with a lot of new capacity in the fourth quarter and in the first quarter internationally. As we look forward into the second quarter, we currently expect RASM, European RASM to be up actually double-digit percentages, so -- but we see big improvement on the international front.

Frank Boroch - Bear Stearns

Okay, great. And maybe for Derek; as you look out and you think about the fleet modernization plan for '09 and '010, any thought of slowing the pace of some of that? I know those are some pretty big CapEx numbers and with the markets still being supportive and hungry for aircraft in other parts of the world, is that something you guys have considered at all?

Derek J. Kerr

We've looked at it. Right now we are good financing aircraft through that time period. We have done this to replace aircraft, so this is a -- you know, we are trying to from a -- make a positive P&L decision and get rid of old aircraft and bring on new aircraft. So it is a replacement. We are not growing. We haven't had any discussions with any manufacturers to change the delivery schedule but we have had conversations internally about it.

Frank Boroch - Bear Stearns

Okay, great. Thanks.

Operator

(Operator Instructions) We'll go next to Jamie Baker, JPMorgan Chase.

Jamie Baker - JPMorgan

Just a quick follow-up; Scott, you responded I think to Bob that you didn't think the industry capacity cuts so far would be sufficient in order to recalibrate to a -- well, you didn't say that you had a fuel assumption but let's call it a $3.50 a gallon world. I happen to agree with your math but I am curious that if holding demand constant here, what sort of system industry capacity cuts might do the trick?

J. Scott Kirby

I don't know for sure. The math I can do is fuel prices for us are probably $1.5 billion more than they were in 2007, approximately, as of today. So to get back to last year's level of profitability, we would need RASM to be up 12.5% just to cover that cost of fuel, if nothing else was going up.

So whatever capacity cut you think is appropriate to get to 12.5% RASM increase is probably about what the industry needs.

Jamie Baker - JPMorgan

Okay, thanks, Scott.

Operator

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

Mary Schlangenstein - Bloomberg News

I had two quick questions; United has sought a one-year delay in the start of their San Francisco to China flight because of the fuel prices and I wondered if you guys are considering something similar.

And the second question is, is there any possibility that could go to your pilots and seek some kind of a side agreement or a waiver on the fleet minimums, Scott?

J. Scott Kirby

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On China, we are still looking at it and that includes actually talking to our pilots about flying to China. And we could go see that but haven't done that yet. I'm not sure how much progress we would make if we went and asked for a waiver but we have not done that to date.

Mary Schlangenstein - Bloomberg News

Okay, but it is a possibility if you -- you could try at least to negotiate it?

J. Scott Kirby

You can always ask.

Mary Schlangenstein - Bloomberg News

Okay. Thank you.

Operator

We'll go next to Melanie Trottman, Wall Street Journal.

Melanie Trottman - Wall Street Journal

I am wondering about Mesa and what kind of condition, financial condition you think they are in, and if you are preparing for any sort of a downturn at that airline. We've had filings by several other smaller carriers and they appear to be in more trouble than the bigger airlines.

J. Scott Kirby

I don't think that I am anymore qualified than analyst to comment on Mesa's financial condition. Obviously the market is worried about it and so we reflect that concern from the market.

We feel pretty good that regardless of what happens at Mesa, they have a core part of their operation that is profitable and sustainable, so whether they continuing flying outside of bankruptcy, which I hope they do, or in bankruptcy that our operation will continue largely uninterrupted.

Melanie Trottman - Wall Street Journal

Okay, and one other question, and forgive me if you've already talked about this, but your CapEx spend, you are going to slow it. Did you say by how much?

Derek J. Kerr

It's $75 million from our original estimate at the beginning of the year.

Melanie Trottman - Wall Street Journal

So you'll spend $75 million?

Derek J. Kerr

No, sorry --

Melanie Trottman - Wall Street Journal

You'll reduce it by $75 million.

Derek J. Kerr

Reduce it by 75 -- in other words, $240 million.

Melanie Trottman - Wall Street Journal

Thank you.

Operator

We'll go next to Tom [Belman], Philadelphia Inquirer.

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Tom Belman - Philadelphia Inquirer

Thank you. Scott, the question about the numbers that you ran through about international as a percentage of your total operations, you went quickly there and I don't think I got all of that. What did you expect it to be?

J. Scott Kirby

Well, it's 20% -- roughly 20% this year. I expect it to be about 23% next year, 26% in 2010, and then 29% in 2011.

Tom Belman - Philadelphia Inquirer

And does that include -- is that based on making progress at getting additional gates at Philadelphia and are you making any progress on that front?

J. Scott Kirby

We feel really good that we will be able to get to those numbers and much of that growth, of course, is occurring in Philadelphia. We've made huge progress in Philadelphia. You can see it reflected in the operations stat. This summer, even for this summer the Department of Aviation has moved mountains to help us accommodate the summer operation, particularly baggage recheck and a number of other items. It's just been a remarkable partnership and turnaround in the way things -- our ability to operate there and the level of cooperation we've gotten from the Department of Aviation.

Tom Belman - Philadelphia Inquirer

Very good. Thank you.

Operator

(Operator Instructions) We'll go next to Chris Kahn, Associated Press.

Chris Kahn - Associated Press

Thank you. I just wanted to ask, get your reaction to Delta's chief who said I think yesterday about how airlines needed to raise ticket prices 10% to 15% just to break even. I just want to gauge your reaction to that. Do you agree with that?

J. Scott Kirby

Our General Counsel won't let us talk about it.

W. Douglas Parker

We can't talk about pricing or how much prices need to go up.

Chris Kahn - Associated Press

Okay, all right. Well, thank you.

Operator

We'll go next to Ann O'Keefe, WSOC-TV. We'll go to Jefferson George, Charlotte Observer.

Jefferson George - Charlotte Observer

I wanted to go back to the non-sale fares and the minimums. I'm just curious if you can -- a few questions on that and offer some other examples of adjustments and give me a sense of what percent of overall flights we are talking about and if this is going to be, if we are looking at any one or two markets more than others when it comes to this change.

J. Scott Kirby

Well, it's kind of across the system and I have to be careful about specifically where I talk. If you go look at flights on usairways.com or anywhere else, you can probably figure it out but the reality is for a 500-mile flight flying from Charlotte to Orlando, if we are charging less than $69 with fuel at $120 a barrel, airlines are just guaranteed to lose money in short-haul markets like that. And similarly if you are flying a trans-con market from Charlotte to Los Angeles and charging $200 round-trip, you are just guaranteed to lose money. And while we would love to be able to offer low fares all the time to all of our customers, the economic reality is that oil prices have gone up stratospherically and we have to be able to pass that cost on to customers.

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Jefferson George - Charlotte Observer

Is there a schedule in place as far as like use the $69 for 500, something for 1,000 or 1,500 or 2,000?

W. Douglas Parker

Like the prior question to Chris, we just have to be really careful when we talk about pricing and so we can't give you a specific table. We can tell you what is in the press release, which is we gave one example for less than $500. We no longer offer non-sale one-way fares less than $69, and then we say similar adjustments have been made for longer haul flights. What that means is if the flight -- if the haul gets longer, we made similar type fares that we say we won't offer as well.

But we can't provide what you are asking for, which is a table, because that we believe looks too much pricing signals that we are not prepared to do.

Jefferson George - Charlotte Observer

Sure, understandable. Can you give me a sense of what percentage of daily flights this affects, or even just a range?

J. Scott Kirby

I'm not sure.

W. Douglas Parker

We don't know that one, Jefferson.

J. Scott Kirby

And the right statistic would be what percentage of tickets were sold at these price points and I don't -- while I don't know for sure, my guess is it would be in the 20% to 30% range.

Jefferson George - Charlotte Observer

All right. Thank you.

Operator

We'll take our next question from Donna Hogan, East Valley Tribune.

Donna Hogan - East Valley Tribune

This is another pricing question so I don't know -- I'm still really not clear on it and maybe you will tell me you can't answer this one either, but is it only the super low fares, the under $69 fares that you are expecting to raise, or are you expecting to raise overall prices kind of across the board on most routes? I'm not asking for an amount but can you give me an idea of how expensive this will be, and also when?

J. Scott Kirby

Well, it's only the ultra-low fares that we have cancelled, so for short-haul markets, markets less than 500 miles, everything below $69 was cancelled. The longer haul markets, it's a different threshold just because the flights are longer. But it is only the ultra-low fares, so it was not an across-the-board fare increase. It only applied to the ultra-low fares and we did this on Monday evening.

W. Douglas Parker

Donna, look, first off it's, as we note -- we still can sell fares at these levels through sales. It's just that we don't think the published fares, we should have published fares that are below the cost it takes -- with oil where it is at these levels. So as it relates to consumers, this is what again a lot of consumers actually tell us, which is I can't believe how cheap it is to travel given where oil is and given how much it costs to drive, and we concur with that.

So I don't think consumers will view this as a large increases in prices. Those who have worked really hard to find extremely low fares may find it harder to do that but that's what has to happen when oil gets to these levels.

Donna Hogan - East Valley Tribune

Okay, I just have one other question -- are you guys going after any of the kind of leftovers from the liquidated airlines? For

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example, adding additional Phoenix to Hawaii flights or -- you know, the kind of Aloha leftover and I know what you said about Mesa and they are certainly not liquidated, but -- well, let's just stick with Aloha or some of the other airlines. Can you -- are you guys increasing any flights to make up for ones that have ended?

J. Scott Kirby

We are not and the reason we are not is because those airlines liquidated and ceased operations because there was too much capacity in the market with fuel at $120 a barrel, so it doesn't make -- they had very low cost structures and still couldn't operate profitably because there was more capacity in those markets than you could justify with oil at $120 a barrel. So we are not adding any of it back.

Donna Hogan - East Valley Tribune

Okay. Thank you.

Operator

We'll go next to Ted Reid, TheStreet.com.

Ted Reid - TheStreet.com

Thank you. I have a couple of things. The first one is what is the minimum fleet size, main line fleet size?

J. Scott Kirby

I think it's -- we'll have to get back to.

Ted Reid - TheStreet.com

Okay, that's fine. Thanks. Secondly, there's a lot of talk at Northwest and Delta about how wonderful this deal they are making is and occasionally comments about how much better it is than the deal that you offered to Delta. How do you view this deal that they are making in comparison to the deal that you offered them?

W. Douglas Parker

Again, we've been proponents of consolidation. We think the Northwest Delta transaction is a good thing for our industry. We think that it should be approved and look forward to that happening.

Ted Reid - TheStreet.com

At one point somebody referred to the fact that you said there would be $1.5 billion in cost savings from your deal and they said, Delta said we didn't believe that number and this one apparently has less cost savings. The number they are using I guess is $1 billion. Does that reconcile with what you -- how you would view the two deals?

W. Douglas Parker

I didn't understand the question.

Ted Reid - TheStreet.com

They said that your cost savings that you said that you saw from your acquisition of Delta was an excessive number, of $1.5 billion, even though this one, the number they are using is less than $1.5 billion in cost savings.

W. Douglas Parker

And the question is?

Ted Reid - TheStreet.com

Do you agree that those numbers are both accurate?

W. Douglas Parker

Obviously, when we long ago made our projections believed them to be accurate and indeed thought they were conservative, so I'm not sure what relevance that has today but we obviously believed that at the time.

Ted Reid - TheStreet.com

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Okay. Thank you for that. And the last thing, could you -- speaking about the pilots, could you indefinitely, in order to resolve seniority issues, could you just run two separate airlines indefinitely with equivalent contracts?

W. Douglas Parker

We are running one airline today, Ted, with two separate contracts. So one certificate and it's called US Airways. The one issue is we have two separate contracts in place for separate groups of our pilots and we manage that very well, and we've been doing that since the time of the merger and yeah, we could do that indefinitely. Of course we could. We've been doing it for three years.

So if that's the question, but it's not two separate airlines. It's one airline that happens to have two separate contracts for pilots in it.

J. Scott Kirby

And to be clear, we want to get to a single contract.

W. Douglas Parker

Yeah, but the question was can we keep doing it. Of course we can. We'd rather not have that because we'd like, as I said before, like to have all our pilots on the same team and on the same contract. But there is nothing that stops -- nothing that precludes us from doing what we've done since the merger.

Ted Reid - TheStreet.com

But could you do that and have equivalent compensation but not integrate seniority?

W. Douglas Parker

Again, I don't want to get into the negotiations with our pilots -- we said from the beginning that we want to get to one contract and we don't want to negotiate with one side of our pilots or the other side that have two separate contracts. So when we get to one contract, we certainly will have everyone on the same payscale. Until that time, we will have pilots on two separate payscales.

Ted Reid - TheStreet.com

I'm sorry, but could you get to one payscale but two seniority lists?

W. Douglas Parker

We're not going to negotiate -- we are not going to move the payscales of one contract without having a combined contract.

Ted Reid - TheStreet.com

All right. Thank you.

Operator

We'll go next to Ann O'Keefe, WSOC-TV.

Ann O'Keefe - WSOC-TV

I wonder if you can expand a little bit more on the a la carte pricing, maybe what we can see in the future? First off, and then secondly, any changes here at the hub in the near future we might see in Charlotte?

J. Scott Kirby

We can't talk about prospective pricing changes, so we can't talk about what we are going to do in the future, though some of the things are probably intuitively obvious. And changes in Charlotte, not a lot. Charlotte is actually the one place in our network that we've been adding capacity over the years, as it's come out of some other markets like Pittsburgh, so we've seen double-digit percentage growth in capacity in Charlotte. Charlotte continues to do well for us and will continue to be part of the backbone of the airline.

Ann O'Keefe - WSOC-TV

All right and then just finally, you talked about international travel -- any chance we could see more of that in Charlotte? You

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talked about Philly but I just wondered here, if that's even an option?

J. Scott Kirby

Yes, I think that -- and we've said this before but we do expect to add more international service. We've already added a lot to the Caribbean and Latin America but expect European service from Charlotte as we start taking airplanes in 2009 through '12. Exactly which city and where it fits in the priority list, we haven't determined yet but do anticipate more international service, more European service from Charlotte in the next few years.

Ann O'Keefe - WSOC-TV

Thank you very much.

Operator

We'll go next to Tom Belman, Philadelphia Inquirer.

Tom Belman - Philadelphia Inquirer

Thanks for taking another question, gentlemen. I just needed to clarify; do the contracts that you now have with the former America West and former east and west pilots, did they restrict which aircraft or which routes that each group can fly? And is that still a hang-up if that's the case, a hang-up to an inefficiency to the operation?

W. Douglas Parker

They do keep pilots with aircraft that were in either the US Airways or America West fleet before, so that's a restriction. It doesn't have anything to do -- it doesn't restrict the routes they fly, other than the fact that certain routes can't -- a certain airplane can't fly a certain mission but you know, we -- it doesn't certainly -- an ex-America West airplane can now fly from Philadelphia to Charlotte if it needs to during the day. So it doesn't affect routes. It does affect airplanes with pilots and indeed, while that sounds like -- while it is a limitation, as Scott noted that limitation is not a significant financial limitation because we have two such large fleets that you don't get dramatic benefits by being able to remove that constraint.

J. Scott Kirby

Yeah, and I mean -- this will be Ted's question as well but we are required to keep at least a minimum of 202 aircraft flying on the former east, under the former east contract and 120 aircraft flying under the former west contract. There is also a restriction about Hawaii flights have to be on the west aircraft, but with that exception we can do anything -- as long as we follow those rules, we can basically do anything across the two carriers.

Tom Belman - Philadelphia Inquirer

All right, thanks.

Operator

We'll go next to Tom Fontaine, Beaver County Times.

Tom Fontaine - Beaver County Times

I was just -- many of the cuts, the flight cuts have took effect in Pittsburgh in the early part of the year. I just wanted to see if there was any kind of update on where things stand in Pittsburgh, if it's doing better financially and what the future may hold in terms of additional cuts or not.

J. Scott Kirby

Pittsburgh is doing better financially, which is to say it is not losing as much money as it was. And no current plans to change anything.

Tom Fontaine - Beaver County Times

Okay, thanks a lot.

Operator

And there are no further questions at this time. We do thank everyone for their participation.

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W. Douglas Parker

Thank you very much and thanks to all for listening. If you have any further questions, media contact our corporate communications group and analyst, contact Dan Cravens in IR. Thanks again.

Continue to Q&A »

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