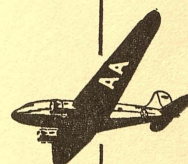

ANNUAL REPORT

OF

AMERICAN AIRLINES *Inc.*



FOR YEAR ENDED

DECEMBER 31,

1939

AMERICAN AIRLINES, INC.

• DIRECTORS

HAROLD T. AMES	RALPH S. DAMON
HARRY E. BENEDICT	SILLIMAN EVANS
JAMES BRUCE	CHANDLER HOVEY
FRANCIS A. CALLERY	DAVID S. INGALLS
AMON G. CARTER	CHARLES A. RHEINSTROM
C. R. SMITH	

• OFFICERS

President C. R. SMITH

Vice Presidents

RALPH S. DAMON	WILLIAM LITTLEWOOD
T. J. DUNNION	O. M. MOSIER
CHARLES A. RHEINSTROM	

Treasurer T. J. DUNNION

Secretary and Assistant Treasurer H. K. RULISON

• GENERAL OFFICES

Grand Central Parkway at 94th Street.....Jackson Heights, N. Y.

• CORPORATE OFFICE

927 Market Street.....Wilmington, Delaware

• TRANSFER OFFICE

30 Broad Street.....New York, N. Y.

• REGISTRAR

Guaranty Trust Company of New York.....New York, N. Y.

REPORT OF THE PRESIDENT

New York, N. Y., March 15, 1940.

• TO THE STOCKHOLDERS:

We meet with you again to discuss the affairs of your Company. It gives us pleasure to be able to report to you that the year of 1939 was a year of further progress and achievement for American Airlines, Inc.

• EARNINGS FOR THE YEAR:

The operation of the services of the Company for the year of 1939 resulted in net profit of \$1,467,751.02, after provision for Federal Income Taxes of \$330,300.00, as compared with net profit of \$213,261.88 for the year of 1938.

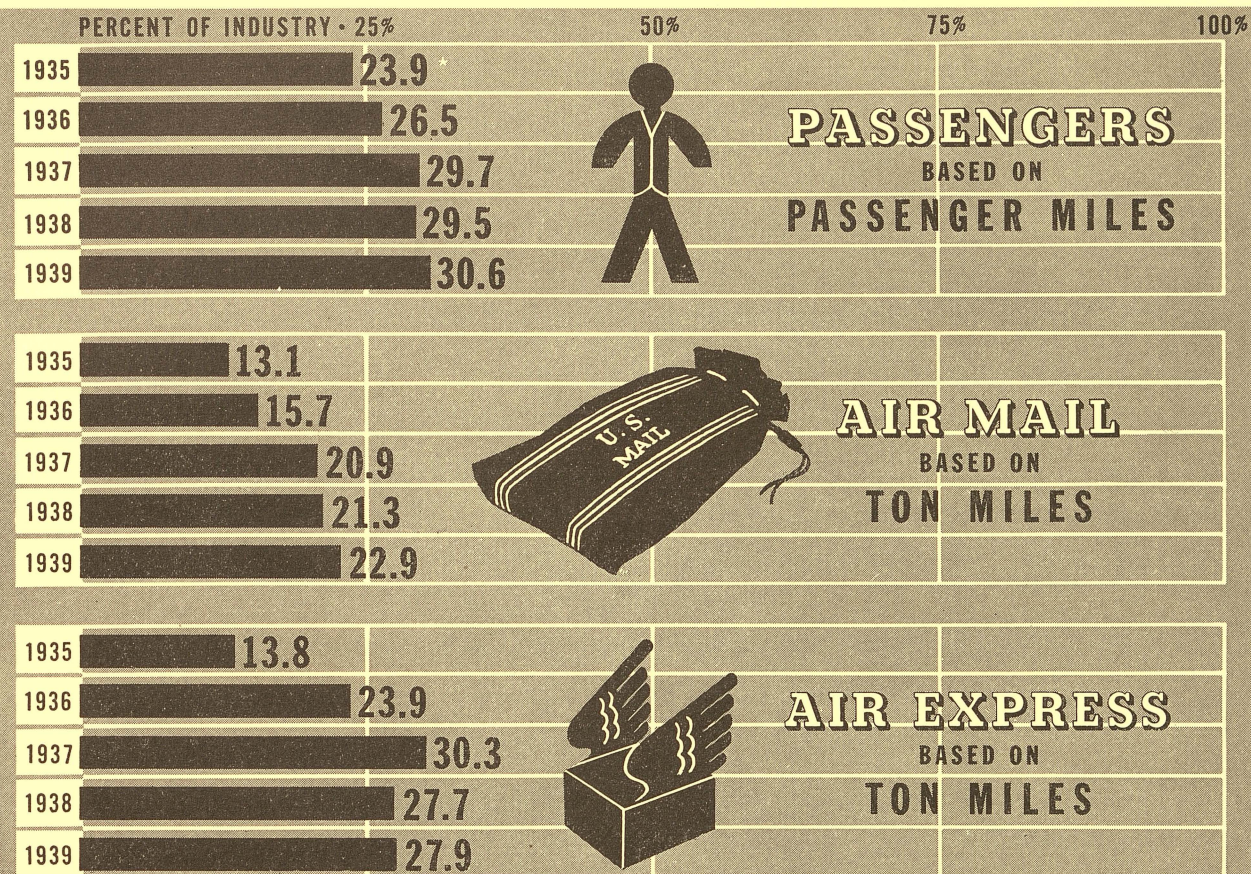
• TREND OF REVENUE:

	<u>1939</u>	<u>1938</u>	<u>1937</u>	<u>1936</u>	<u>1935</u>
Passenger	\$10,712,598	\$ 7,442,232	\$ 6,597,773	\$5,552,817	\$3,661,299
Mail	3,682,232	3,331,474	2,982,293	2,444,361	1,999,246
Express	450,251	353,617	359,264	227,418	99,719
Other	225,901	204,505	131,040	109,495	104,272
Total	<u>\$15,070,982</u>	<u>\$11,331,828</u>	<u>\$10,070,370</u>	<u>\$8,334,091</u>	<u>\$5,864,536</u>
Revenue Passengers					
Carried	541,757	358,295	300,571	255,324	176,005

• PASSENGERS:

A new record was established for the number of revenue passengers transported, 541,757 during the year 1939 as compared with 358,295 during the year of 1938, an increase of 51.2%. In 1939 American Airlines, Inc. transported 31.55% of the total air passengers and accounted for 30.6% of the total passenger miles flown by the entire domestic air transport industry.

PERCENT OF ENTIRE INDUSTRY • AMERICAN AIRLINES • INC.



* Figures for industry for 1935 estimated

• LOAD FACTOR:

Increasing acceptance and use of air transportation required expansion in the service operated by the Company during the year. The table following will indicate that the Company was able during the year to secure a favorable factor of seat occupancy for the services added and to increase the factor of seat occupancy on the services operated during preceding years:

	1939	1938	1937	1936	1935
Revenue miles flown...	19,170,018	15,314,792	15,597,330	14,121,133	10,902,075
Revenue passengers ...	541,757	358,295	300,571	255,324	176,005
Average passengers per revenue mile.....	10.8	9.2	7.9	7.1	6.1
Passenger seat miles flown	320,815,094	254,164,586	242,513,634	170,628,180	130,846,396
Revenue passenger miles	207,360,215	140,869,290	123,074,318	100,637,461	64,749,042
Load factor	64.6%	55.4%	50.7%	59.0%	49.5%

• AIR MAIL:

Revenues from the transportation of air mail for the year of 1939 amounted to \$3,682,232, as compared with \$3,331,474 for the year of 1938, an increase of 10.5%. Mail pound miles for the year of 1939 totalled 3,952,024,476, as compared with 3,179,843,792 for the year of 1938, an increase of 24.3%.

The table following will indicate the percentage of the income of the Company derived from the transportation of air mail, as compared with total operating revenues for the five years ending 1939:

	<u>1939</u>	<u>1938</u>	<u>1937</u>	<u>1936</u>	<u>1935</u>
Total operating					
revenues.....	\$15,070,982	\$11,331,828	\$10,070,370	\$8,334,091	\$5,864,536
Revenue from air mail.....	3,682,232	3,331,474	2,982,293	2,444,361	1,999,246
Percentage.....	24.4	29.4	29.6	29.3	34.1

• AIR EXPRESS:

Revenues from the transportation of air express for the year of 1939 amounted to \$450,251, as compared with \$353,617 for the year of 1938, an increase of 27.3%. Ton miles transported for the year of 1939 were 756,860, as compared with 601,205 ton miles for the year of 1938.

• OPERATING EXPENSES:

Following is a comparison of the operating expenses, per revenue airplane mile operated, for the years of 1939 and 1938:

	<u>1939</u>	<u>1938</u>
Expenses before provision for obsolescence and depreciation, interest and other charges.....	60.9¢	60.9¢
Provision for Obsolescence and Depreciation.....	6.6	10.1
Interest8	1.3
Expenses in connection with the removal of General and Operating headquarters of the Company to New York Municipal Airport9	—
Total	69.2¢	72.3¢

The general trend in 1939, as compared with 1938, with respect to prices of materials and supplies, compensation, rentals and taxes continued upward. The effect of this trend upon the cost of operation per revenue mile during the year was offset by economies made possible, in the greater part, by the extension of our operation from 15,314,792 revenue airplane miles in 1938 to 19,170,018 revenue airplane miles in 1939.

On January 1, 1939, the depreciation rates on certain types of aircraft operated by the Company were changed from a four year to a five year basis and the undepreciated value as of December 31, 1938 (less the residual value) is being ratably amortized over the period between January 1, 1939 and a date five years from the original purchase date of the aircraft. As a result of this change, the depreciation provision for the year ended December 31, 1939 was \$252,685.91 less than would have been provided on the basis used in the preceding year.

Expenses in connection with the removal of the General and Operating Headquarters of the Company to La Guardia Field, New York, N. Y., may be considered as non-recurring.

• **FINANCIAL POSITION:**

With this report there is included a Balance Sheet, certified to by Arthur Young & Company, giving the financial position of the Company as of December 31, 1939.

The equipment obligation to the Reconstruction Finance Corporation, which amounted to \$93,035.50 on December 31, 1938, was paid off during the year. The full amount of the Five Year, 4½%, Non-convertible debentures, due July 1, 1941, which amounted to \$872,187.50 on December 31, 1938, was anticipated and paid off during the year.

Total capital expenditures made during the year of 1939 amounted to \$2,467,236, as compared with \$486,014 for the year of 1938, \$1,844,106 for the year of 1937 and \$3,018,500 for the year of 1936.

Capital expenditures made during the year of 1939 included

Aircraft	\$1,329,640
Engines	412,746
Propellers	100,583
Radio	114,490
All other	509,777

• **CAPITAL STOCK:**

At December 31, 1939 the Company had authorized 1,000,000 shares of capital stock of the par value of \$10.00 per share. Of the number authorized:

303,320 shares were issued and outstanding.

50,000 shares were under contract of sale, dated December 14, 1939 and were issued on January 31, 1940.

202,958 shares were reserved for issuance only upon conversion of the presently outstanding \$2,536,975 five year, 4½%, convertible debentures at the conversion rate of \$12.50 per share.

18,722 shares were reserved for issuance under options approved by the stockholders on May 4, 1938 and issued to and held by certain officers and supervisory personnel of the Company, the option price being \$12.50 per share.

425,000 shares were unissued and unreserved.

1,000,000 shares

During the year 1939 \$87,125 principal amount of Five Year, 4½%, Convertible Debentures were converted into 6,970 shares of capital stock at the conversion price of \$12.50 per share, resulting in a credit to the Capital Stock account of \$69,700 and to Paid In Surplus of \$17,425, representing excess of sales price over par value. Also during the year, of the 25,000 shares optioned to officers and supervisory personnel of the Company by authorization of the stockholders on May 4, 1938, options to the extent of 6,278 shares were exercised, resulting in a credit to Paid In Surplus of \$15,695, representing excess of sales price of stock issued over par value, and increasing the Capital Stock account \$62,780.

• **SALE OF CAPITAL STOCK DURING THE YEAR:**

Our business has been growing rapidly. In 1938 we transported 358,295 passengers; in 1939 541,757 passengers, an increase of more than 50%. Further and continued growth of our business is anticipated.

In order to provide facilities for this increasing volume of business it is necessary that the airplane fleet of the Company be expanded. Due to the present volume of business in the aircraft factories of the country it is necessary that our requirements be anticipated substantially in advance for only by doing that may we be sure of delivery in time to provide for added service requirements.

At December 31, 1939, the Company had on order the following aircraft:*

For delivery in 1940; 24 Douglas DC-3, 21-passenger Flagships and 2 Douglas DST Skysleeper planes.....	\$ 3,156,555.00
For delivery in 1941; 15 Douglas DC-4, 40-passenger Flagships	5,589,350.00
Total	<u><u>\$ 8,745,905.00</u></u>

In authorizing commitments for the purchase of the additional aircraft required, consideration was given to the adequacy of the capital reserves of the company and to the operating budgets of the Company, as reflecting ability to provide for the payment for such capital additions. The need for additional capital was recognized, by the directors and by the officers of the Company, and prudent judgment dictated that additional capital be secured.

At the time of the meeting of the directors of the Company on November 27, 1939, the stock of American Airlines, Inc. was quoted on the New York Stock Exchange at \$37.00 per share. During the year the quoted value of the stock had fluctuated. In April, 1939 it was quoted below \$17.00 per share; in July it was quoted at \$36.00 per share and in September it was quoted at \$26.00 per share. It was believed that the price level of November 27, 1939 offered reasonable opportunity of securing additional capital for the Company.

Plans for the securing of such additional capital were discussed in detail. Plans proposed, other than placement of stock privately and for investment purposes, involved expense of registration, time delays and lack of reasonable assurance of market stability. It was believed that a plan of offering stock to a limited number of investors would result in the Company's obtaining the maximum net return from the sale of stock under the conditions which obtained at the time. It was believed that such plan was best for the stockholders and for the Company, and, accordingly, the sale of 50,000 shares on that basis was authorized.

The 50,000 shares of stock were sold at private placement to thirteen investors at \$36.50 per share. The gross amount realized by the Company was \$1,825,000.00 and commissions and expenses totalling \$38,000.00 were paid by the Company. Of the net proceeds, \$500,000 was credited to the Capital Stock account, and the remainder, \$1,287,000, was credited to the Paid In Surplus account.

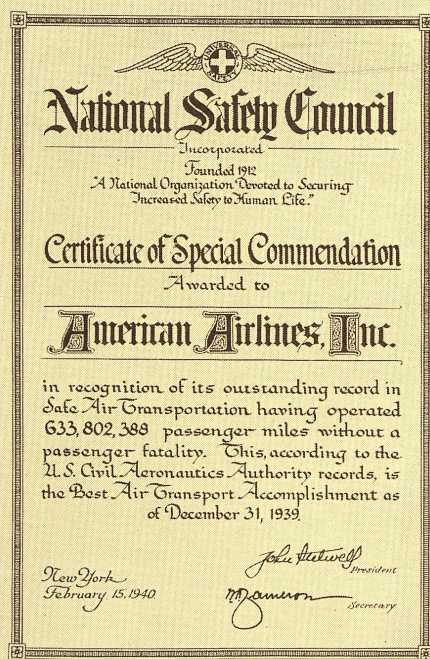
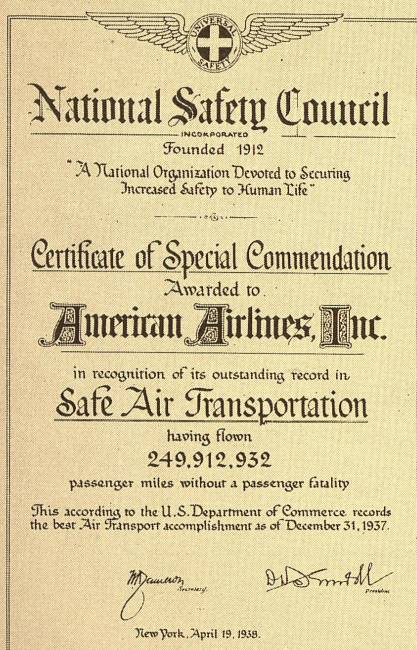
Contracts on behalf of the Company to sell the stock, and contracts on behalf of the investors to purchase the stock, were made on December 14, 1939. These contracts were predicated upon listing of the additional stock upon the New York Stock Exchange prior to delivery. The stock was listed upon the New York Stock Exchange during January, 1940 and the issuance of the stock was effected on January 31, 1940.

* The purchase of four additional Douglas DC3, 21 passenger Flagships and of two additional Douglas DST Skysleeper planes, all for delivery during the month of August, 1940, was approved March 5, 1940.

For the reason that contracts for the sale and purchase of the stock were in effect on December 31, 1939, the transaction is recorded in the Balance Sheet of December 31, 1939 which is included herein.

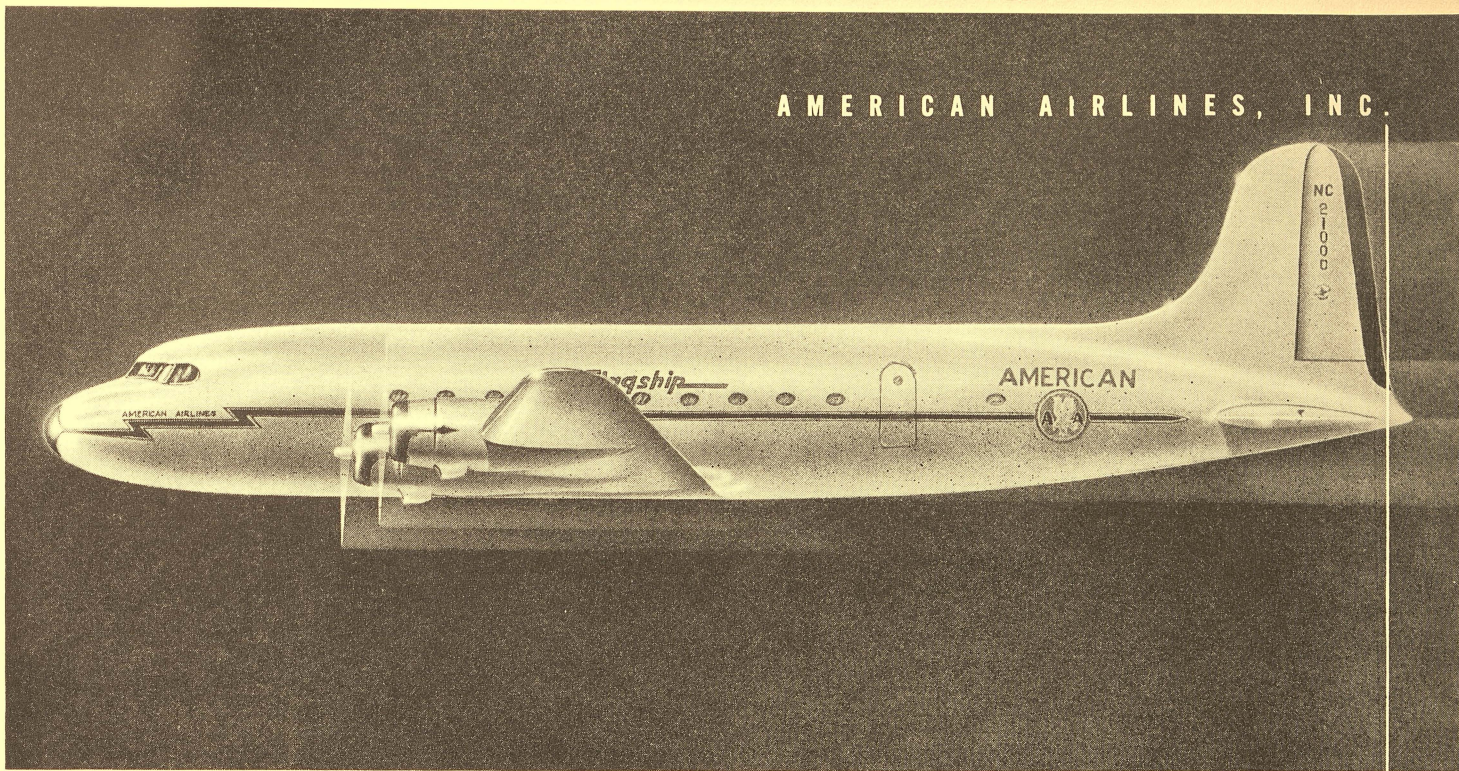
• OPERATING RECORD:

At December 31, 1939, American Airlines, Inc. had flown its planes 66,971,754 airplane miles and had transported 1,585,842 passengers 633,802,388 passenger miles without accident involving passenger fatality. On January 14, 1940, the Company completed four full years of operation without accident involving passenger fatality.



• **EQUIPMENT PURCHASE COMMITMENTS:**

We have given elsewhere in this report figures with respect to the equipment commitments of the Company. We give below pertinent details concerning the Douglas DC-4 equipment purchased by the Company for operation in 1941. Delivery schedule provides for the delivery of the first plane of this type in April, 1941, with completion of delivery of all fifteen aircraft by the end of that year.



FLAGSHIP • 40 PASSENGER • DC-4

WORLD'S MOST MODERN LARGE LAND TRANSPORT

• DIMENSIONS:

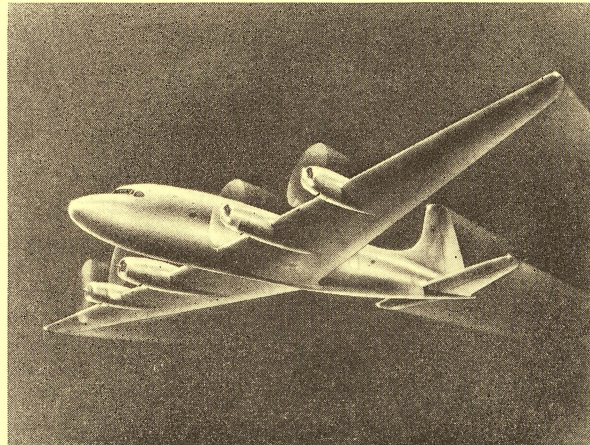
Length 92 ft. 3 in.
Height 27 ft. 10 in.
Wing span.. 117 ft. 6 in.
Wing area.. 1462 sq. ft.
(Including ailerons)

• CAPACITY:

Gross Weight.. 50,000 lbs.
Passengers:
Sleeper 20 to 22
Day 40
Crew 5
Cargo 480 cu. ft.

• PERFORMANCE:

Top Speed 260 MPH
Cruising Speed at 15,000 ft. (60% power) 227 MPH
Cruising Speed at 10,000 ft. (60% power) 219 MPH



• DESCRIPTIVE DATA:

The Flagship DC-4 is an airplane with great utility in flexibility of operation; suitable and equipped for long range operation at high altitudes or for short range operation at lower altitudes.

Equipped for controlled cabin pressures, insuring greater passenger comfort.

Completely convertible and may be used as a Flagship Club plane in the daytime, with forty deeply upholstered adjustable chairs, and as a Flagship Skysleeper plane at night, with eighteen single and two double berths.

Equipped with modern, tricycle type hydraulic landing gear, having multiple wheels and brakes.

• **FACTORS AFFECTING BUSINESS DURING 1939:**

Public confidence is the greatest single factor in the success of air transportation. The industry was blessed with increased public confidence in 1939, and deserved it, for the industry established in 1939 a new record for safety of operation. As at December 31, 1939 the air transport industry of this country had established a new, all time record of 82,000,000 passenger miles of operation per passenger fatality. This increased public confidence resulted in increased patronage for all airlines and it was the greatest single constructive factor during the year.

We discussed with you in our report for the year of 1938 the trend toward the levelling out of the seasonal trends in this business. There was a continuation of that trend during 1939. The ability to conduct our business on a more "year around" basis has contributed substantially to the growing success of this business.

General business conditions in the territories served by the Company were better in 1939 than in 1938 and that favorable trend contributed to the increased business of the Company.

• **OUTLOOK FOR 1940:**

It is our belief that the year of 1940 will record another substantial increase in the business of the Company. We are prepared to take care of the increased requirements. We aim constantly to raise even higher the standards of service offered to our patrons on American and 1940 will see a continuation of that aim. We have the constant obligation to operate with safety and all members of the organization are devoted to a fulfillment of that obligation.

• **THE ORGANIZATION:**

In 1939 we had the opportunity of serving fifty per cent more passengers than in 1938. The demands upon the organization of American were correspondingly increased. The additional requirements were undertaken diligently, carefully and with a spirit of courtesy and enthusiasm. The records to which we point with pride in this report are the accomplishments of the 2,795 men and women comprising the organization of American. They have done their work well, they have kept the banner of American in the forefront again in 1939; they, each and all, have our sincere appreciation.

• **THE STOCKHOLDERS:**

We are grateful for the aid of our stockholders in 1939; many of our passengers travelled on the Flagships as a result of your aid and salesmanship. Your efforts in behalf of the Company encour-

age all of us. Do your part again in 1940 to encourage your friends and associates to Fly With the Flagship Fleet.

• **DIRECTORS FOR 1940:**

In submitting to the stockholders recommendations with respect to directors to be elected by the stockholders the management of your Company has followed the policy of seeking directors for American representative of the cities and communities served by the lines of the Company.

Air transportation is a business of public service. It is our belief that the interests of the public, of the stockholders and of the Company can best be served by seeking on our Board men with the following qualifications:

1. Should reside in a city served by the lines of the Company.
2. Should be a man of character and of proven business ability in the community in which he resides.
3. Should believe in the fundamental utility and worth of air transportation.
4. Should be willing to travel by air and to encourage friends and associates to travel by air.

The directors now serving the Company fulfill those qualifications and believe the policy with respect to such qualifications to be sound.

The By-Laws of the Corporation in force during the past year provided for a Board consisting of twelve members, and that seven of those members should constitute a quorum. There is now a vacancy in the membership of the Board, due to the resignation during the year of Mr. Mark T. McKee. In order to provide additional places on the Board and secure representation for the Company in localities not now represented, the Board on March 5, 1940 amended the By-Laws by increasing the number of directors from twelve to fifteen, of whom eight members shall hereafter constitute a quorum.

The Company enjoys the opportunity of serving, among others, the cities of Chicago, Detroit and St. Louis. We have at this time no director from either St. Louis or Detroit and one director from the city of Chicago.

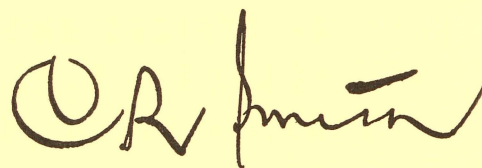
It is proposed that the eleven present directors of the Corporation be reelected for the ensuing year and that the vacancy created by the resignation of Mr. Mark T. McKee be filled through the election of Mr. H. K. Rulison, who has served the Company for many years and is now Secretary and Assistant Treasurer of the Corporation.

It is also proposed that the three new memberships created be filled by the election to the Board of the following nominees:

- Mr. Thomas S. Hammond, President, Whiting Corporation, Harvey, Illinois. Mr. Hammond is a business and civic leader in Chicago. In addition to his position with the Whiting Corporation, he is Brigadier General, 66th Infantry Brigade, Illinois National Guard.
- Mr. Walter S. McLucas, Chairman of the Board, National Bank of Detroit, Detroit, Michigan. Mr. McLucas is known nationally as a leader in the commercial banking field.
- Mr. Edgar M. Queeny, President, Monsanto Chemical Company, St. Louis, Missouri. Mr. Queeny is active in the business and civic life of St. Louis and is one of the well known young industrial executives of the country.

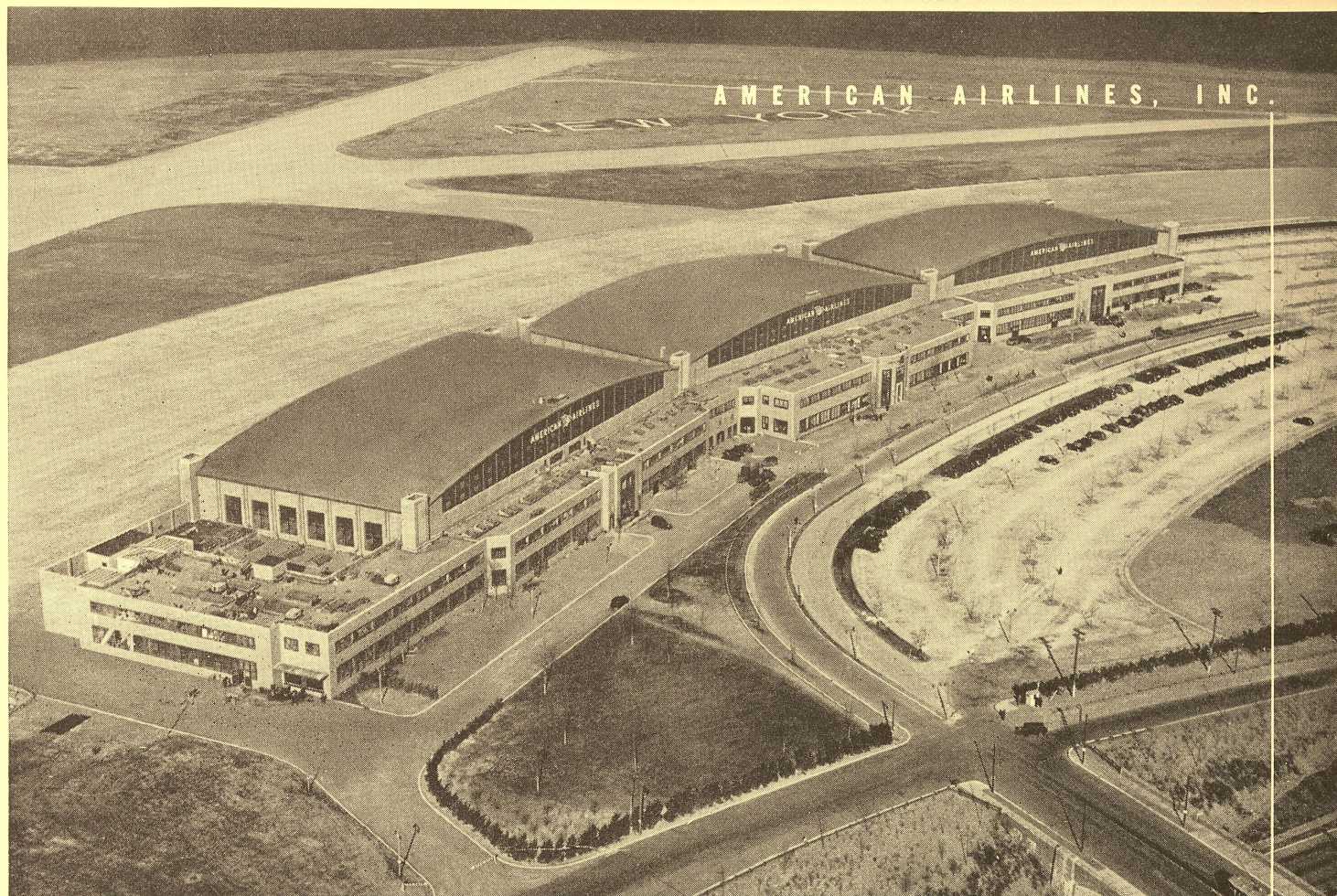
Each of these men is a resident of an important city served by the lines of the Company. Their business ability is well known; their willingness to serve American Airlines, Inc. has been indicated. We believe that the Company would be fortunate in securing their association with us and we recommend them to you.

By order of the Board of Directors,

A handwritten signature in dark ink, appearing to read "C. R. Smith". The signature is fluid and cursive, with the first letters of each name being capitalized and prominent.

March 15, 1940.

President.



GENERAL OFFICES AND OPERATING HEADQUARTERS OF AMERICAN AIRLINES, INC. AT LA GUARDIA FIELD, NEW YORK, N. Y.

LOCATION: . . .

At Grand Central Parkway and 94th Street, Jackson Heights, Queens, New York.

7.3 miles from mid-town Manhattan.

Driving time from airport to downtown ticket office at 45 Vanderbilt Avenue (Grand Central Area) 27 minutes.

Average driving time between airport and main centers throughout Brooklyn, the Bronx, Westchester and Nassau County 30 to 40 minutes.

DESCRIPTIVE DATA: . . .

Buildings occupied by the Company at New York Municipal Airport comprise 330,000 square feet of floor space. Of this total floor space area, 169,000 square feet are hangar area and 161,000 square feet are devoted to shops and offices. Each of the three hangars is 347'4" by 161'7" clear, wall to wall inside. The buildings are leased to American Airlines, Inc. for a period of forty years by the City of New York.

Hangar No. 5 and the adjoining, two-story shop building (extreme left in illustration) house complete airplane, engine, instrument, radio, propeller and accessory shops. Line Maintenance, including major checks and engine changes, will be located in the center hangar, No. 3. Line Service will occupy Hangar No. 1 (right).

General offices of the Company, including Executive, Operating, Engineering, Sales and Treasury, are located in the two-story office building adjoining the three hangars (foreground).

Stockholders of the Company are invited to visit the offices and shops of the Company.

CONSOLIDATED BALANCE**AND DECEMBER****ASSETS**

	December 31, 1939	December 31, 1938
CURRENT ASSETS:		
Cash on hand, in transit and demand deposits.....	\$ 1,453,430.35	\$ 959,047.25
United States Treasury Notes, at cost (quoted value \$61,742.62).....	59,974.25	—
Receivable from purchasers of 50,000 shares of capital stock—paid on January 31, 1940 (Note 4).....	1,825,000.00	—
Accounts receivable—		
United States Government Departments.....	\$ 788,315.80	\$ 461,663.71
Other airline companies and agents—traffic and express balances, etc.	148,299.78	93,067.26
Amount due from volume travel plan subscribers in excess of deposits	297,377.23	162,308.62
Other trade	181,592.59	108,432.27
	\$ 1,415,585.40	\$ 825,471.86
<i>Less: Reserve for doubtful accounts</i>	13,738.71	12,633.30
	\$ 1,401,846.69	\$ 812,838.56
Inventories—parts and supplies valued at the lower of cost or market.....	\$ 672,561.91	\$ 569,055.46
Indebtedness of employees.....	19,785.59	5,222.21
Total current assets.....	\$ 5,432,598.79	\$ 2,346,163.48
SPECIAL FUNDS:		
United States Treasury Notes, at cost (quoted value \$61,566.54).....	\$ —	\$ 59,974.25
Cash—		
Deposited in connection with lease agreement.....	\$ 28,000.00	\$ 28,000.00
Deposited to apply against purchase price of airplanes.....	\$ —	\$ 100,000.00
FLYING EQUIPMENT, AT COST	\$ 6,424,831.62	\$ 5,069,546.80
<i>Less: Reserve for obsolescence and depreciation</i>	3,660,950.83	3,150,412.15
	\$ 2,763,880.79	\$ 1,919,134.65
LAND, BUILDINGS AND OTHER EQUIPMENT, AT COST	\$ 2,866,331.27	\$ 2,406,273.32
<i>Less: Reserve for depreciation</i>	1,307,113.51	1,081,214.63
	\$ 1,559,217.76	\$ 1,325,058.69
MISCELLANEOUS PHYSICAL PROPERTY NOT IN USE, AT ESTIMATED REALIZABLE VALUE	\$ 30,419.93	\$ 189,228.61
DEFERRED CHARGES:		
Prepaid rents and insurance.....	\$ 34,499.22	\$ 44,682.75
Other deferred charges.....	49,225.13	34,530.35
	\$ 83,724.35	\$ 79,213.10
	\$ 9,897,841.62	\$ 6,046,772.78

Explanatory notes at December

SHEETS-DECEMBER 31, 1939

31, 1938

LIABILITIES, CAPITAL STOCK AND SURPLUS

	December 31, 1939	December 31, 1938
CURRENT LIABILITIES:		
Notes payable, due November 30, 1939.....	\$ —	\$ 60,375.00
Accounts payable and accrued expenses.....	1,426,959.15	575,715.66
Accrued interest	—	1,869.78
Accrued social security taxes.....	82,337.86	60,723.44
Accrued miscellaneous Federal, State and local taxes.....	41,546.90	18,520.90
Provision for Federal income taxes.....	330,300.00	42,800.00
Liability for deposits on air travel plans.....	938,842.78	648,370.97
Total current liabilities.....	<u>\$ 2,819,986.69</u>	<u>\$ 1,408,375.75</u>
LONG TERM DEBT:		
5% Chattel mortgage notes, Reconstruction Finance Corporation, due 1940	\$ —	\$ 93,035.50
Five year 4½% debentures, due July 1, 1941		
Convertible.....	\$ 2,536,975.00	\$ 2,624,100.00
Non-convertible.....	—	872,187.50
	<u>\$ 2,536,975.00</u>	<u>\$ 3,496,287.50</u>
	<u>\$ 2,536,975.00</u>	<u>\$ 3,589,323.00</u>
CAPITAL STOCK:		
Authorized—1,000,000 shares par value \$10 per share		
	Dec. 31, 1939	Dec. 31, 1938
Issued	303,320 shares	290,072 shares
Add: Sold on December 14, 1939		
issued January 31, 1940 (Note 4)	50,000 shares	—
	<u>353,320 shares</u>	<u>290,072 shares</u>
		<u>\$ 3,533,200.00</u>
Reserved for conversion of five year		
4½% debentures (conversion		
price \$12.50 per share).....	202,958 shares	209,928 shares
Reserved for exercise of options by		
officers and supervisory person-		
nel (Note 2).....	18,722 shares	25,000 shares
	<u>221,680 shares</u>	<u>234,928 shares</u>
SURPLUS (per statement attached)		
Paid-in surplus	\$ 1,350,862.50	\$ 30,742.50
Earned surplus (<i>deficit</i>).....	343,182.57	1,882,388.47
	<u>\$ 1,007,679.93</u>	<u>\$ 1,851,645.97</u>
	<u>\$ 9,897,841.62</u>	<u>\$ 6,046,772.78</u>

Italic figures denote deficit

31, 1939 are attached hereto

A M E R I C A N A I R L I N E S , I N C . , A N D S U B S I D I A R Y C O M P A N I E S

CONSOLIDATED BALANCE SHEET

AT DECEMBER 31, 1939

• NOTE 1:

Contingent liability—

Claims under pending litigation not provided for in the above balance sheet are not material.

• NOTE 2:

Officers and supervisory personnel have options expiring July 1, 1941 for the purchase of 18,722 shares of capital stock, \$10 par value, at the price of \$12.50 per share.

• NOTE 3:

There are commitments for the purchase of aircraft:

For delivery in 1940.....	\$ 3,156,555.00
For delivery in 1941.....	5,589,350.00
	<u>\$ 8,745,905.00</u>

• NOTE 4:

On December 14, 1939 the Company entered into written contracts for the sale of 50,000 shares of its stock deliverable on or before February 1, 1940. As the Company's agreement with the New York Stock Exchange prevented the issue of this stock prior to its listing, a condition was included in the above contracts that if, for any reason, the Company's efforts to list its stock were unsuccessful the sale would be cancelled and no penalty incurred by the Company. The stock was duly listed on January 29, 1940 and accordingly the transaction has been recorded on the above balance sheet.

AMERICAN AIRLINES, INC., AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS

FOR THE YEARS ENDED DECEMBER 31, 1939

AND DECEMBER 31, 1938

	Year Ended	
	December 31, 1939	December 31, 1938
OPERATING REVENUE:		
Passenger.....	\$ 10,712,598.39	\$ 7,442,231.56
Mail.....	3,682,231.60	3,331,474.27
Express.....	450,251.03	353,617.00
Other (net).....	225,901.19	204,505.18
	<u>\$ 15,070,982.21</u>	<u>\$ 11,331,828.01</u>
OPERATING EXPENSES:		
Flying.....	\$ 5,829,973.33	\$ 4,926,874.89
Ground.....	3,078,628.52	2,390,478.11
Sales.....	1,047,906.64	790,541.06
Advertising and publicity.....	843,380.99	603,066.58
General and administrative.....	502,542.26	366,797.18
Total operating expenses exclusive of obsolescence and depreciation	<u>\$ 11,302,431.74</u>	<u>\$ 9,077,757.82</u>
	<u>\$ 3,768,550.47</u>	<u>\$ 2,254,070.19</u>
OTHER INCOME:		
Cash discounts on purchases, etc.....	49,177.14	39,414.12
	<u>\$ 3,817,727.61</u>	<u>\$ 2,293,484.31</u>
OTHER CHARGES:		
Interest on long-term debt.....	\$ 158,581.01	\$ 199,733.19
Loss on liquidation of obsolete inventories.....	—	61,125.28
Loss on sale of property and equipment (net).....	127,026.69	—
Expenses in connection with the transfer of general offices and repair shops to New York Municipal Airport.....	173,317.66	—
Social security and general taxes (other than taxes included in operating expenses).....	273,250.63	196,791.98
Other.....	25,582.31	31,575.84
	<u>\$ 757,758.30</u>	<u>\$ 489,226.29</u>
NET PROFIT BEFORE PROVISION FOR OBsolescence AND DEPRECIATION AND FEDERAL INCOME TAXES.....	\$ 3,059,969.31	\$ 1,804,258.02
PROVISION FOR OBsolescence AND DEPRECIATION*.....	1,261,918.29	1,548,196.14
	<u>\$ 1,798,051.02</u>	<u>\$ 256,061.88</u>
PROVISION FOR FEDERAL INCOME TAXES.....	330,300.00	42,800.00
NET PROFIT CARRIED TO SURPLUS.....	\$ 1,467,751.02	\$ 213,261.88

* On January 1, 1939, the depreciation rates on certain types of aircraft operated by the Company were changed from a four year to a five year basis and the undepreciated value as of December 31, 1938 (less the residual value) is being ratably amortized over the period between January 1, 1939 and a date five years from the original purchase date of the aircraft. As a result of this change, the depreciation provision for the year ended December 31, 1939 was \$252,685.91 less than would have been provided on the basis used in the preceding year.

AMERICAN AIRLINES, INC., AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF SURPLUS

FOR THE YEARS ENDED DECEMBER 31, 1939 AND 1938

PAID-IN SURPLUS

	Year Ended	
	Dec. 31, 1939	Dec. 31, 1938
BALANCE AT BEGINNING OF YEAR.....	\$ 30,742.50	\$ 25,810.00
<i>Add:</i>		
ARISING FROM THE CONVERSION OF FIVE YEAR 4½% CONVERTIBLE DEBENTURES, PAR VALUE \$10 PER SHARE AT THE CONVERSION PRICE OF \$12.50 PER SHARE:		
	Year Ended	
	Dec. 31, 1939	Dec. 31, 1938
Principal amount of debentures converted into capital stock.....	\$87,125.00	\$24,662.50
Par value of capital stock issued as a re- sult of conversion of debentures.....	69,700.00	19,730.00
	<u>\$17,425.00</u>	<u>\$ 4,932.50</u>
	17,425.00	4,932.50
ARISING FROM THE SALE OF 6,278 SHARES OF CAPITAL STOCK TO OFFICERS AND SUPERVISORY PERSONNEL HOLDING OPTIONS, REPRESENTING EXCESS OF SALES PRICE (\$12.50 PER SHARE) OVER PAR VALUE.....	15,695.00	—
ARISING FROM THE SALE ON DECEMBER 14, 1939 OF 50,000 SHARES OF CAPITAL STOCK, REPRESENTING EXCESS OF THE SALES PRICE, \$1,825,000, LESS EX- PENSES IN CONNECTION WITH THE SALE, \$38,000, OVER PAR VALUE (See Note 4 to Consolidated Balance Sheet).....	1,287,000.00	—
BALANCE AT END OF YEAR.....	<u>\$ 1,350,862.50</u>	<u>\$ 30,742.50</u>

EARNED SURPLUS (DEFICIT)

BALANCE AT BEGINNING OF YEAR.....	\$ 1,882,388.47	\$ 2,095,650.35
<i>Add:</i>		
Net profit for year.....	1,467,751.02	213,261.88
Additional compensation received for transportation of air mail for prior years	71,454.88	—
BALANCE AT END OF YEAR.....	<u>\$ 343,182.57</u>	<u>\$ 1,882,388.47</u>

Italic figures denote deficit.

ARTHUR YOUNG & COMPANY
ACCOUNTANTS AND AUDITORS

RADIO AND CABLE ADDRESS
"ARTHYOUNG"

NEW YORK
CHICAGO
PITTSBURGH
KANSAS CITY
MILWAUKEE
LOS ANGELES
DALLAS
TULSA
LONDON, ENGLAND
PARIS, FRANCE

1 CEDAR STREET
NEW YORK

To the Board of Directors,
American Airlines, Inc.

We have examined the consolidated balance sheet of AMERICAN AIRLINES, INC., AND SUBSIDIARY COMPANIES as of December 31, 1939, and the consolidated statements of profit and loss and surplus for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the Companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the Companies and other supporting evidence, by methods and to the extent we deemed appropriate.

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of profit and loss and surplus present fairly the position of American Airlines, Inc., and Subsidiary Companies at December 31, 1939, and the results of their operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent (except for change in depreciation explained in consolidated statement of profit and loss) with that of the preceding year.

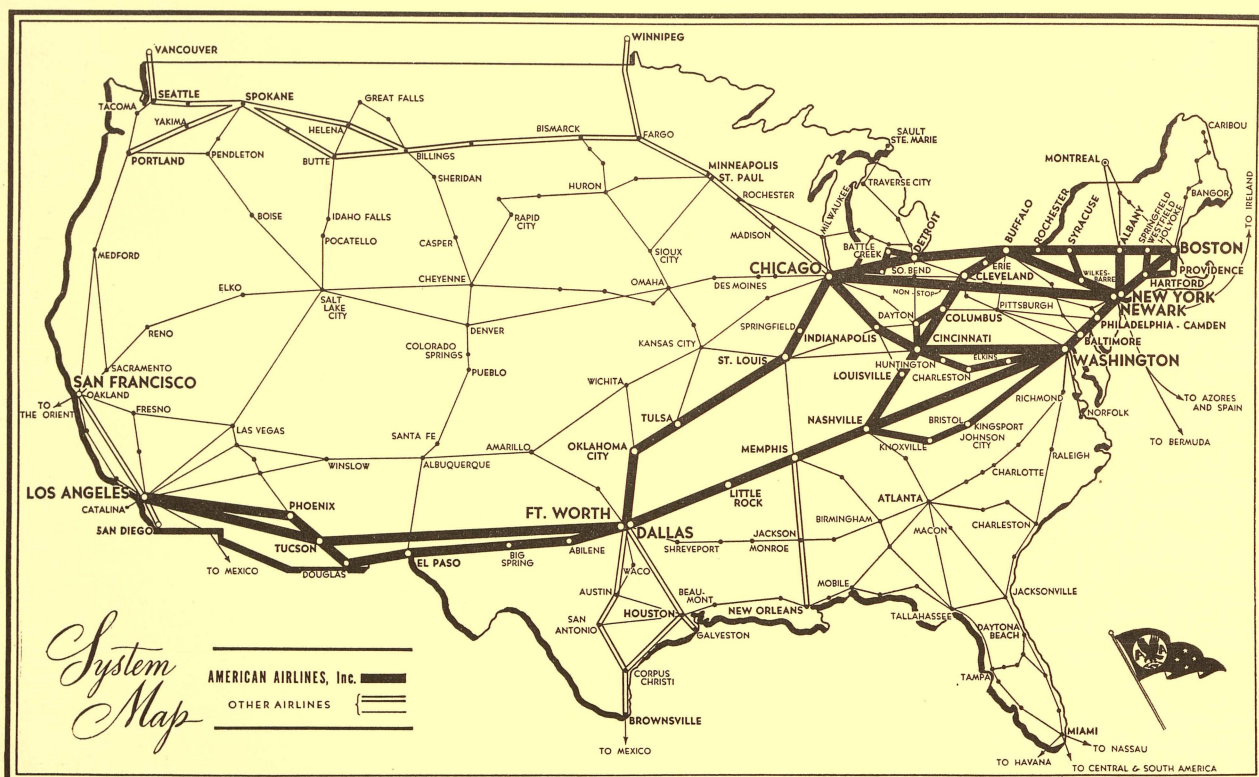
We have also satisfied ourselves that the figures shown on the accompanying statements in respect of the year 1938 have been prepared in a form comparable to those for 1939 using as a basis the annual report for 1938 which was certified by us.

ARTHUR YOUNG & COMPANY.

Certified Public Accountants.

New York, N. Y.,
February 27, 1940.

ROUTE OF THE FLAGSHIPS



AMERICAN AIRLINES Inc.

- Operates 6692 miles of route
- Serving 57 principal cities
- In 22 states from coast to coast—

