Merrill Lynch Stock Appraisal on: *Revised October 29, 1948*

American Airlines, Inc.

Listed NYSE, Symbol AMR
Common Stock Appraised Speculative*
Air Transportation Shares Appraised Average to Favorable*

3 1/2% Cum Conv Preferred Stock Appraised Speculative

	Common	Preferred
1948 Price Range	10-6 1/8	68-47-1/4
Recent Price	7 1/4	52 1/4
Dividend	Nil**	$3.50
Yield	-	6.7%

** - In the Merrill Lynch Security and Industry Survey.*

*** - Paid or declared in last 12 months.*

CURRENT TRENDS AND PROSPECTS: Grounding of the DC-6s is the most important single factor responsible for the unsatisfactory showing of American so far in 1948. Return of these planes to service began in March. This plus the normal seasonal increase in traffic enabled American to enter the black in May. Although summer traffic was disappointing, over $1 million was earned in the third quarter. A moderate mail rate increase will add an estimated $1.3 million of revenues in 1948. For the year 1948, American is expected to show a large deficit unless further mail rate increases in substantial amount are received.

Over the long term earnings should register marked improvement over current levels. For many years, American has maintained its status as the largest domestic air carrier. With its strong industry position, this carrier should register further growth in coming years. Its fleet of modern equipment will help in the competitive struggle for traffic and contribute to greater efficiency. Through the investment in American Overseas Airlines, American Airlines indirectly participates in transatlantic operations. With substantial charges senior to the common outstanding, it appears that considerable time will be required before per share earnings of any size will be shown on the large issue of common.

EARNINGS AND DIVIDEND RECORD: Operating revenues have greatly expanded over the years reflecting the vast increase in passenger traffic. Passenger revenues amounted to $71 million in 1947 compared with $58 million in 1946 and $21 million in 1941. Cargo business has also shown a very substantial growth and, in 1947 for the first time, exceeded mail receipts. Mail revenues have decreased rapidly the past few years as a result of the reduction in volume from the war-time peak.

The upward trend of earnings, however, culminated in the years 1944-45, and the moderate deficit of 1946 has been followed by the large losses of 1947 and 1948. This reflects the sharp increase in costs plus the expenses incident to the inauguration of new equipment. As new services have been added and competition intensified, load factors have declined thereby increasing costs of services.

Common dividends, paid from 1940-45, were modest in relation to earnings. In view of the requirements for funds, further payments on the common are not anticipated in the near to medium term.

DIVIDEND MEETINGS: Preferred Stock - dividend meetings approximately Jan. 21, ex-dividend Feb. 11, payable Mar. 1, and quarterly on comparable dates. No dividend being paid on common.

INTERIM EARNINGS AND CASH DIVIDENDS - PER COMMON SHARE

	1948 Earns.	1948 Divs.*	1947 Earns.	1947 Divs.*
3 Mos. Mar. 31	$d0.86	Nil	$d0.53	Nil
3 Mos. June 30	d0.03	Nil	0.07	Nil
3 Mos. Sept. 30	0.11	Nil	0.14	Nil
3 Mos. Dec. 31	-	-	d0.36	Nil

** - Paid or declared during the interim period.*
d - Deficit.

SELECTED INCOME ACCOUNT DATA - YEARS ENDED DEC. 31

	Oper. Rev.**	Net Oper. Income**	Net Income**≠	Pre-Tax Margin of Prof.	Net Inc. % of Sales≠	Per Common Share/ Earns.≠	Divs. Paid	Price Range High	Low
1947	$81,731	$d4,521	$d2,963	d6.0%	d3.6%	$d0.68	Nil	11 3/8	7
1946	68,083	d 667	d 376	d1.4	d0.6	d0.14	Nil	19 7/8	9
1945	47,416	8,176	4,399	17.2	9.3	0.67	$0.20	18 7/8	8 1/2
1944	39,244	9,471	4,396	24.1	11.2	0.66	0.20	9 1/8	5 3/4
1943	31,451	8,464	3,193	26.8	10.2	0.52	0.15	7 5/8	5 1/4
1942	26,982	5,613	3,852//	24.5	14.3//	0.63//	0.15	5 7/8	2 1/2
1941	26,299	3,714	2,473//	14.3	9.4//	0.39//	0.15	5 7/8	4
1940	20,690	2,284	1,859//	11.7	9.0//	0.48//	0.10	7 1/2	4 1/8
1939	15,071	2,234	1,468	11.9	9.7	0.42	Nil	4 3/4	1 5/8
1938	11,332	509	213	2.3	1.9	0.07	Nil	2 1/4	3/4

*** - Thousands of dollars. / - Adjusted for 2-for-1 stock split in 1944 and 5-for-1 in 1946. ≠ - After deducting reserves for contingencies equal to $0.22 per share in 1947, $0.10 in 1946, $0.15 in 1944 and $0.30 in 1943.*
// - Includes profit on sale of equipment. d - Deficit.

MERRILL LYNCH, PIERCE, FENNER & BEANE

UNDERWRITERS AND DISTRIBUTORS OF INVESTMENT SECURITIES **70 PINE ST. NEW YORK** BROKERS IN SECURITIES AND COMMODITIES

FINANCES: To finance its tremendous post-war expansion program, American has issued $40 million of debentures and $40 million of preferred stock. Total charges senior to the common amount to $2.6 million, equal to 40¢ per common share. Beginning June, 1951, sinking fund payments of $1,350,000 are required each year on the debentures. The large expenditures for property and flight equipment ($37 million in 1947) and the $13 million investment in American Overseas have absorbed a large portion of funds. Operating losses have also constituted a heavy drain on resources.

Thus net working capital amounted to $8.8 million June 30, 1948 down from $14 million at the end of 1947, and $35 million a year earlier. To provide for additional funds, American arranged a bank credit of $7.5 million last February. None of this has yet been borrowed. In addition to outlays required for Convair-Liner deliveries, American is obligated to furnish American Overseas an additional $2,250,000 under a credit agreement. While operating losses have further reduced working capital, the cash position will be helped by 1948 depreciation provisions estimated at some $14 million.

CAPITALIZATION - DECEMBER 31, 1947

3% S.F. Debentures, due 1966	$40,000,000
$3.50 Cum.Conv.Pfd.Stk.($100 Par)*	400,000
Common Stock ($1 Par)	6,452,835 Shs.
Options	250,000†

** - Redeemable at 104 through June 1, 1951, lower thereafter. Convertible into common at $21 per share.*

† - Entitles holder to purchase common at $11.70 per share to June 1, 1950.

BASIC POSITION: American Airlines is the nation's largest domestic system. In 1947, it flew about 24% of the domestic industry's passenger miles, up from the 22% of 1946. American operates an extensive series of domestic routes that include transcontinental services. Among the major cities served are New York, Philadelphia and Boston in the East; Chicago, Detroit and St. Louis in the Mid-West; and Los Angeles and San Francisco on the Pacific Coast. It also has a $13.2 million investment in American Overseas Airlines. The latter is one of 3 U.S. certificated airlines which provide service to Europe. American owns 62% of the common stock of American Overseas.

The company's fleet of equipment has expanded tremendously in the past few years. This is evidenced by the jump in the net value of property and equipment from $5 million at the end of 1944 to $69 million at the end of 1947. Delivery of 50 DC-6s has been completed and delivery of the 75 Convair-Liners on order is underway. the latter will have replaced nearly all DC-3s by next year, DC-4 service is being reduced and a number of these planes converted to cargo service.

Passenger traffic has grown to far and away the most important source of revenues. In 1947, passenger receipts amounted to 87% of the total, while mail was 4% and express and freight 7%. The increased importance of passenger revenues reflects not only growth of traffic but also premium fares on DC-6 service and two 10% rate increases in 1947. The fall premium fares on DC-6s were abolished while fares on other planes were raised to 6¢ a mile. A 5% round trip discount has been instituted along with a "family fare" plan designed to stimulate traffic the first three days of the week.

SELECTED BALANCE SHEET DATA (Thousand Dollars) DEC. 31

	Cash Items	Invent.	Current Assets	Current Liabilities	Plant Gross	Plant Net	Long-Term Debt	Preferred Stock	Common Stock Surp. & Res.
1947	$16,293	$1,889	$33,782	$19,605	$93,197	$69,330	$40,000	$40,000	$21,025
1946	39,849	1,896	55,340	20,261	61,037	44,865	40,000	40,000	26,969
1945	19,411	898	30,420	16,536	20,489	9,690	-	-	28,893
1944	22,024	834	32,188	13,121	14,658	5,386	-	549	25,369
1943	18,475	781	27,959	11,419	12,507	4,271	-	5,100	16,853

Pan American Airways Corporation

(Listed - NYSE, Symbol PN)

Common Stock Appraised	Speculative*		
Air Transportation Shares Appraised	Average to Favorable*		
	Common		Common
1948 Price Range	11 1/8 - 8 1/4	Dividend	$0.50**
Recent Price	8 5/8	Yield	5.8%

* - *In the Merrill Lynch Security and Industry Survey.*

** - *Paid or declared in last 12 months.*

CURRENT TRENDS AND PROSPECTS: Pan American does not publish interim earnings for its entire system. Its principal subsidiary, Pan American Airways, Inc., accounts by far for the largest part of consolidated revenues. On the basis of reports filed with the Civil Aeronautics Board, net income of PAA Inc. for the 12 months ended June 30, 1948 was $3.9 million compared with a deficit of $167,000 for the 12 months ended June 30, 1947. Gross revenues increased from $120 million to $140 million over these same 2 periods with revenues other than U.S. Mail estimates responsible for about all of the increase in gross.

The sharp upward trend of traffic during the past few years has leveled off in recent months. Excursion rates have been put into effect on some routes to build up traffic during the more quiet fall and winter months. Over the long-term, Pan American should enjoy substantial further growth. With its world-wide routes, experienced organization, and excellent fleet of equipment, this carrier is in a good position to hold its own despite intensified competition. The very active role (political and economic) being played by the U.S. in the post-war world is a most important factor stimulating travel and trade between the U.S. and most other nations.

Operating in the international sphere, this company is subject to certain risks that do not confront domestic air carriers. On the other hand, the strategic areas which its routes encompass and the importance of our transportation to the national defense make Pan American a vital adjunct to our national security. This is considered an important basic factor that will continue to influence government policies toward this and other international air carriers.

EARNINGS AND DIVIDENDS: The long-term earnings record of Pan American is among the best in the airlines industry. Dislocations in services during the war years interrupted the strong upward trend of earnings of the late pre-war period. Commercial revenues have increased to record levels the past few years and are expected to establish a new record in 1948. Much higher operating costs have kept margins narrow. Earnings beginning 1945 are difficult to evaluate as U.S. Mail rates on most of PAA's routes have been only temporary. Furthermore, PAA accounts for mail revenues on the basis of its own estimate of what it believes itself entitled. The more usual and more conservative practice is to account for mail pay on the basis of rates (temporary or permanent) actually in effect.

Passenger revenues have grown, becoming by far the most important source of income. Last year passenger revenues amounted to $94 million or 66% of the total. Express and freight business is also a sizable item, $13.5 million. U.S. and foreign mail totaled $28.5 million or 20% of the total. By comparison mail payments in 1941 exceeded passenger revenues and represented 48% of the gross.

Dividends have been paid each year from 1941 on. During this period some 56% of reported earnings have been distributed. A common dividend of $0.25 was declared in June, 1948.

DIVIDEND MEETINGS: Common dividend meetings irregular; last meeting June , ex-dividend June 9, paid June 21.

INTERIM EARNINGS: No interim earnings reported by parent company.

SELECTED INCOME ACCOUNT DATA - YEARS ENDED DEC. 31

	Total Oper. Revs.*‡	Net Oper. Income*	Net Income*	Pre-Tax Margin Of Prof.	Net Inc. % of Total Oper. Revs.	Per Common Share † Earns.	Divs. Paid	Price Range High	Low
1947	$142,362a	$5,569	$2,960	3.5%	2.1%	$0.49	$0.25	14 7/8	8 1/4
1946	113,092b	13,355	2,983c	5.0	2.6	0.49c	0.50	27	11 1/2
1945	69,306b	7,350	7,566ce	14.5	10.9	1.23ce	0.25	29	16 1/4
1944	45,491	2,288	1,619	6.8	3.6	0.41	0.50	18 1/4	14 1/2
1943	39,431	3,616	1,930	9.9	4.9	0.49	0.50	21 5/8	11 3/4
1942	48,107	6,050	3,780	12.4	7.9	0.98	0.50	13 1/2	5 7/8
1941	38,173	6,992	3,361	15.7	8.8	0.87	0.50	9 5/8	5
1940	27,010	4,722	2,256	12.3	8.4	0.60	Nil	12 5/8	6
1939	20,481	2,786	1,984	12.3	9.7	0.73	Nil	10	5
1938	15,941	954	47	2.1	0.3	0.02	0.50	9 3/4	5 3/4

* - *Thousands of dollars.* † - *Adjusted for 2-for-1 split in 1945.* ‡ - *Excludes transportation and sundry services under contract for U.S. Govt.* a - *Includes $4,722,613 estimated additional revenue from carriage of U.S. Mail after deducting $1,000,000 reserve provision.* b - *Includes estimated U.S. Mail pay of $22,130,724 in 1946 and $10,670,553 in 1945.* c - *After deducting $8,953,249 in 1946 and $2,423,439 in 1945 reserve for estimated balance receivable for carriage of U.S. Mail.* e - *Includes $4,811,311 gain on sale of interest in subsidiary.*

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FINANCES: Pan American has one of the strongest financial positions in the airlines industry. This reflects good financial management as well as the ability to avoid the heavy losses that have plagued most domestic airlines. Pan American benefited from the $43 million received from the sale of common stock during the favorable market conditions of 1945.

On December 31, 1947, net working capital amounted to $13.8 million. In addition, some $7.3 million was deposited under equipment purchase contracts. At the close of last year, the company had commitments for new equipment valued at $38.5 million. Over and above the $7.3 million already deposited, some $32 million was available under the company's $40 million line of credit. Large annual provisions for depreciation have been and will remain an important source of funds. In 1947, this item was $15 million, and it should run higher this year. Finances will benefit by the substantial increase in Atlantic Division mail rates effected last summer.

In mid-1948 Pan American drew down the balance of the $40 million line of credit. This loan carries a 1 3/4% interest rate and matures in 8 semi-annual installments of $5 million each. The interest and annual maturities run well below the current level of depreciation. Although the bank loan is a large one, PAA is considered to have a fairly well-balanced capital structure. Net worth on December 31, 1947 was $84 million more than twice the amount of the outstanding bank loan.

CAPITALIZATION - JUNE 30, 1948

Long Term Debt	$30,000,000
Common Stock ($2.50 Par)	6,145,082 Shs.

NATURE OF BUSINESS: The Pan American Airways system is the world's largest privately-owned international airline. PAA service extends to Latin America, Europe, Africa, the Middle and Far East and Australia. Its routes tap many of the globe's most densely populated areas and serve areas of great strategic importance to the United States. Investments in airlines outside the U.S. and other holdings are significant. These provided income of $885,000 to the parent in 1947.

Hearings have been concluded in Pan American's applications for domestic routes. An examiner has recommended that PAA be awarded a New York-Miami route. This is a very important case and a final decision may not be forthcoming from the CAB until some time next year. Beginning December, the CAB is to conduct a hearing to determine whether the transfer of National Airlines routes to various other carriers is in the public interest. Consideration is to be given the possible transfer of National's New York-Miami route to Pan American.

Competition is much more severe than in the pre-war period. Many domestic carriers have been allowed to initiate commercial international service, and these carriers have made significant inroads into total traffic. During the first six months of 1948, Pan American and its associate Panagra did about two-thirds of the business obtained by U.S. international air carriers. Foreign airlines have also been stepping up their activities. These systems have gradually equipped themselves with more and more modern American aircraft. As this has been accomplished, services have correspondingly improved and the competition increased.

Its own vast fleet of post-war aircraft will help Pan American to retain its position of leadership. These planes will benefit operating efficiency as well as improving services. By the end of 1948, all 20 Convair Liners should have been received. Deliveries of giant Boeing Stratocruisers are scheduled to begin in the near future and extend through the latter part of 1949. In addition, Pan American has a large fleet of Constellations and DC-4s on service plus DC-3s and various other types of planes. Its associated companies utilize DC-6s as well as Constellations. It is understood that PAA has plans to modernize approximately 30 of its DC-4s.

SELECTED BALANCE SHEET DATA (Thousand Dollars) DEC. 31

	Cash	--------Current--------		Special	-Prop. and Equip.-		Long-Term	Minority	Common Stock
	Items	Assets	Liabilities	Funds	Gross	Net	Debt	Interest	Surp. & Res.
1947	$8,790	$38,365	$24,610	$7,275*	$80,332	$57,213	$7,000	-	$85,780
1946	14,351	48,005	28,188	10,193	74,307	54,292	18,000	$2,325	87,016
1945	19,592	35,965	16,595	25,250	40,645	21,863	-	3,164	85,244
1944	9,176	25,854	15,187	510	33,488	16,059	-	4,004	36,251
1943	17,674	33,271	20,545	-	30,771	15,763	-	2,674	36,641

* - *Deposited for purchase of new equipment.*

Gulf Oil Corporation

Listed - NYSE, Symbol GO
Common Stock Appraised - Investment Type*
Integrated Petroleum Shares Appraised - Average*

	Common		Common
1948 Price Range	81-57 7/8	Dividend	$3.00**
Recent Price	66	Yield	4.5%

* - *In the Merrill Lynch Security and Industry Survey.*
** - *Indicated current annual rate, also 1 share of Texas Gulf Sulphur Company for each 65 shares held.*

CURRENT TRENDS AND PROSPECTS: At the present time the petroleum industry has been able to increase output sufficiently to overtake the upward trend in demand, and products appear to be in adequate supply. Favorable first half earnings in 1948 reflect price increases in late 1947 which raised the price of top grade crude to $2.65 per barrel as against an average of $1.95 per barrel in 1947, $1.45 per barrel in 1946 and $1.26 in 1945. In the first half, Gulf also increased net crude production in the Western Hemisphere by 9% over the corresponding period of last year and refinery runs by 6%. Middle East production more than doubled and Gulf's share may reach 100,000 barrels daily by the year-end.

Earnings are expected to stabilize around present levels over the near term. While scattered price weakness has occurred in some petroleum products such as heavy fuel oil and lubricating oil, Gulf's strong position in all phases of the domestic industry and the potentialities of its foreign holdings place it in a relatively favorable position in the industry. Further easing of supply conditions within the industry which may result in downward adjustments in product prices would also mean a relaxing of the heavy burden of capital expenditures necessary under present conditions.

EARNINGS AND DIVIDENDS: The rapid improvement in earnings over the past 2½ years reflects increases in crude oil and product prices and continuing expansion in volume of operations. The company has followed a conservative dividend policy over the past decade and the ploughing back of a substantial portion of earnings has enabled Gulf to more than double crude oil production since 1939 and to increase refinery runs by 65%. In this it has surpassed the long term growth of the industry.

Earnings fluctuated considerably during the 1930's and dividends were passed in four years. Since 1942, profits have increased rapidly, reaching all time records. However, cash dividends were limited by the necessity for capital expansion.

DIVIDEND MEETINGS: Capital Stock dividend meeting approximately Feb. 25, ex-dividend Mar. 3, payable Apr. 1, and quarterly on comparable dates.

INTERIM EARNINGS AND DIVIDENDS PER COMMON SHARE†

	1948 Earns.	1948 Divs.*	1947 Earns.	1947 Divs.*
3 Mos. Mar. 31	$3.39	$0.75	$2.17	$0.50
3 Mos. June 30	3.41	0.75	2.51	0.50
3 Mos. Sept. 30	3.52	0.75	2.67	0.50
3 Mos. Dec. 31	-	0.75‡	3.28	1.25

* - *Paid or declared during interim period.*
† - *Based on shares outstanding at the end of respective periods.*
‡ - *Payable January 1, 1949, also one share of Texas Gulf Sulphur Company common stock for each 65 shares held, payable December 22, 1948.*

SELECTED INCOME ACCOUNT DATA - YEARS ENDED DEC. 31

	Gross Revenues*	Net Oper. Income*	Net Income*	Pre-Tax Margin of Prof.	Net Inc. % of Sales	Per Common Share Earns.†	Divs. Paid	Price Range High	Low
1947	$797,211	$121,371	$95,540	16.1%	12.0%	$10.53	$2.75	76 5/8	57 1/2
1946	562,241	69,414	58,285	13.7	10.4	6.42	2.50	78	56 1/2
1945	504,693	51,033	43,204	11.1	8.6	4.76	2.00	61 7/8	49 1/2
1944	482,862	52,903	43,803	11.7	9.0	4.82	2.00	50 1/2	42 1/4
1943	405,565	42,238	29,583	12.0	7.3	3.26	1.50	50 1/2	37 3/8
1942	349,940	31,638	22,981	10.2	6.6	2.53	1.50	39	24 5/8
1941	337,800	40,559	33,569	13.1	9.9	3.70	1.50	39	29
1940	273,078	22,063	22,150	9.5	8.1	2.44	1.25	39 7/8	25 1/8
1939	254,846	14,258	12,533	5.7	4.9	1.38	1.00	45 1/8	29 1/4
1938	241,336	12,359	10,484	4.3	4.3	1.16	1.00	46 7/8	33

* - *Thousands of dollars.* † - *After contingency reserves.*