ANNUAL REPORT

AMERICAN AIRLINES, INC.

YEAR ENDED DECEMBER 31, 1944

1944 annual report to the stockholders of American Airlines, Inc.

OFFICES:

General Offices: 100 East 42nd Street, New York 17, New York

Corporate Office, 927 Market Street, Wilmington, Delaware


NEW YORK
AMERICAN AIRLINES Inc.

Report of the President to the Stockholders

New York, N. Y., March 15, 1945

Your Company continued its contribution to the war effort in 1944 by operating substantial air transport and training services for the Army and Navy under war contracts. The policy of performing these services at cost and without profit was continued.

American's commercial service reached an all-time high in 1944 and, like the work performed directly for the Government, was a vital part of the nation's wartime operation, largely because of the priority traffic carried.

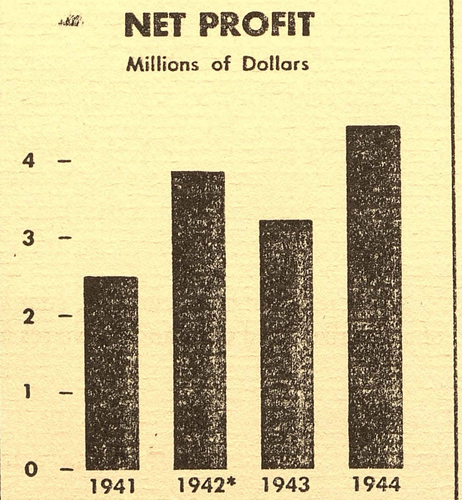
Various other developments which occurred during 1944 will serve to improve your Company's position for the future. As approved by the Stockholders in December, changes in the capital structure of the Company were made; liquid funds and reserves were substantially increased; some decisions of the Civil Aeronautics Board during 1944 increased the size and further integrated the services of our system, although others were unfavorable to your Company. Some of the most important cases are still on the Board's docket awaiting decision.

FINANCIAL SUMMARY

EARNINGS

The net profit carried to surplus was $4,396,163 as compared with $3,192,969 for 1943. These earnings are after provision of $4,050,000 for 1944 Federal income taxes, which compares with a provision of $3,500,000 for 1943. It is believed that the Company is not liable for excess profits tax for the year 1944.

The net profit for 1944 is after deduction of $1,000,000 which was set aside by your Company's Board of Directors as a reserve for transition to peacetime operations. This amount, added to the reserve of $1,750,000 established in 1943, provides an aggregate reserve of $2,750,000 for this purpose.



*Does not include net proceeds from sale of equipment to U. S. government.

The expansion of air transportation over the next few years will necessarily involve heavy expenditures for additional aircraft of the most modern type and for other property and equipment.

It is anticipated that a substantial part of the funds required for this and other future capital expenditures can be provided from cash now on hand, future earnings and depreciation provisions, and through some form of credit. Prudent business management indicates, however, that your Company should be in the best possible position to expand its capital resources as the need arises.

To this end, the Stockholders approved an Amendment to the Certificate of Incorporation at a special meeting held December 6, 1944. The Amendment provided generally for:

1. The decrease of the existing authorized Preferred Stock of no par value from 100,000 shares to the 50,000 shares then outstanding, and for changing the name of said Preferred Stock to Prior Preferred Stock. (Your Directors called this stock for redemption as of January 15, 1945, and, in accordance with its conversion privileges, the holders of 49,305 shares presented their stock in exchange for 140,871-69/100 shares of Common Stock. The remaining 695 shares of Prior Preferred have been retired and redeemed at $106 per share plus accrued dividends. Thus, this class of stock has now been eliminated.)

2. The authorization of 200,000 shares of Preferred Stock of the par value of $100 per share.

3. The increase of the authorized Common Stock from 1,000,000 shares of the par value of $10 per share to 2,400,000 shares of the par value of $5 each, and a two-for-one split-up of the outstanding Common Stock, so that each stockholder became the owner of two shares of the new Common Stock of $5 par value in exchange for each share of the Common Stock of $10 par value previously owned by him.

4. The authorization of 100,000 shares of Employees Stock of the par value of $5 per share, issuable to officers and employees of your Company and its subsidiaries, and convertible on a share-for-share basis into Common Stock after having been held for three years.

As a result of these changes, your Company on the date of this report has a capital structure of authorized and outstanding shares as follows:

	Number of Shares	
	Authorized	*Outstanding*
Preferred ($100 par value)	200,000	—
Common ($5 par value)	2,400,000	1,290,567–69/100
Employees ($5 par value)	100,000	—

No definite plans have yet been deemed necessary for the issuance of the newly authorized Preferred and Common Stock. Your Directors may from time to time authorize the sale of shares of the Employees Stock to encourage officers and other employees to become stockholders of the corporation and as an incentive to their continued service to the Company. None of this stock has yet been issued.

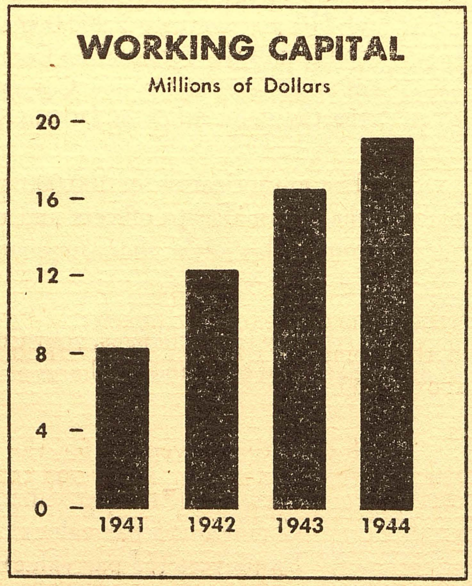
DIVIDENDS

Dividends on the now retired Preferred Stock, at the annual rate of $4.25 per share, were paid in 1944 up to the time this stock was called for redemption.

Common Stock dividend No. 5 of $1.00 per share was paid December 22, 1944, on the new $5 par Common Stock to the Stockholders of record on December 12, 1944. This dividend was equivalent to $2 per share on the old Common Stock, since it was paid after the two-for-one split-up authorized at the December Stockholders' meeting. It compares with $1.50 per share paid in 1943, 1942 and 1941 and $1.00 per share in 1940. The total amount of dividends paid on Common Stock for 1944 was $1,271,896 on 1,271,896 shares as compared with $862,272 paid in 1943 on 574,848 shares then outstanding.

NET WORKING CAPITAL

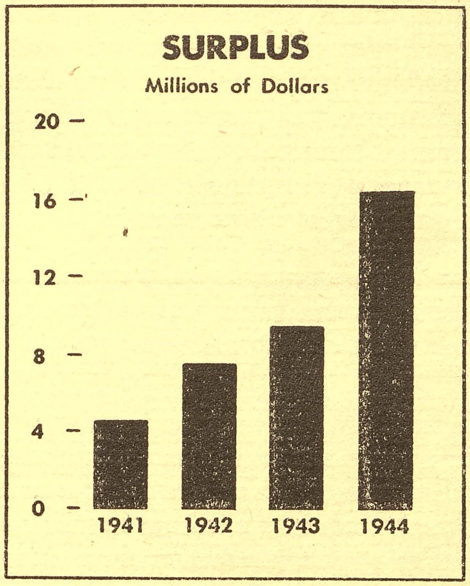
Current assets of your Company exceeded current liabilities by $19,067,123 on December 31, 1944. This represents an increase of $2,526,985 since the close of 1943 when net working capital was $16,540,138.



Holdings of United States Government securities have been substantially increased. Cash and United States Government securities amounted to $21,887,643 on December 31, 1944, an increase of $3,503,717 during the year.

Accounts receivable of $9,329,991 at the end of the year include $6,357,359 due from the United States Government. Of this latter amount, more than half is for wartime services performed at cost, the balance being for the transportation of mail and Government personnel.

SURPLUS

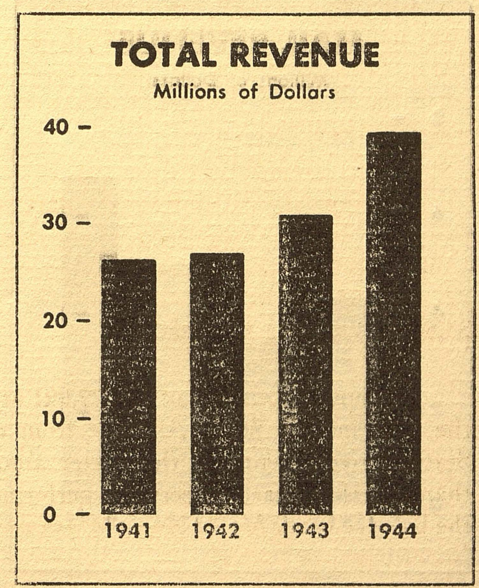


The earned and paid-in surpluses aggregated $16,232,736 at the close of 1944, an increase of $6,878,083 since the end of 1943 when corporate surplus totaled $9,354,653. The conversion into Common, by December 31, 1944, of 44,613 shares of Preferred Stock had the effect of increasing the paid-in surplus by $3,913,195, making a total of $5,855,878 in that account. The excess of net income over dividends paid during the year added $2,964,887 to the earned surplus account, bringing it to a total of $10,376,858.

OPERATING REVENUE

Your Company's commercial air transport operations attained a new peak during 1944. Airplanes returned by the U. S. Government added to the size of the fleet, and it was found possible to increase the average utilization consistent with sound operating and maintenance practices.

Although the Company's total operations, including both commercial and military contract services, have increased progressively since our country's entry into the war, the requisitioning of commercial aircraft for military use resulted in reduced commercial service during 1942 and 1943. In 1944, for the first time since your Company's fleet was reduced, more miles were flown in commercial service than at any time prior to the war. This was accomplished with a 1944 fleet averaging less than two-thirds of the number in service in the peak pre-war year. Passenger seat miles flown, the standard measure of seat capacity, were the highest in the Company's history and were 28.7 per cent above 1943.



Total operating revenues for the year were $39,244,012, an increase of $7,792,582 over the 1943 revenues of $31,451,430.

In 1944, 89.9 per cent of all seat miles flown

EXPENSES

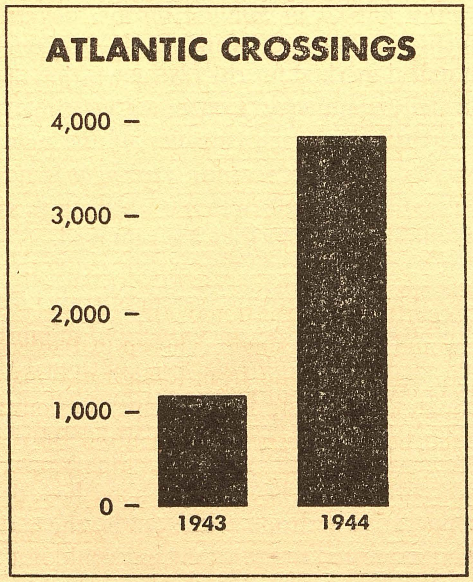
As a result of careful controls over operating expenses, the upward trend of wartime costs was arrested in 1944. Total expenses of 86.2 cents per revenue mile flown in 1944 compared with 87.2 cents in 1943. This decrease may be extended through continued attention to details of expenses, although other offsetting factors tending to increase costs operate against a substantial reduction.

MILITARY OPERATIONS

Your Company continued its policy of serving the United States Government under war contracts without profit. Renegotiation proceedings pursuant to the War Contract Renegotiation Act have been concluded for the years 1942 and 1943 and no refund was required thereunder. The management believes that such proceedings for the year 1944 will likewise result in no refund being required.

Until July 1944 your Company operated, on behalf of the Air Transport Command of the U. S. Army Air Forces, a domestic cargo service. By that time the Air Transport Command had expanded its facilities sufficiently to handle the Army requirements, and your Company was released from this duty, devoting its efforts to other military assignments, principally in the international field. Your management has had the splendid cooperation of Army and Navy personnel in all of the Company's assignments both at home and overseas.

The transport service across the North Atlantic, operated for the Air Transport Command, continues to be a most important part of American's assignments in the war effort. For the year 1944, transatlantic flights by your Company averaged 10.6 per day. Most of the planes now being flown in this service are convertible into hospital litter planes, and on many of their return flights from Europe large numbers of wounded have been evacuated and returned for speedy hospitalization in the United States.



By the end of 1944, your Company had completed more than 5,000 transatlantic crossings between the American continents and Europe or Africa for the Air Transport Command. There has been a substantial additional amount of over-water operation on other military assignments.

EXPANSION OF ROUTES AND SERVICES

DOMESTIC

The Civil Aeronautics Board issued your Company Certificates of Public Convenience and Necessity on November 10, 1944, authorizing a new service between Nashville, Tennessee, and El Paso, Texas, via Tulsa and Oklahoma City, Oklahoma. Besides bringing the first transcontinental air service to Tulsa and Oklahoma City, the new route will afford an alternate and more direct routing of your Company's Southern Transcontinental service and will also establish a new and much shorter route for your Company between the Midwest and cities in the West Coast area.

Permission was also granted during 1944 to serve San Antonio, Texas, as a stop between Dallas/Fort Worth and Monterrey on the international route to Mexico City, which your Company continues to operate under a temporary certificate. Joplin, Missouri, has been made a permanent stop on the Chicago-Dallas/Fort Worth route. ?

Certain decisions of the Civil Aeronautics Board during 1944 were unfavorable in their competitive effect upon your Company. The Board authorized two other airlines to parallel American's service between Boston and New York, authorized another airline to give competition between Cleveland and Boston, and still another between Albany and Boston. Another decision of the Board increased from one to three the number of airlines providing direct service between Chicago and Detroit. The number of airlines was increased from three to four between Chicago and New York, and from one to four between Detroit and New York.

How we ever won a case?

INTERNATIONAL

The need and opportunity for postwar overseas air transportation by far transcends prewar conceptions which were generally based upon a limited number of persons then traveling by slower means. The airplane has shrunk the globe, bringing all world areas closer together and making them even more accessible than were parts of our country only a few years ago.

Your Company, because of the pattern of its route system which serves most of the large U. S. traffic-generating centers, is in a position to provide one-carrier service and, where needed, one-plane service to overseas areas, and particularly to the traffic centers of Europe.

Certain interests are currently advocating a change in the policy of our Government with regard to international air transportation. These interests are sponsoring legislation which would create a single "chosen instrument" company to provide substantially all United States air service to and from foreign nations. Your management feels strongly that the creation of such a monopoly to represent our country in international air commerce would be adverse to the best interests of the United States and to the development of air transport generally. Your management endorses the present and traditional doctrine, embodied in the Civil Aeronautics Act of 1938, of regulated competition in both domestic and foreign air commerce. All of the domestic carriers, with a single exception, share the same view.

The War Department, Navy Department, Department of State, Department of Commerce, Civil Aeronautics Board and Department of Justice of our Government have each officially expressed opposition to the concept of monopoly in international air transportation, and have recorded their opinion in support of the existing policy of regulated competition.

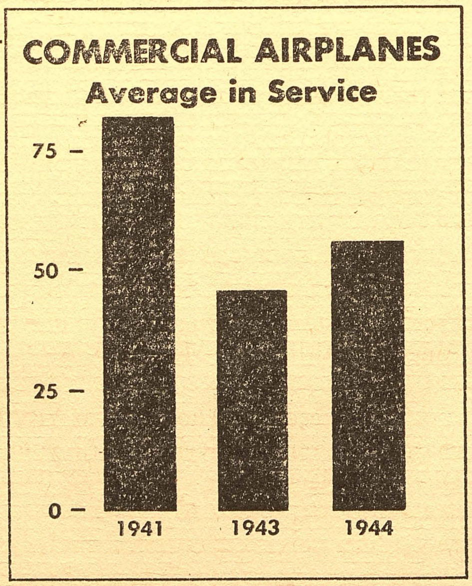
In 1939 the Civil Aeronautics Board had determined after public hearings that a second United States Flag airline was needed in North Atlantic operation, and authorized American Export Airlines, Inc., to provide the second service. At that time the Neutrality Act prohibited operations into London, Paris and other major European gateway cities which that company desired to serve. Foynes, Ireland, and Lisbon, Portugal, were available, however, and American Export now holds temporary Certificates of Public Convenience and Necessity between New York and each of them.

As previously reported to the Stockholders, your Company in March 1944 contracted to acquire a controlling interest in American Export Airlines, Inc., through the purchase of 120,000 shares of unissued capital stock for the sum of $3,000,000, which, upon issuance, would represent 51.4 percent of the then outstanding capital stock. This was subject to approval of the Civil Aeronautics Board. Public hearings have been held relative to the application for approval of this transaction, and the decision of the Board is being awaited.

The Civil Aeronautics Board also held hearings in 1944 relative to the granting of permanent certificates for North Atlantic air service, and decision in these cases is being awaited. The applications of American Export Airlines for permanent certificates to serve London, Paris and other major points in Europe and the Near and Far East were considered. Your Company itself had also applied for a route to London and Paris with extensions to certain additional key centers which, in the opinion of the Civil Aeronautics Board, may be required by the public convenience and necessity. This application was heard at the same time. Approval either of the acquisition of control of American Export Airlines or the granting of American Airlines' own application will give your Company access to the European travel market across the North Atlantic, improving and expanding the system and thereby offering better public service.

EQUIPMENT

During 1943 your Company had an average of only 46 Douglas DC-3 airplanes available for commercial service, the balance of its prewar fleet having been sold or leased to the United States Government after Pearl Harbor. In 1944, through the return of aircraft by the Government, the average number of Flagships in the fleet rose to 54 and reached 67 by the end of the year. As of March 1, 1945, the Government had released or allocated to American Airlines additional DC-3 airplanes, bringing the total allocated up to 79. These planes will, for the first time, restore the fleet to equal the 79 Douglas transport aircraft in operation at the end of 1941. This fleet will be increased consistent with the Company's requirements and the quantities and types of aircraft available.



With the exception of those aircraft which your Company had previously leased to the U. S. Government, the planes received during 1944 were repurchased from the Government. Now the Government offers an optional plan whereby an airline may either purchase or lease returned DC-3 type aircraft. Your management expects to use the leasing method. This method will keep available more of the Company's present capital funds for future investment in new type equipment and for further development.

Some of this new equipment is already on order. Your Company signed contracts during September 1944 with the Douglas Aircraft Company for 25 DC-4 and 30 DC-6 aircraft, both of which will be improved, four-engine, high-speed types, with seating capacities per plane more than double that of the present DC-3. The DC-4 is the type which, in a cargo transport version known as the C-54, has been tested and proved by millions of miles of operation in military transport service. Larger than the DC-4, the DC-6 is expected to be faster and more economical in operation than any comparable transport plane yet available. Delivery dates for these aircraft cannot yet be determined and are largely dependent upon the progress of the war. At the present time, it does not appear likely that either type will be available for operation in 1945.

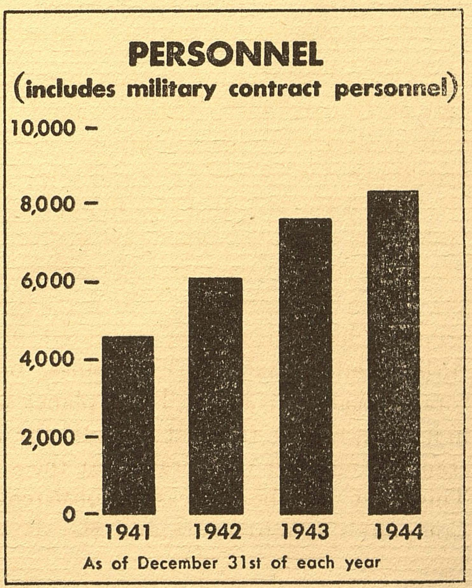
ORGANIZATION RELATIONSHIPS

The number of employees increased from 7,614 at the end of 1943 to 8,369 at the close of 1944.

Surveys of those who are on leave of absence from the Company in the Armed Services have revealed that almost all want to return to American Airlines. The honor roll of the Company numbers 1,906 men and women who have entered the military services. To the 34 of our organization who have sacrificed their lives or who are reported missing in action in the service of our country, we offer our tribute, and to the members of their families we extend our deepest sympathy.

Your Company suffered a keen loss when Vice President Hollis R. Thompson died in Cleveland, Ohio, on July 6, 1944. Loyal, a fine friend and an able executive, he was Vice President in charge of route development of American Airlines as well as President and Managing Director of our subsidiary, American Airlines de Mexico, S. A.

To succeed Mr. Thompson as Vice President in charge of route development, your Board of Directors elected Mr. Terrell C. Drinkwater on September 1, 1944. Mr. Drinkwater brings to American a wide experience in airline administration, having been the executive head of Continental Air



Lines. The post of President of American Airlines de Mexico, S. A., was filled by the election of Mr. A. N. Kemp to that office; Mr. Stanley G. King was elected Vice President and Managing Director of American Airlines de Mexico, S. A.

To strengthen your Company's operating and traffic departments, your Board of Directors promoted to executive offices six pioneers in the air transportation industry, all with long service in the Company. Mr. William H. Miller was elected Assistant Vice President (Operations), and Mr. Willis G. Lipscomb was elected Assistant Vice President (Traffic). Four regional vice presidents were elected: Mr. A. R. Bone, Jr. for the Western Region; Mr. W. Nelson Bump, New England Region; Mr. Lewis W. King, Central Region; and Mr. Melvin D. Miller, Southern Region.

The Board of Directors wishes to express its appreciation of the support and cooperation of the stockholders as well as the creative energy, cooperative initiative and devotion of your Company's personnel, which have contributed materially to the year's accomplishments.

Respectfully submitted,

A. N. KEMP,
President

By order of the
Board of Directors.

COMPARATIVE STATISTICS OF PROGRESS

YEARS 1940-1944

	1944	1943	1942	1941	1940
Operating Revenues:					
Passenger	$29,338,231	$23,356,327	$21,512,980	$20,922,773	$15,898,794
Mail	6,685,282	4,886,389	3,266,825	4,269,881	3,912,817
Express	2,529,922	2,580,562	1,720,036	756,116	566,796
Other	690,577	628,152	482,173	350,008	311,211
Total	39,244,012	31,451,430	26,982,014	26,298,778	20,689,618
Expenses, Federal Income Taxes and Reserves	34,847,849[4]	28,258,461[4]	23,130,300[2]	23,825,617	18,831,068
Net Profit Carried to Surplus	4,396,163	3,192,969	3,851,714[2]	2,473,161	1,858,550
Dividends on Preferred Stock	159,380	212,507	212,507	212,507	41,911
Dividends on Common Stock	1,271,896	862,272	862,272	862,272	380,265
Total Dividends to Stockholders	1,431,276	1,074,779	1,074,779	1,074,779	422,176
Net Income Retained in the Business	2,964,887	2,118,190	2,776,935	1,398,382	1,436,374
Current Assets	32,187,698	27,959,118	21,845,308	16,236,986	10,432,470
Current Liabilities	13,120,576	11,418,980	9,771,779	8,567,767	5,334,677
Net Working Capital	19,067,122	16,540,138	12,073,529	7,669,219	5,097,793
Aircraft, Ground and Other Equipment (depreciated value)	5,385,731	4,270,605	5,216,380	6,875,487	8,237,524
Total Assets	39,259,256	33,476,517	27,991,392	23,968,411	19,138,629
Paid-in Surplus	5,855,878	1,942,682	1,942,682	1,942,682	1,456,345
Earned Surplus	10,376,858	7,411,971	5,293,781	2,516,845	1,011,248
Total Surplus	16,232,736	9,354,653	7,236,463	4,459,527	2,467,593
Preferred Stock Outstanding	549,474	5,100,000	5,100,000	5,100,000	5,100,000
Common Stock Outstanding	6,385,811	5,748,480	5,748,480	5,748,480	3,803,130
Net Worth	23,168,021	20,203,133	18,084,943	15,308,007	11,370,723
Commercial Airplanes (at end of year)	67	47	43	79	81
Expenses per Revenue Mile Flown (Exclusive of Federal Income Taxes and Reserves):					
Expenses, before Provision for Depreciation Obsolescence and Interest[1]	82.7¢	82.6¢	71.3¢	61.8¢	60.5¢
Provision for Depreciation and Obsolescence	3.5¢	4.6¢	6.2¢	8.1¢	7.3¢
Interest	—	—	—	.2¢	.5¢
Total	86.2¢	87.2¢	77.5¢	70.1¢	68.3¢
Revenue Miles Flown	34,581,949	26,397,687	27,828,321	32,098,663	26,749,813
Passengers per Revenue Mile Flown with Passengers	17.6	16.8	14.6	12.8	11.7
Passenger Seat Miles Flown	636,211,268	494,320,807	542,385,606	590,172,096	467,328,102
Revenue Passenger Miles	572,094,112	435,913,741	402,298,900	409,400,652	311,746,689
Passenger Load Factor	89.9%	88.2%	74.2%	69.4%	66.7%
Air Mail Ton Miles	11,166,384	8,145,462	4,546,184	2,935,789	2,260,013
Air Express-Freight Ton Miles	5,378,285	4,882,115	2,992,486	1,359,267	954,843
Average Revenue Load per Plane, per Mile (pounds):					
Passenger[3]	3,309	3,303	2,920	2,560	2,340
Mail	646	617	326	176	168
Express-Freight	311	370	215	84	71
Total	4,266	4,290	3,461	2,820	2,579

[1] Includes net of Other Income and Deductions.

[2] Net profit for 1942 includes (and Expenses have been reduced by) $834,846 net after applicable Federal taxes, realized from the sale of flight equipment at the direction of the United States Government.

[3] Each passenger's weight, including baggage, estimated at 200 pounds.

[4] Includes provision of $1,000,000 in 1944 and $1,750,000 in 1943 for transition to peace time operation.

AMERICAN AIRLINES, INC.

CONSOLIDATED

AT DECEMBER 31, 1944

ASSETS

	Dec. 31, 1944	Dec. 31, 1943
CURRENT ASSETS:		
Cash on hand and demand deposits	$ 8,948,418.66	$ 9,362,959.74
Marketable securities, at cost (approximately market):		
U. S. Treasury bonds and certificates	$10,153,225.00	$ 3,994,966.25
U. S. Treasury tax notes	2,786,000.00	5,026,000.00
Canadian Government bonds	136,350.00	90,900.00
	$13,075,575.00	$ 9,111,866.25
Accounts receivable:		
U. S. Government:		
For services performed at cost under war contracts	$ 5,138,083.66	$ 5,553,894.17
Less: Advance payments received	1,286,769.00	2,921,608.66
	$ 3,851,314.66	$ 2,632,285.51
For the transportation of air mail	1,366,999.33	1,518,462.65
For air travel, etc.	1,139,045.33	1,306,705.56
Air travel plan subscribers	792,061.88	767,652.93
Other airline companies and agents—traffic and express balances	1,809,734.35	1,978,349.12
Other trade accounts	446,345.76	588,883.21
Indebtedness of employees	78,673.35	64,656.87
	$ 9,484,174.66	$ 8,856,995.85
Less: Reserve for doubtful accounts receivable	154,183.63	154,002.61
	$ 9,329,991.03	$ 8,702,993.24
Inventories—parts and supplies, at the lower of cost or market	$ 833,713.71	$ 781,298.50
TOTAL CURRENT ASSETS	$32,187,698.40	$27,959,117.73
INVESTMENTS AND SPECIAL FUNDS:		
Investment in wholly-owned subsidiary not consolidated, at cost (less reserve of $14,096.51 at December 31, 1943) (Note 1)	$ 500,000.00	$ 485,903.49
Miscellaneous investments in connection with operations, at cost	43,552.72	24,230.16
Cash deposits in connection with airplane purchase commitments	275,000.00	—
Other cash deposits	53,540.00	65,540.00
	$ 872,092.72	$ 575,673.65
FLIGHT EQUIPMENT, AT COST	$ 9,363,870.61	$ 7,526,565.30
Less: Reserve for obsolescence and depreciation	6,738,337.40	6,158,020.26
	$ 2,625,533.21	$ 1,368,545.04
LAND, BUILDINGS AND OTHER EQUIPMENT, AT COST (Note 2)	$ 5,294,375.89	$ 4,980,743.99
Less: Reserve for depreciation	2,534,178.10	2,078,684.48
	$ 2,760,197.79	$ 2,902,059.51
NON-OPERATING PROPERTY AND EQUIPMENT, AT ESTIMATED REALIZABLE VALUE	$ 21,320.00	$ 26,320.00
LONG TERM OPERATING PROPERTY PREPAYMENTS, LESS AMORTIZATION	$ 513,429.05	$ 522,283.52
DEFERRED CHARGES:		
Prepaid rents and insurance	$ 154,895.79	$ 54,045.29
Other deferred charges	124,089.29	68,472.14
	$ 278,985.08	$ 122,517.43
	$39,259,256.25	$33,476,516.88

Explanatory notes are attached hereto.

AND CONSOLIDATED SUBSIDIARY

BALANCE SHEETS

AND DECEMBER 31, 1943

LIABILITIES, CAPITAL STOCK AND SURPLUS

	Number of Shares	Dec. 31, 1944	Dec. 31, 1943
CURRENT LIABILITIES:			
Accounts payable		$ 2,435,161.34	$ 1,689,179.81
Other airline companies—traffic balances payable		2,028,803.10	2,030,012.06
Air travel plan subscribers' deposits		3,110,453.88	2,702,716.20
Dividend declared on preferred stock—paid January 15, 1944		—	53,126.74
Accrued salaries and wages		607,915.82	689,162.25
Accrued federal income taxes (Note 3)		4,139,748.41	3,545,442.16
Other accrued taxes		365,378.78	349,100.34
Other accrued liabilities		433,114.21	360,240.36
TOTAL CURRENT LIABILITIES		$13,120,575.54	$11,418,979.92
UNEARNED TRANSPORTATION REVENUE		$ 220,660.05	$ 104,403.60
RESERVE FOR TRANSITION TO PEACETIME OPERATIONS		$ 2,750,000.00	$ 1,750,000.00
CAPITAL STOCK(*):			
At December 31, 1944:			
Prior Preferred Stock, without par value ($4.25 Cumulative Convertible) (Note 4):			
Authorized	50,000		
Issued and outstanding	5,387	$ 549,474.00	
Preferred Stock, par value $100 per share:			
Authorized	200,000		
Issued and outstanding	None		
Common Stock, par value $5 per share:			
Authorized	2,400,000		
Issued and outstanding	1,277,162.16	$ 6,385,810.80	
Reserved for conversion of Prior Preferred Stock	15,392		
Employees Stock, par value $5 per share:			
Authorized	100,000		
Issued and outstanding	None		
At December 31, 1943:			
Preferred Stock, without par value:			
Authorized	100,000		
Issued and outstanding ($4.25 Cumulative Convertible)	50,000		$ 5,100,000.00
Common Stock, par value $10 per share:			
Authorized	1,000,000		
Issued and outstanding	574,848		$ 5,748,480.00
Reserved for conversion of Preferred Stock	71,429		
SURPLUS (per attached statement):			
Paid-in surplus		$ 5,855,877.70	$ 1,942,682.50
Earned surplus		10,376,858.16	7,411,970.86
		$16,232,735.86	$ 9,354,653.36
		$39,259,256.25	$33,476,516.88

Explanatory notes are attached hereto.

(*) On January 15, 1945, the Company's capital stock was as follows:

	Number of Shares Authorized	Number of Shares Issued and Outstanding
Preferred Stock, par value $100 per share	200,000	None
Common Stock, par value $5 per share	2,400,000	1,290,567.69
Employees Stock, par value $5 per share	100,000	None

AMERICAN AIRLINES, INC. AND CONSOLIDATED SUBSIDIARY

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS

FOR THE YEARS ENDED DECEMBER 31, 1944 AND 1943

	Year ended Dec. 31, 1944	Year ended Dec. 31, 1943
OPERATING REVENUE:		
Passenger	$29,338,230.53	$23,356,327.31
Mail	6,685,282.38	4,886,389.14
Express and freight	2,529,922.18	2,580,561.96
Other	690,576.53	628,151.77
	$39,244,011.62	$31,451,430.18
OPERATING EXPENSES (Note 6):		
Flying operations	$ 6,849,307.32	$ 5,010,981.77
Ground operations	5,456,997.32	4,647,226.46
Maintenance and repairs	5,344,292.40	3,681,035.07
Passenger service	2,454,383.86	1,882,401.63
Traffic and sales	3,318,115.44	2,785,073.96
Advertising and publicity	1,415,478.65	1,124,541.24
Retirement Benefit Plan and other employee welfare (Note 7)	658,725.04	407,209.34
Social security taxes	437,034.25	305,012.16
General and administrative	2,628,422.90	1,932,817.53
Provision for obsolescence and depreciation of property and equipment	1,209,793.07	1,210,711.81
	$29,772,550.25	$22,987,010.97
	$ 9,471,461.37	$ 8,464,419.21
OTHER INCOME:		
Interest, cash discounts on purchases, etc.	169,520.53	106,289.50
	$ 9,640,981.90	$ 8,570,708.71
DEDUCTIONS FROM INCOME:		
Loss on sale and retirement of property and equipment	$ 19,031.08	$ (261.04)
Special provision for doubtful accounts receivable	75,000.00	30,000.00
Other	100,787.47	98,001.04
	$ 194,818.55	$ 127,740.00
	$ 9,446,163.35	$ 8,442,968.71
PROVISION FOR FEDERAL INCOME TAXES (Note 3)	4,050,000.00	3,500,000.00
	$ 5,396,163.35	$ 4,942,968.71
PROVISION FOR TRANSITION TO PEACETIME OPERATIONS	1,000,000.00	1,750,000.00
NET PROFIT CARRIED TO SURPLUS	$ 4,396,163.35	$ 3,192,968.71

Explanatory notes are attached hereto.

AMERICAN AIRLINES, INC. AND CONSOLIDATED SUBSIDIARY

CONSOLIDATED STATEMENTS OF SURPLUS

FOR THE YEARS ENDED DECEMBER 31, 1944 AND 1943

	Year ended Dec. 31, 1944	Year ended Dec. 31, 1943
PAID-IN SURPLUS		
Balance at beginning of year	$ 1,942,682.50	$1,942,682.50
Add: Arising from the conversion of 44,613 shares of $4.25 Cumulative Convertible Preferred Stock into 127,466.16 shares of Common Stock	3,913,195.20	—
Balance at end of year	$ 5,855,877.70	$1,942,682.50
EARNED SURPLUS		
Balance at beginning of year	$ 7,411,970.86	$5,293,781.08
Add: Net profit for year	4,396,163.35	3,192,968.71
	$11,808,134.21	$8,486,749.79
Deduct:		
Dividends declared:		
On $4.25 Cumulative Convertible Preferred Stock:		
$3.1875 per share in 1944 and $4.25 per share in 1943 (Note 4)	$ 159,380.05	$ 212,506.93
On Common Stock:		
$1.00 per share in 1944 on the present $5.00 par value stock and $1.50 per share in 1943 on the then $10.00 par value stock	1,271,896.00	862,272.00
	$ 1,431,276.05	$1,074,778.93
Balance at end of year	$10,376,858.16	$7,411,970.86

Explanatory notes are attached hereto.

AMERICAN AIRLINES, INC. AND CONSOLIDATED SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

NOTE 1:

The accompanying financial statements include in consolidation the Company's wholly-owned subsidiary, American Airlines de Mexico, S. A., but exclude its other wholly-owned subsidiary, Sky Chefs, Inc. The latter is engaged in airport restaurant and airline catering operations and its assets and operations are not material in relation to those of the Company. The net profit of Sky Chefs, Inc. amounted, for the year 1943, to $35,614.84 (which was credited to the Company's profit and loss account) and, for the year 1944, to $44,634.01 (of which $14,096.51 was credited to the Company's profit and loss account). This subsidiary's accumulated earned surplus amounted, at December 31, 1944, to $30,537.50 (which is not reflected in the Company's accounts).

NOTE 2:

Land, buildings and other equipment at December 31, 1944 include approximately $830,000 (after deduction of reserve for depreciation) of such assets located in and used in airline operations within the Republic of Mexico. Net current assets in foreign countries are not substantial in amount.

NOTE 3:

No provision has been made for federal excess profits tax as the Company is believed to be exempt therefrom for 1944 and prior years. The Company's liability for federal taxes for the years 1942, 1943 and 1944 is subject to the Internal Revenue Bureau's review of the tax returns for such years.

NOTE 4:

On October 20, 1944 the $4.25 Cumulative Convertible Preferred Stock was called for redemption on January 15, 1945 at the redemption price of $106.00 per share plus accrued dividends thereon of $1.0625 per share. At December 31, 1944, 44,613 shares of such preferred stock had been converted into 127,466.16 shares of common stock. From January 1 to 15, 1945, 4,692 additional shares of such preferred stock were converted into 13,405.53 shares of common stock and the 695 shares of such preferred stock outstanding on January 15, 1945 were redeemed by cash payment of $74,408.45.

NOTE 5:

Commitments and contingent liabilities:

Under date of March 20, 1944 the Company entered into an agreement, subject to approval of the Civil Aeronautics Board, to purchase 120,000 shares of the unissued capital stock of American Export Airlines, Inc. at a price of $3,000,000.00 which, upon issuance, would represent approximately 51.4% of the then outstanding capital stock. Application for

NOTE 5—Continued.

approval of this acquisition has been filed with the Civil Aeronautics Board and hearings have been held but decision thereon has not yet been rendered.

Under date of September 11, 1944 the Company made a commitment to purchase from Douglas Aircraft Company, Inc., 25 DC-4 airplanes and 30 DC-6 airplanes, delivery thereof being subject to the lifting of governmental restrictions resulting from wartime conditions and the problems of the seller in converting from wartime operations. The aforementioned airplanes, together with spare parts and engines, will cost approximately $30,000,000.

There are various suits and claims pending against the Company arising in the ordinary course of its business which, it is believed, will not result in any material loss or expense to the Company.

NOTE 6:

Since early in 1942 services have been performed by the Company for the U. S. Government under war contracts on which the Company has waived all fees and profits. The applicable costs and expenses are not included in the accompanying profit and loss statements but have been charged directly to the U. S. Government. Renegotiation proceedings pursuant to the War Contracts Renegotiation Act have been concluded for the years 1942 and 1943 and no refund was required thereunder. The Company believes that such proceedings for the year 1944 will likewise result in no refund being required.

NOTE 7:

Under the Employees' Retirement Benefit Plan the Company intends, but does not guarantee, to purchase annuities in respect of past services rendered by employees prior to December 31, 1941. The payments by the Company for the purchase of past service annuities amounted to $375,000.00 in 1944, $225,000.00 in 1943 and $400,000.00 in prior years, which amounts have been charged to profit and loss of the respective years. The estimated remaining gross cost of past service annuities, if purchased at December 31, 1944, would have amounted to approximately $490,000.

The current cost of the Plan for services rendered since January 1, 1942 is being paid in part by the employees and in part by the Company.

NOTE 8:

On January 1, 1945 the Civil Aeronautics Board served an order on the Company and certain other air carriers to show cause why the rate for the transportation of air mail should not be reduced from 60¢ per ton mile to 32¢ per ton mile effective January 1, 1945.

The Company has filed an answer to the Show Cause Order stating therein that effective March 10, 1945 its passenger fares were being reduced by 6½%, that effective March 25, 1945 it will grant a 5% discount on Air Travel Plans and Government travel, and that it anticipates other fare reductions during the year 1945. On the basis of this and other evidence presented in the answer, the Company has asked that the Civil Aeronautics Board find, at the earliest possible date, that the rate fixed for the transportation of mail in its order of November 12, 1942 (60¢ per ton mile) is fair and reasonable for the future.

ARTHUR YOUNG & COMPANY

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LOS ANGELES
MILWAUKEE
PITTSBURGH
TULSA

LONDON, ENGLAND
TORONTO, CANADA
MONTREAL, CANADA

To the Board of Directors and Stockholders
American Airlines, Inc.:

We have examined the consolidated balance sheet of AMERICAN AIRLINES, INC. AND CONSOLIDATED SUBSIDIARY at December 31, 1944 and the consolidated statements of profit and loss and surplus for the 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. It was not practicable to confirm receivables from the U. S. Government, as to the substantial accuracy of which we satisfied ourselves by other means. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of profit and loss and surplus present fairly the position of American Airlines, Inc. and Consolidated Subsidiary at December 31, 1944, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR YOUNG & COMPANY

New York, N. Y.
March 12, 1945.