September 11, 1944

TO THE DIRECTORS:

The recent substantial commitment for the acquisition of new airplanes makes it important to review the company's financial position, its capital setup, its additional capital needs and the means of meeting them over the next few years. Several questions suggest themselves for consideration.

1. What do we need?

For the past few years, due to the war and our inability to obtain equipment, we have had negligible capital expenditures. Consequently a considerable backlog has been created. Not only are we going to need substantial items of equipment, as was explained at the last directors' meeting, but other facilities such as hangars, buildings and offices and various items of general equipment must be purchased. Furthermore, as air transportation is permitted to expand we expect to see and to develop substantial growth in patronage. We have word that Pan American has placed orders with Douglas for 26 of a new DC-7, a plane of 162,000 pounds gross weight able to carry something over 100 passengers and costing a million and a half dollars. We have in our estimates provided for the possible purchase of 10 of these planes on the theory that if they were not acquired capital would have to be provided for something similar. All of this indicates we must be prepared for heavy capital expenditures.

It will be noted from the attached Exhibit 1 of \$66,000,000 capital needs over the next two and a half years that approximately \$42,250,000 will be for equipment, \$6,850,000 for spare parts and engineering, \$3,000,000 for the Export purchase, and \$13,900,000 for radio and other miscellaneous requirements.

It is extremely difficult to make dependable estimates of needs subsequent to the first two and a half years, but rough calculations would indicate about \$27,000,000 each year for 1947 and 1948 and about \$25,000,000 for 1949. The total annual capital needs, therefore, by years might easily be as follows:

12600000
3150000
15750000

1945	1946	1947	1948	1949
\$ 20,000,000	\$ 27,000,000	\$ 27,000,000	\$ 27,000,000	\$ 25,000,000

Equipment trust certificates, or their equivalent, seem a normal and natural method - as well as one in the stockholder's interest - to provide a substantial part of the funds to acquire equipment - say 75% thereof - repayable over a six-year period. The cost of this money should be relatively low, possibly $2\frac{1}{2}$%, but one must bear in mind that equipment trusts create fixed charges of principal as well as interest which must be paid when due and which under adverse business conditions might prove very onerous.

These principal fixed charges would be in an ascending scale as follows:

1945	1946	1947	1948	1949	1950
$300,000	$1,750,000	$3,500,000	$4,000,000	$5,250,000	$6,500,000

and on a descending scale thereafter.

In the absence of very adverse business conditions, however, the company should be able to earn sufficient on the expanded equipment to meet its depreciation charges and this would be somewhat in excess of the equipment trust repayments.

It is believed that commitments from the banks - the equivalent of equipment trusts - need not be made at this time and that we are justified in assuming that negotiations can be carried on respecting this form of financing just as satisfactorily, say, the middle of 1945 as they could today.

2. What other financing is needed?

Inasmuch as but a part of the cost of equipment is included in the above, provision for other capital needs, as well as for the remainder of the cost of equipment, must be provided from some other source. Also, to provide a proper foundation for the company's future needs, stock financing should be provided at the appropriate time. And the appropriate time is a matter of importance. For instance, there are "experts" who feel that right now American Airlines is selling out of line with other airline stocks, and that we should take advantage of the situation to immediately undertake financing through common. As will be seen from Exhibit 2, we do not need funds, however, until next year and I believe there is reason in the argument that we will probably be able to do as well next spring as we could today in the sale of additional stock.

To provide for this equity financing it would be sound to have two outlets - first a substantial authorized amount of preferred shares available for use at a time or under conditions that common could not be advantageously marketed, and, second, a substantial amount of common should be available in the treasury to provide for equity financing when advantageous either (A) through the offering of rights at a low figure to present shareholders or (B) through the offering to the public at the best possible price.

In a growing business with continuing capital requirements, it has in the past been a practice in other enterprises to provide annually for the offering of rights to shareholders at a price well below the market, thus providing additional capital funds and, where the book value is less than the realized price, with enhanced benefit to all shareholders. At the same time a shareholder not wishing to exercise his rights would sell same at a profit.

For instance, a person holding 10 shares worth 70 would have an investment of $700. The present dividend on his 10 shares at $1.50 would be $15. If he obtained his right to subscribe at 50 for one share out of 10, he could sell that right for, say, $20., giving him a total income of $35. out of his $700. worth of stock, or a 5% return.

3. Most importantly, we must realize that the air transport industry, and particularly American Airlines, is entering upon a new era in which an established and profitable business has gotten beyond the speculative age. It must protect its earning position and at the same time plan at least - if not build - the broad foundation we should have to meet our future growth and needs. While we must not be swayed by what is done by others in the industry, we must remember that today is the time of opportunity. Many of the smaller airlines have achieved financing which would have been impossible before the war and others are, it is reported, contemplating substantial moves. The loss of the war earnings might reflect negatively on some companies, thereby affecting the credit position of the industry and make financing less easy.

4. Our own capital structure.

At the present time we have the following picture:

		Authorized	Outstanding
Preferred Stock	(no par)	100,000 shares	50,000 shares
Common Stock	($10 par)	1,000,000 "	574,848 "
Reserved for Conversion of Preffered			71,429 "
			646,277 " Com.

To prepare for our growing needs it is suggested we might revise our capital setup as follows:

$25,000,000 authorized in <u>preferred</u> should be sufficient, even upon the occurring of conditions necessitating the use of preferred stock. It is believed that $5,000,000 outstanding preferred if called would be converted into common, leaving us with no preferred presently outstanding.

Our common shares have a market value substantially higher than the other carriers (Eastern around 39, Pan American 33, United 31 and TWA 23) and it has been urged in several quarters that market-wise the stock would be better off were it split up either two or three for one. (Only last week there was an announcement in the TIMES of a splitup of Pepsi-Cola stock three for one and upon the announcement the stock immediately rose two and 5/8 points, from 53½ to 56-1/8.) Similar action has been repeatedly demonstrated. For instance, a share of our present stock, say, at 75 might result, upon splitting it up for two shares, in having the new stock sell at 40, or the equivalent of 80 for the old stock.

Our present authorized 1,000,000 of $10. par common could be increased to 2,500,000 or even 5,000,000 shares of $5. par common stock.

The company's officers and senior personnel are receiving adequate salaries, being amongst the highest paid in the industry. But if some added incentive or reward could be provided it is believed it would be well worth while. United recently adopted a plan whereby their stockholders authorized 100,000 shares of Management Stock, distributable upon the orders of the board of directors from time to time to key personnel. This stock has a par value of $5 but is salable at not less than its book value, and is convertible any time after five years, share for share, into common. For instance, if a man received 1000 shares of management stock at a cost of $15,000 and the market on common was $40. he would have a book profit of $25,000. This of course he could not realize upon until after the five-year period, or possibly even beyond that. The plan being used by United is explained in the attached Exhibit 4.

Our Capital structure would then be

			Authorized	Outstanding	
		P+P	50000	50,000	
Preferred	($100 par)	PP	200000 250,000 shares	none	
Common	($ 5 par)		2 ~~5~~,000,000 "	1,292,554	5 Par
Management Stock	($ 5 par)		100,000 B "	say 25,000	5 8 11

All of this would require approval of the stockholders and it would take some time to put through. The annual meeting of our stockholders does not occur until April next year and consideration should be given now as to whether it is wise to wait that long before providing machinery which would enable the company to provide the additional funds necessary by the middle of next year.

Attached is Exhibit One showing the capital needs by six-month periods for two and a half years.

Exhibit Two shows the sources of funds and expenditures therefrom, assuming no financing is done beyond equipment trust notes.

Exhibit Three shows some comparisons of earnings and market prices of the leading air transport companies.

Exhibit Four is the clause in United's articles providing for Management Stock.

RECOMMENDATIONS:

1 - Proceed with the rearrangements of our capital structure as outlined above, present it to the shareholders at a special meeting for approval, and upon obtaining same issue two shares for one of common stock.

2 - When conditions are propitious call our 5,000,000 outstanding preferred stock, which after December 31st is callable at $106 per share, thereby forcing the conversion of all or a substantial part of the outstanding preferred stock without cost to the company. This will be tantamount to issuing common stock at 70.

3 - Consider the awarding of a portion of the authorized management stock to key management.

4 - In the announcement of the revision of the capital structure state that the company will not be needing additional capital before the middle of next year but that rearrangement is to prepare the way at this time for the company's future needs.

5 - Postpone until next spring or summer the offering of

(A) Additional common stock without an underwriting syndicate at a price sufficiently low to make the rights of value to present shareholders or

(B) Endeavor to obtain a higher price for common shares by offering it to shareholders first at a higher price and then distribute to the public that not taken by shareholders through a syndicate, or

(C) If conditions were adverse to selling common, sell a low-dividend rate convertible preferred.

Providing financing prior to the creation of equipment trust certificates would put the company in a stronger credit position.

6 - Sell additional stock, either A, B or C above, from time to time as conditions warrant or require.

D

A. N. Kemp

Extract from Prospectus of United Air Lines, Inc.
Covering Issuance of $4\frac{1}{2}\%$ Cumulative Preferred Stock
Dated December 29, 1943

Sales to Special Parties

The Corporation has an authorized issue of 100,000 shares of Management Stock. The purpose of the Management Stock is to encourage officers, department heads and other supervisory officials to become stockholders of the Corporation. No definite plan for the sale of Management Stock to officers and employees has been formulated by the Board of Directors, but it is presently intended that shares thereof will be offered, from time to time over an indefinite period, to officers, department heads and supervisory officials, which categories at the present time include approximately 200 persons. No one person will be offered the right to acquire more than an aggregate of 5,000 shares of Management Stock and the number of shares to be offered to particular persons will not be measured by the amount of their compensation. The persons who will be offered shares of Management Stock and the amount offered to each such person will be determined, from time to time, by a committee of the Board of Directors which will not include any person to whom such shares have been or are being offered. The sale price of shares of Management Stock so offered will not be less than book value at the time of any particular offering thereof and in any event will not be less than the par value thereof. The book value at September 30, 1943 ($12.48 per share) was below the price at which Capital Stock of the Corporation was selling on that date. The closing price on the New York Stock Exchange of such stock on September 30, 1943 was $27.625 per share. The closing price on the New York Stock Exchange of Common Stock of the Corporation on December 22, 1943 was $24.125 per share. No consideration will be received by the Corporation for the granting of any option or right to purchase shares of Management Stock other than the benefit which will accrue to the Corporation through having its key personnel interested in the welfare of the Corporation as stockholders as well as employees. Such increased incentive will, in the opinion of the Board of Directors of the Corporation, assure the Corporation of maximum interest and efforts in the critical period of post-war development. No such right or option will be transferable.

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Management Stock
($10 Par Value)

Dividend Rights

The Board of Directors may, subject to the restrictions hereinbefore described relating to the Preferred Stock, declare and pay dividends on the Management Stock and Common Stock, shares of both of such classes of stock being on a parity with respect to dividends.

Limitations in any indentures or other agreements on the payment of dividends

Reference is made to the limitations set forth under the sub-heading "Other Special Provisions" in the foregoing summary descriptive of the Preferred Stock.

Voting rights

The holders of Management Stock are entitled to one vote for each share of such stock standing in the name of such holder on the books of the Corporation. The right of cumulative voting may be exercised at all elections of Directors. (See Paragraph (6) of subdivision III of Exhibit 1-D and subdivision (h) of Article Tenth of Exhibit 1-B.)

Liquidation rights

Upon any liquidation of the Corporation, the Management Stock and the Common Stock shall be entitled to receive any and all assets which may be paid or distributed after payment shall have been made in full to the Preferred Stock as set forth under the sub-heading "liquidation rights" in the foregoing summary descriptive of the Preferred Stock. Shares of Management Stock and of Common Stock are on a parity in case of any liquidation.

Preemptive and subscription rights

No holder of Management Stock shall have any preemptive right to subscribe to stock, obligations, warrants, rights to subscribe to stock or other securities of the Corporation of any class, whether now or hereafter authorized. (See Paragraph (7) of subdivision III of Exhibit 1-D.)

Conversion rights

Each share of Management Stock shall be convertible, at the option of the holder, at any time on and after the fifth January 1st next succeeding the calendar year in which such share of Management Stock shall have been sold by the Corporation to such holder or his predecessor or predecessors in interest into full paid and non-assessable shares of Common Stock of the Corporation at the rate of one share of Common Stock for each $10 (hereafter called the "conversion price") of the par value of the shares of Management Stock so converted. The conversion price shall be subject to adjustment from time to time (1) in the event of the issue of any shares of Common Stock (other than any shares of Common Stock which may be issued upon conversion of shares of Preferred Stock or of Management Stock) in addition to the 1,500,451 shares of Common Stock presently issued plus 2,817 shares of Common Stock reserved for issuance to officers and employees of the Corporation and its subsidiaries, or (2) in the event the Corporation shall (a) at any time reclassify the Common Stock or issue any class of stock or other securities (other than Preferred Stock or Management Stock) convertible into Common Stock, or issue any options or warrants to purchase Common Stock, or take any action affecting the number of outstanding shares of Common Stock, otherwise than as described in (1) above, or (b) take any other action with respect to the Common Stock other than the declaration or payment of any dividend or dividends thereon, which, in the opinion of the Board of Directors of the Corporation, would affect materially and adversely the conversion rights of the shares of Management Stock. In every such case the Board of Directors of the Corporation shall appoint a firm of independent public accountants which shall give their opinion as to the adjustment, if any, of the conversion price required to preserve to the holders of shares of Management Stock conversion rights substantially equivalent to the conversion rights existing prior to such event, and the conversion price shall be forthwith adjusted in accordance with such opinion. No fraction of a share of Common Stock shall be issued upon any such conversion, but in lieu thereof non-dividend bearing and non-voting scrip, exchangeable for full shares of Common Stock, shall be issued in such denominations and in such form, expiring not less than two years from the date of issue and containing such provisions for the sale of full shares of Common Stock for which such scrip is exchangeable for the account of the holders of such scrip, and such other terms and provisions as the Board of Directors may, from time to time, determine prior to the issue thereof. (See Paragraph (2) of subdivision III of Exhibit 1-D.)

Liability for further calls and assessment

9,1

The Certificate of Incorporation of the Corporation provides that private property of the stockholders shall not be subject to the payment of corporate debts.

Restrictions on sale by holder

With the exception of transfers in the case of a deceased holder of shares of Management Stock to his executors, administrators or testamentary trustees, shares of Management Stock shall not be sold, assigned, bequeathed, or otherwise transferred by any holder or owner thereof, or by the executor, administrator, trustee or other representative of any such holder or owner, or by any receiver, trustee in bankruptcy or any representative of the creditors of any such holder or owner, or by the grantee or assignee of any shares of Management Stock sold on execution, or otherwise, unless the same first shall have been offered for sale to the Corporation. Whenever any such holder, owner, executor, administrator, trustee, representative of a holder or owner, receiver, trustee in bankruptcy, representative of creditors, grantee or assignee shall desire to sell or dispose of shares of Management Stock of the Corporation, he shall notify the Corporation of such value thereof. Such offer and notice shall be in writing addressed to the Corporation at its principal office in the City of Chicago. The Board of Directors shall at their next meeting determine the book value of the Management Stock and the Corporation shall, within 60 days after its receipt of such offer and notice, advise the offerer of the book value of Management Stock and of the Corporation's acceptance or rejection of the offer. An offerer upon being advised of the book value of shares of Management Stock and of the rejection of the offer to sell shares thereof at book value may offer to sell shares of Management Stock to the Corporation for less than the book value thereof. (See first paragraph of Paragraph (1) of subdivision III of Exhibit 1-D.)

If, within 60 days after the delivery to the Corporation of any offer to sell shares of Management Stock the Corporation shall not accept the same, the offerer shall be at liberty, within 60 days after the expiration of such first mentioned 60 days, to sell, assign or otherwise transfer the shares of

Management Stock comprised in such offer; provided that the certificates for such shares shall be presented for transfer within such 60 days and provided further that if sold such shares shall not be sold at a price less than the lowest price at which the corporation had declined to purchase such shares. If however, such shares of Management Stock shall not be so sold, assigned or otherwise transferred and the certificates therefor presented for transfer within such 60 days together, in the case of a sale, with evidence satisfactory to the Corporation of the price at which such shares of Management Stock were sold, such shares of Management Stock again must be offered to the Corporation, as hereinbefore provided, before the same or any part thereof can thereafter be sold, assigned or otherwise transferred. (See third paragraph of Paragraph (1) of subdivision III of Exhibit 1-D.)

Option of Corporation to reacquire

The Corporation shall not be required to transfer any shares of Management Stock on its books which shall have been sold, assigned or transferred in violation of the foregoing provisions, and from and after any sale, assignment or transfer of any shares of Management Stock made in violation of the foregoing provisions, the Corporation shall have the right and option to purchase all or any part of such shares of Management Stock at a price equal to the book value thereof as determined by the Board of Directors; which right and option may be exercised at any time within 60 days after the corporation shall have acquired knowledge of such violation. (See fourth paragraph of Paragraph (1) of subdivision III of Exhibit 1-D.)

In case any person holding shares of Management Stock shall die or cease to be an employee of the Corporation, the Corporation shall have the right and option to purchase all or any part of the shares of Management Stock held by such person or, in case of the death of such person, held by his executor, administrator, or testamentary trustee, at a price equal to the greater of the book value thereof as determined by the Board of Directors or the price paid to the Corporation by such person for such shares of Management Stock. Such right and option shall terminate 60 days after such person shall have ceased to be an employee of the Corporation. (See fifth paragraph of Paragraph (1) of subdivision III of Exhibit 1-D.)

At any time during the first 5 years after each share of Management Stock becomes convertible, the Corporation may cause notice to be given to the holder of record thereof to convert such share into Common Stock, and if not so converted within 60 days after the date of such notice, the Corporation shall, for an additional period of 60 days, have the right and option to purchase such share of Management Stock at a price equal to the book value thereof as determined by the Board of Directors. (See Paragraph (3) of subdivision III of Exhibit 1-D.)

Restrictions on sale by Corporation

Management Stock, whether originally issued or whether reacquired and sold from the treasury of the Corporation, may be issued or sold only to persons who at the time of such issuance or sale are officers or employees of the Corporation and may be issued or sold only at a price per share equal to, or in excess of, the book value thereof determined, at the time of any particular offering thereof, by the Board of Directors; provided that no shares of Management Stock shall be originally issued at a price less than the par value thereof. (See Paragraph (8) of subdivision III of Exhibit 1-D.)

AMERICAN AIRLINES, INC.

SCHEDULE OF ESTIMATED FIXED ASSET PURCHASES

PERIOD JUNE 30, 1944 TO JUNE 30, 1947

	1944	1945	
	2nd Half	1st Half	2nd Half
Airplanes	$2,875,000	$4,160,000	$ 7,100,000
Spares	240,000	240,000	1,400,000
Engineering changes	80,000	150,000	400,000
Radio equipment	-	-	450,000
Hangars	-	250,000	250,000
Hangar and shop equipment	25,000	150,000	250,000
Terminal Buildings	-	200,000	400,000
Station and ramp equipment	50,000	100,000	200,000
Ticket Offices	75,000	150,000	150,000
Office Building	-	500,000	500,000
General office equipment	10,000	25,000	25,000
American Export	-	3,000,000	-
Miscellaneous	50,000	50,000	50,000
Committments for equipment purchases at June 30, 1944	375,000	-	-
Total estimated equipment purchases for period	$3,780,000	$8,975,000	$11,175,000

September 7, 1944

1946 1st Half	1946 2nd Half	1947 1st Half	Total
$12,870,000	$5,250,000	$10,000,000	$42,255,000
995,000	545,000	1,200,000	4,620,000
400,000	600,000	600,000	2,230,000
-	300,000	425,000	1,175,000
1,750,000	2,250,000	2,000,000	6,500,000
100,000	200,000	200,000	925,000
500,000	400,000	250,000	1,750,000
200,000	150,000	150,000	850,000
200,000	150,000	100,000	825,000
-	-	-	1,000,000
25,000	25,000	25,000	135,000
-	-	-	3,000,000
50,000	50,000	50,000	300,000
-	-	-	375,000
$17,090,000	$9,920,000	$15,000,000	$65,940,000

AMERICAN AIRLINES, INC.

SCHEDULE OF ESTIMATED FIXED ASSET PURCHASES

AIRPLANES

SEPTEMBER 7, 1944

1944 - 2nd Half	
30 DC-3 (Incl. conversion) @ 80,000	$2,400,000
First payment on 55 DC-4 & DC-6 @ 5,000	275,000
" " " 20 additional DC-6 @ 5,000	100,000
	$2,775,000
First payment on 10 DC-7 @ 10,000	100,000
	$2,875,000
1945 - 1st Half	
22 DC-3 (C-53 or C-47) Incl. conversions @ 80,000	$1,760,000
P.N. payment on 25 DC-4 (25%) (25x96,000)	2,400,000
	$4,160,000
2nd Half	
25 DC-4 (final payment) 25x284,000)	$7,100,000
1946 - 1st Half	
P.N. payment on 30 DC-6 (25%) 30x136,250)	$4,087,500
2 DC-6 (final payment) @ 403,750	807,500
5 CW-20 (cargo) @ 300,000	1,500,000
	$6,395,000
P.N. payment on 10 DC-7 (25%) (10x375,000)	3,750,000
	$10,145,000
P.N. payment on 20 additional (to be delivered 2nd half of 1947) DC-6 (25%) 20x136,250)	2,725,000
	$12,870,000
2nd Half	
13 DC-6 (final payment) (13x403,750)	$ 5,250,000
1947 - 1st Half	
15 DC-6 (final payment) (15x403,750)	$ 6,000,000
20 A-1 type (pass. & cargo) (20x200,000)	4,000,000
	$10,000,000
Total Airplanes	$42,255,000

AMERICAN AIRLINES, INC.

SCHEDULE OF ESTIMATED FIXED ASSET PURCHASES

AIRPLANES (Cont'd.)

SEPTEMBER 7, 1944

SPARES - ESTIMATED CAPITAL REQUIREMENTS

1944 - 2nd Half	
DC-3	$ 240,000
1945 - 1st Half	
C-47 & C-53	$ 240,000
2nd Half	
DC-4	$1,400,000
1946 - 1st Half	
DC-6	$ 545,000
CW-20	450,000
	$ 995,000
2nd Half	
DC-6	$ 545,000
1947 -1st Half	
DC-6	$ 800,000
A-1	400,000
	$1,200,000
Total Spares	$4,620,000

AMERICAN AIRLINES, INC.

SCHEDULE OF ESTIMATED FIXED ASSET PURCHASES

SEPTEMBER 7, 1944

COST OF AIRPLANES

DC 3 including conversion	$ 80,000
DC 4s	385,000
DC 6s	545,000
C-W 20s	300,000
A-1s	200,000

DEPRECIATION RATES

DC 3s (Purch.1944)	Depreciated by 12/31/46- No residual
DC 3s (Purch.1945)	2½ years- no residual
DC 4s	6 years - 10% residual
DC 6s	6 years - " "
C-W-20s	4 years - " "
A-1s	6 years - " "
Aircraft Radio	3 years - No residual

Delivery Dates through June 30, 1947

Oct. 1, 1944	-	30 DC-3
April 1, 1945	-	22 DC-3
Oct. 1, 1945	-	25 DC-4
April 1, 1946	-	2 DC-6
April 1, 1946	-	5 CW-20
Oct. 1, 1946	-	13 DC-6
April 1, 1947	-	15 DC-6
" " "	-	20 A-1

AMERICAN AIRLINES, INC.

EXHIBIT 2

ESTIMATED CASH RESOURCES AVAILABLE FOR CAPITAL EXPENDITURES

DURING THE PERIOD JUNE 30, 1944 TO JUNE 30, 1947

	June 30, 1944	Dec. 31, 1944	Jun
Cash and Government Securities exclusive of tax notes	$15,905,000		
Tax notes in excess of tax liability	1,183,000		
Total Cash and Government securities at beginning of period	$17,088,000		
Balance brought forward at beginning of each subsequent period	$ -	$10,088,000	$
Add: Earnings for period after deduction for depreciation and normal Federal Income Taxes	$ -	$ 3,127,000	$
Provision for depreciation	-	959,000	
Total earnings for period after taxes but exclusive of depreciation	$ -	$ 4,086,000	$
Less: Current Dividend Requirements	-	969,000	
Net amount available from earnings	$ -	$ 3,117,000	$
Proceeds from Equipment Trust Certificates	-	-	
Total Cash, Government Securities and amounts available from earnings	$17,088,000	$13,205,000	$1
Deduct:			
Operating cash requirements	$ 7,000,000	$ -	$
Capital expenditures	-	3,780,000	
Repayment of Equipment Trust Certificates	-	-	
Payment of Interest on Equipment Trust Certificates at 2½%	-	-	
Total Deductions	$ 7,000,000	$ 3,780,000	$
Net available for Capital Expenditures at end of period	$10,088,000	$ 9,425,000	$

September 8, 1944

30, 1945	Dec. 31, 1945	June 30, 1946	Dec. 31, 1946	June 30, 1947	Total Period June 30, 1944 To June 30, 1947
					$15,905,000
					1,183,000
					$17,088,000
425,000	$ 2,518,000	$ 830,000	$12,392,000	$13,682,000	$ -
492,000	$ 1,469,000	$ 2,254,000	$ 2,338,000	$ 3,064,000	$13,744,000
415,000	2,108,000	2,852,000	3,477,000	3,848,000	14,659,000
907,000	$ 3,577,000	$ 5,106,000	$ 5,815,000	$ 6,912,000	$28,403,000
106,000	969,000	106,000	969,000	106,000	3,225,000
301,000	$ 2,608,000	$ 5,000,000	$ 4,846,000	$ 6,806,000	$25,178,000
-	7,219,000	1,942,000	5,314,000	9,131,000	23,606,000
226,000	$12,345,000	$ 6,112,000	$ 2,232,000	$ 2,255,000	$48,784,000
733,000	$ 1,655,000	$ 637,000	$ 415,000	$ 2,060,000	$12,500,000
975,000	11,175,000	17,090,000	9,920,000	15,000,000	65,940,000
-	301,000	682,000	985,000	1,587,000	3,555,000
-	44,000	95,000	130,000	205,000	474,000
08,000	$13,175,000	$18,504,000	$11,450,000	$18,852,000	$82,469,000
18,000	$ 830,000	$12,392,000	$13,682,000	$16,597,000	$16,597,000

Comparison of Earnings and Market Position of Major Airlines

Line No.		American	United	TWA	PAA	Eastern
	Earnings					
1.	Net profit available for dividends-1943	$ 4,942,969(a)	4,203,276(a)	2,050,891	1,929,764	1,426,859
2.	Less: Dividend payments--Common	862,272	750,225	-	1,993,258	-
3.	Preferred	212,507	-	-	-	-
4.	Net addition to earned surplus	$ 3,868,190	3,453,051	2,050,891	(63,494)	1,426,859
5.	Per cent of earnings carried to surplus	78.3	82.2	100	-	100
6.	Earnings per share-1943	$ 8.60	2.80	2.12	.97	2.42
7.	Dividends per Common share-1943	1.87	.50	-	1.00	-
8.	Net addition to surplus per Common share	6.73	2.30	2.12	(.03)	2.42
	Book Value					
9.	Net book value at 12/31/43	$20,203,133	19,250,058	13,291,488	35,891,511	15,808,194
10.	Less: Preferred stock	5,350,000	-	-	-	-
11.	Net book value of Common stock	14,853,133	19,250,058	13,291,488	35,891,511	15,808,194
12.	Common shares outstanding at 12/31/43	574,848	1,500,451	965,173	1,993,261	590,194
13.	Book value per share	$25.84	$12.83	$13.77	$18.01	$26.78
14.	Ratio of earnings to book value-1943	33.3%	21.8%	15.4%	5.4%	9.0%
	Market Value					
15.	Market price of Common stock-12/31/43	$60	23-5/8	18-3/4	31-5/8	36-1/2
16.	Market price of Common stock-9/5/44	$77-1/4	31-7/8	23-1/4	33-3/8	39-3/4
17.	Per cent of increase	29%	35	24	6	9
18.	Ratio of earnings to market-12/31/43	14.3%	11.8%	11.3%	3.1%	6.6%
19.	Ratio of earnings to market-9/5/44	11.1%	8.8%	9.1%	2.9%	6.1%
20.	Ratio of market to book-12/31/43	232.2%	184.1%	136.2%	175.6%	136.3%

( ) Parenthesis indicate Red Figures.

(a) For purposes of comparison, postwar reserves of $1,750,000 and $1,000,000 established by American and United in 1943 have been excluded.

Exhibit 3

Exhibit 4

Extract from Prospectus of United Air Lines, Inc.
Covering Issuance of $4\frac{1}{2}$% Cumulative Preferred Stock
Dated December 29, 1943

Sales to Special Parties

The Corporation has an authorized issue of 100,000 shares of Management Stock. The purpose of the Management Stock is to encourage officers, department heads and other supervisory officials to become stockholders of the Corporation. No definite plan for the sale of Management Stock to officers and employees has been formulated by the Board of Directors, but it is presently intended that shares thereof will be offered, from time to time over an indefinite period, to officers, department heads and supervisory officials, which categories at the present time include approximately 200 persons. No one person will be offered the right to acquire more than an aggregate of 5,000 shares of Management Stock and the number of shares to be offered to particular persons will not be measured by the amount of their compensation. The persons who will be offered shares of Management Stock and the amount offered to each such person will be determined, from time to time, by a committee of the Board of Directors which will not include any person to whom such shares have been or are being offered. The sale price of shares of Management Stock so offered will not be less than book value at the time of any particular offering thereof and in any event will not be less than the par value thereof. The book value at September 30, 1943 ($12.48 per share) was below the price at which Capital Stock of the Corporation was selling on that date. The closing price on the New York Stock Exchange of such stock on September 30, 1943 was $27.625 per share. The closing price on the New York Stock Exchange of Common Stock of the Corporation on December 22, 1943 was $24.125 per share. No consideration will be received by the Corporation for the granting of any option or right to purchase shares of Management Stock other than the benefit which will accrue to the Corporation through having its key personnel interested in the welfare of the Corporation as stockholders as well as employees. Such increased incentive will, in the opinion of the Board of Directors of the Corporation, assure the Corporation of maximum interest and efforts in the critical period of post-war development. No such right or option will be transferable.

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Management Stock
($10 Par Value)

Dividend Rights

The Board of Directors may, subject to the restrictions hereinbefore described relating to the Preferred Stock, declare and pay dividends on the Management Stock and Common Stock, shares of both of such classes of stock being on a parity with respect to dividends.

Limitations in any indentures or other agreements on the payment of dividends

Reference is made to the limitations set forth under the sub-heading "Other Special Provisions" in the foregoing summary descriptive of the Preferred Stock.

Voting rights

The holders of Management Stock are entitled to one vote for each share of such stock standing in the name of such holder on the books of the Corporation. The right of cumulative voting may be exercised at all elections of Directors. (See Paragraph (6) of subdivision III of Exhibit 1-D and subdivision (h) of Article Tenth of Exhibit 1-B.)

Liquidation rights

Upon any liquidation of the Corporation, the Management Stock and the Common Stock shall be entitled to receive any and all assets which may be paid or distributed after payment shall have been made in full to the Preferred Stock as set forth under the sub-heading "liquidation rights" in the foregoing summary descriptive of the Preferred Stock. Shares of Management Stock and of Common Stock are on a parity in case of any liquidation.

Preemptive and subscription rights

No holder of Management Stock shall have any preemptive right to subscribe to stock, obligations, warrants, rights to subscribe to stock or other securities of the Corporation of any class, whether now or hereafter authorized. (See Paragraph (7) of subdivision III of Exhibit 1-D.)

Conversion rights

Each share of Management Stock shall be convertible, at the option of the holder, at any time on and after the fifth January 1st next succeeding the calendar year in which such share of Management Stock shall have been sold by the Corporation to such holder or his predecessor or predecessors in interest into full paid and non-assessable shares of Common Stock of the Corporation at the rate of one share of Common Stock for each $10 (hereafter called the "conversion price") of the par value of the shares of Management Stock so converted. The conversion price shall be subject to adjustment from time to time (1) in the event of the issue of any shares of Common Stock (other than any shares of Common Stock which may be issued upon conversion of shares of Preferred Stock or of Management Stock) in addition to the 1,500,451 shares of Common Stock presently issued plus 2,817 shares of Common Stock reserved for issuance to officers and employees of the Corporation and its subsidiaries, or (2) in the event the Corporation shall (a) at any time reclassify the Common Stock or issue any class of stock or other securities (other than Preferred Stock or Management Stock) convertible into Common Stock, or issue any options or warrants to purchase Common Stock, or take any action affecting the number of outstanding shares of Common Stock, otherwise than as described in (1) above, or (b) take any other action with respect to the Common Stock other than the declaration or payment of any dividend or dividends thereon, which, in the opinion of the Board of Directors of the Corporation, would affect materially and adversely the conversion rights of the shares of Management Stock. In every such case the Board of Directors of the Corporation shall appoint a firm of independent public accountants which shall give their opinion as to the adjustment, if any, of the conversion price required to preserve to the holders of shares of Management Stock conversion rights substantially equivalent to the conversion rights existing prior to such event, and the conversion price shall be forthwith adjusted in accordance with such opinion. No fraction of a share of Common Stock shall be issued upon any such conversion, but in lieu thereof non-dividend bearing and non-voting scrip, exchangeable for full shares of Common Stock, shall be issued in such denominations and in such form, expiring not less than two years from the date of issue and containing such provisions for the sale of full shares of Common Stock for which such scrip is exchangeable for the account of the holders of such scrip, and such other terms and provisions as the Board of Directors may, from time to time, determine prior to the issue thereof. (See Paragraph (2) of subdivision III of Exhibit 1-D.)

Liability for further calls and assessment

The Certificate of Incorporation of the Corporation provides that private property of the stockholders shall not be subject to the payment of corporate debts.

Restrictions on sale by holder

With the exception of transfers in the case of a deceased holder of shares of Management Stock to his executors, administrators or testamentary trustees, shares of Management Stock shall not be sold, assigned, bequeathed, or otherwise transferred by any holder or owner thereof, or by the executor, administrator, trustee or other representative of any such holder or owner, or by any receiver, trustee in bankruptcy or any representative of the creditors of any such holder or owner, or by the grantee or assignee of any shares of Management Stock sold on execution, or otherwise, unless the same first shall have been offered for sale to the Corporation. Whenever any such holder, owner, executor, administrator, trustee, representative of a holder or owner, receiver, trustee in bankruptcy, representative of creditors, grantee or assignee shall desire to sell or dispose of shares of Management Stock of the Corporation, he shall notify the Corporation of such value thereof. Such offer and notice shall be in writing addressed to the Corporation at its principal office in the City of Chicago. The Board of Directors shall at their next meeting determine the book value of the Management Stock and the Corporation shall, within 60 days after its receipt of such offer and notice, advise the offerer of the book value of Management Stock and of the Corporation's acceptance or rejection of the offer. An offerer upon being advised of the book value of shares of Management Stock and of the rejection of the offer to sell shares thereof at book value may offer to sell shares of Management Stock to the Corporation for less than the book value thereof. (See first paragraph of Paragraph (1) of subdivision III of Exhibit 1-D.)

If, within 60 days after the delivery to the Corporation of any offer to sell shares of Management Stock the Corporation shall not accept the same, the offerer shall be at liberty, within 60 days after the expiration of such first mentioned 60 days, to sell, assign or otherwise transfer the shares of

Management Stock comprised in such offer; provided that the certificates for such shares shall be presented for transfer within such 60 days and provided further that if sold such shares shall not be sold at a price less than the lowest price at which the corporation had declined to purchase such shares. If however, such shares of Management Stock shall not be so sold, assigned or otherwise transferred and the certificates therefor presented for transfer within such 60 days together, in the case of a sale, with evidence satisfactory to the Corporation of the price at which such shares of Management Stock were sold, such shares of Management Stock again must be offered to the Corporation, as hereinbefore provided, before the same or any part thereof can thereafter be sold, assigned or otherwise transferred. (See third paragraph of Paragraph (1) of subdivision III of Exhibit 1-D.)

<u>Option of Corporation to reacquire</u>

The Corporation shall not be required to transfer any shares of Management Stock on its books which shall have been sold, assigned or transferred in violation of the foregoing provisions, and from and after any sale, assignment or transfer of any shares of Management Stock made in violation of the foregoing provisions, the Corporation shall have the right and option to purchase all or any part of such shares of Management Stock at a price equal to the book value thereof as determined by the Board of Directors; which right and option may be exercised at any time within 60 days after the corporation shall have acquired knowledge of such violation. (See fourth paragraph of Paragraph (1) of subdivision III of Exhibit 1-D.)

In case any person holding shares of Management Stock shall die or cease to be an employee of the Corporation, the Corporation shall have the right and option to purchase all or any part of the shares of Management Stock held by such person or, in case of the death of such person, held by his executor, administrator, or testamentary trustee, at a price equal to the greater of the book value thereof as determined by the Board of Directors or the price paid to the Corporation by such person for such shares of Management Stock. Such right and option shall terminate 60 days after such person shall have ceased to be an employee of the Corporation. (See fifth paragraph of Paragraph (1) of subdivision III of Exhibit 1-D.)

At any time during the first 5 years after each share of Management Stock becomes convertible, the Corporation may cause notice to be given to the holder of record thereof to convert such share into Common Stock, and if not so converted within 60 days after the date of such notice, the Corporation shall, for an additional period of 60 days, have the right and option to purchase such share of Management Stock at a price equal to the book value thereof as determined by the Board of Directors. (See Paragraph (3) of subdivision III of Exhibit 1-D.)

<u>Restrictions on sale by Corporation</u>

Management Stock, whether originally issued or whether reacquired and sold from the treasury of the Corporation, may be issued or sold only to persons who at the time of such issuance or sale are officers or employees of the Corporation and may be issued or sold only at a price per share equal to, or in excess of, the book value thereof determined, at the time of any particular offering thereof, by the Board of Directors; provided that no shares of Management Stock shall be originally issued at a price less than the par value thereof. (See Paragraph (8) of subdivision III of Exhibit 1-D.)

AMERICAN AIRLINES, INC.

Statement of substantial capital expenditures in excess of $25,000 which are herewith submitted for approval by the Executive Committee.

Description		Amount
Additional authorization required for the repurchase from the Army and the conversion and overhaul of 24 Douglas Aircraft		
Total amount necessary to complete the repurchase of 24 airplanes per summary	$2,571,813.79	
Less: Amount authorized by the Board of Directors on April 20, 1944 or subsequently thereto	1,806,663.40	$ 765,150.39 ✓
Purchase from Army and the conversion and overhaul of 28 type C-53 Douglas Aircraft.		3,332,000.00
Spare engines, accessories, parts, special tools and equipment necessary to perform standard overhauls and Line Maintenance servicing of Pratt and Whitney type 1830G engines		270,685.48
Purchase of Very High Frequency receiving equipment for installation in 76 DC-3 type aircraft and complete sets of transmitting, receiving and radio navigational equipment for the 77th to 100 DC-3 type aircraft		159,998.80 ✓
Installation of Oil and hydraulic line Firewall shutoff valves and necessary control systems in 100 DC-3 type airplanes plus 15% spare parts		29,893.00 ✓
TOTAL		$4,557,727.67

Douglas - 2
Airline 15
" finished 11 - 2 service
Service 58
13
Delta 63 - new
67
to come
72 - 2 service
Never 32
100 planes
30 4 - 2 service
Jan 44