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# Agreement

BETWEEN

PAN AMERICAN AIRWAYS, INC.

AND

AMERICAN OVERSEAS AIRLINES, INC.

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*Dated December 13, 1948*

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**Agreement** made at Jersey City, New Jersey, this 13th day of December, 1948, between PAN AMERICAN AIRWAYS, INC., a corporation organized and existing under the laws of the State of New York and having its principal office at 135 East 42nd Street, New York 17, N. Y. (hereinafter called "Pan American"), all the outstanding stock of which is owned by Pan American Airways Corporation, a corporation organized and existing under the laws of the State of Delaware (hereinafter called "Holding Company"), and AMERICAN OVERSEAS AIRLINES, INC., a corporation organized and existing under the laws of the State of Delaware and having its principal office at 100 East 42nd Street, New York 17, N. Y. (hereinafter called "Overseas");

W I T N E S S E T H :

W H E R E A S :

A. Pan American desires to acquire all the assets of Holding Company and in consideration for such acquisition to issue shares of its stock to Holding Company and assume the liabilities thereof, in order to simplify its corporate relationships and permit the dissolution of Holding Company; and

B. Overseas and Pan American are engaged in the transportation of persons, property and mail by air as common carriers between the United States and the European area, and desire to combine their property and equipment in order to improve the services now provided by them, promote the public convenience in the provision of such services, effect economies in, and render more efficient, such services and strengthen United States flag air transportation in and to the European area and the position of United States flag air transportation on the Atlantic, through a plan of reorganization of Overseas which will embrace the sale of all assets of Overseas to Pan American in consideration of the assumption by Pan American of Overseas' liabilities and the issuance of common stock of Pan American to Overseas and the dissolution of Overseas;

Now, THEREFORE, for and in consideration of the premises and of the mutual covenants hereinafter contained, it is agreed between Overseas and Pan American as follows:

FIRST. Overseas represents:

(a) That Overseas is a corporation duly organized and existing and in good standing under the laws of the State of Delaware with an authorized capital stock consisting of 3,000,000 shares, each of One Dollar (\$1.00) par value, of which 1,749,825 shares are presently issued and outstanding in the hands of persons other than Overseas, and of which 1,083,154 such shares are owned by American Airlines, Inc. (the average cost of which to American Airlines, Inc. was \$10.77 per share), all such outstanding shares being full paid and non-assessable and no dividends in respect thereto having ever been paid;

(b) That there are no outstanding options, warrants or other rights to acquire shares of stock of Overseas;

(c) That the financial condition of Overseas consolidated with American Overseas Airlines, Ltd., as of September 30, 1948 and the results of their operations for the nine (9) months ending on that date are substantially as set forth on, and fairly presented by, the respective unaudited consolidated balance sheet and profit and loss statements contained in Exhibit A hereto;

(d) That its only substantial fixed liabilities, other than current liabilities reflected on the foregoing balance sheet, as changed since the date thereof as a result of operations in the ordinary course of business, consist of debt to certain banks in the principal amount of Three Million Dollars (\$3,000,000) outstanding under a Credit Agreement dated June 20, 1947 (copy of which has been exhibited to and initialed by Pan American) and certain subordinated notes in the principal amount of Two Million Dollars (\$2,000,000) repayable on any quarterly interest date without premium;

(e) That Overseas owns the shares of stock of no subsidiary, associate or affiliate other than all the shares of stock of American Over-

seas Airlines, Ltd., an inactive corporation organized under the laws of the United Kingdom;

(f) That Overseas has no employment contracts with any officers or employees not terminable within one year or, in the case of not exceeding 75 persons stationed abroad, within eighteen (18) months, from the date hereof without penalty other than payment of return transportation expenses to New York City;

(g) That Overseas has no contingent liabilities or commitments of any substantial nature except (1) its contract with Boeing Aircraft Company, dated April 1, 1946, as amended, for the purchase of eight (8) Model 377 aircraft (which Boeing contract and amendments with specifications annexed thereto have been exhibited to and initialed by Pan American) and ancillary contracts for spare parts and related equipment therefor, which ancillary contracts involve an estimated total unpaid liability of \$1,500,000, (2) its agreement with Boeing Aircraft Company dated September 5, 1947 (a copy of which has been exhibited to and initialed by Pan American), (3) agreements of lease with the City of New York with respect to La Guardia and Idlewild airports, the interest of the City of New York thereunder having been assigned, with the consent of Overseas, to the Port of New York Authority and the City released from its obligations thereunder (copies of which agreements have been exhibited to and initialed by Pan American), as well as other leasehold agreements relating to airports at or near locations served by it and to its traffic, sales and executive offices throughout Europe and in New York City, (4) its integration contract with American Airlines, Inc. and service orders and requisitions issued thereunder, (5) a Credit Agreement dated June 20, 1947 with The Chase National Bank of the City of New York and other banks named therein (a copy of which has been exhibited to and initialed by Pan American), (6) concessions from foreign governments and operating and servicing agreements with airlines, and (7) its Retirement Benefit Plan (copy of which has been exhibited to and initialed by Pan American); and that any other contracts or agreements executory in nature to which it is a party are not in any event unduly burdensome;

(h) That Overseas is the holder of a Certificate of Public Convenience and Necessity issued by the Civil Aeronautics Board on July 5, 1945, expiring July 4, 1952, authorizing Overseas to transport persons, property and mail as a common carrier by air over a route from seven (7) United States cities as co-terminals, namely Boston, Chicago, Detroit, New York, Philadelphia, Baltimore and Washington to Newfoundland, Labrador, Greenland, Iceland, Eire, United Kingdom, Netherlands, Denmark, Norway, Sweden, Finland, that part of Germany north of the fiftieth (50th) parallel, Poland and Russia, to all of which areas outside the United States except Labrador, Greenland, Poland and Russia it is presently performing such air transport services;

(i) That Overseas has good title to all its properties and assets, real and personal, including seven (7) L-49 type Constellation and five (5) DC-4 type aircraft and including all those properties and assets besides such aircraft reflected in the aforesaid September 30, 1948 balance sheet (except as since sold or otherwise disposed of in the ordinary course of business), subject to no mortgage, pledge, lien, conditional sale agreement, encumbrance or charge except for such liens as may be shown on such balance sheet as securing specified liabilities (with respect to which no default exists), advances under purchase contracts, and deposits and other securities required to be made with governments and others in the ordinary course of business, and liens for local taxes not yet due or not believed to be substantial in amount, and except for minor imperfections of title and encumbrances, if any, which are not substantial in nature or amount, do not materially detract from the value of the properties subject thereto or materially impair Overseas' operations, and have arisen only in the ordinary course of business, and also except for the fact that substantial amounts of Overseas' properties and assets consist of improvements to leased flight equipment and to other property held under lease or license;

(j) That, except for pilots, Overseas presently has only two officers or employees being compensated at a rate exceeding \$15,000 per

annum and the rates of compensation of such two officers aggregate not more than \$47,000 per annum; and that Overseas has not since September 30, 1948, entered into or made any bonus or special or contingent compensation payments to or arrangements with any of its officers or employees.

SECOND. Pan American represents:

(a) That Pan American is a corporation duly organized and existing and in good standing under the laws of the State of New York with an authorized capital stock consisting of 10,000 shares of common stock, all of which are at present issued and outstanding and owned by Holding Company, and all of which are full paid and non-assessable;

(b) That Holding Company is a corporation duly organized and existing and in good standing under the laws of the State of Delaware with an authorized capital stock of 10,000,000 shares of common stock, each of \$2.50 par value, of which 6,145,082 shares are at present issued and outstanding, all of which are full paid and non-assessable;

(c) That Holding Company has entered into an agreement with Pan American of which a copy is attached as Exhibit B, providing, among other things, that Holding Company will call a meeting of its stockholders for the purpose of authorizing the sale to Pan American of all its assets and its dissolution as contemplated herein and to use its best efforts to obtain such authorization; and that Pan American has entered into an agreement with American Airlines, Inc. of which a copy is attached as Exhibit C, providing, among other things, for the creation of a Voting Trust in respect to any shares of stock of Pan American received by American Airlines, Inc. as a result of the dissolution of Overseas;

(d) That the financial condition of Pan American consolidated with Holding Company as of September 30, 1948, and the results of their operations for the nine (9) months ending on that date are substantially as set forth on, and fairly presented by, the respective unaudited consolidated balance sheet and profit and loss statements of Pan American and Holding Company attached hereto as Exhibit D;

(e) That Pan American and Holding Company own stock in other corporations as set forth in the list attached hereto as Exhibit E, which for purposes of this contract is the complete list of "subsidiaries, associates and affiliates" of Pan American and Holding Company, and also own stock in other corporations the aggregate investment in which does not exceed \$300,000, and Pan American also owns 32,429 shares of the stock of Holding Company;

(f) That neither Holding Company nor Pan American has any long-term employment contracts with employees or officers of Holding Company or Pan American, nor are there any options, warrants or other rights outstanding to acquire stock therein, nor, as consolidated, do they have any substantial fixed liabilities other than debt to certain banks in the principal amount of Forty Million Dollars (\$40,000,000) outstanding pursuant to a Credit Agreement dated as of October 2, 1946 and other than current liabilities reflected in the above-mentioned balance sheet as changed since the date thereof as a result of operations in the ordinary course of business;

(g) That neither Holding Company nor Pan American has any contingent liabilities or commitments of any substantial nature other than to each other or to subsidiaries, associates or affiliates listed on Exhibit E, except (1) a contract with Boeing Aircraft Company, dated November 28, 1945, as amended, for the purchase of twenty (20) Model 377 aircraft and ancillary contracts for engines, spare parts and related equipment therefor, (2) contingent liabilities and commitments of the kind described in the notes at the end of Exhibit D, (3) concessions from foreign governments and operating and servicing agreements with airlines throughout the world, (4) a subordination agreement between Pan American and Bankers Trust Company dated as of April 1, 1947, relating to Panair do Brasil, S. A., (5) agreements of lease with the City of New York with respect to La Guardia and Idlewild airports, the interest of the City of New York thereunder having been assigned, with the consent of Pan American, to the Port of New York Authority and the City released from its obligations thereunder, as well as other leasehold agreements relating to airports

or maintenance bases at or near locations served by it and to its traffic, sales and executive offices throughout the world, (6) an agreement dated July 30, 1946 between Holding Company and W. R. Grace & Co. relating to Pan American-Grace Airways, Inc., (7) Holding Company's Credit Agreement dated as of October 2, 1946, and (8) Pan American's Cooperative Retirement Income Plan; and that any other contracts or agreements executory in nature to which either Holding Company or Pan American is a party are not in any event unduly burdensome;

(h) That Pan American and Holding Company have good title to all their respective properties and assets, real and personal, including those reflected in the aforesaid September 30, 1948 consolidated balance sheet (except as since sold or otherwise disposed of in the ordinary course of business and except for the sale of 328 shares of stock in Bahamas Airways, Ltd.), subject to no mortgage, pledge, lien, conditional sale agreement, encumbrance or charge (other than the subordination agreement with Bankers Trust Company referred to above) except for such liens as may be shown on the said balance sheet as securing specified liabilities (with respect to which no default exists), advances under purchase contracts, and deposits and other securities required to be made with governments and others in the ordinary course of business, and liens for local taxes not yet due or not believed to be substantial in amount, and except for minor imperfections of title and encumbrances, if any, which are not substantial in nature or amount, do not materially detract from the value of the properties subject thereto or materially impair their operations, and have arisen only in the ordinary course of business, and also except for the fact that substantial amounts of Pan American's properties and assets consist of improvements to leased flight equipment and other property held under lease or license;

(i) That Holding Company is the holder of no Certificates of Public Convenience and Necessity issued by the Civil Aeronautics Board, but Pan American is the holder of the Certificates of Public



Convenience and Necessity issued by such Board listed in Exhibit F hereto attached.

THIRD. From the date hereof to the Closing Date determined as hereinafter provided, Overseas will, except to the extent waived by Pan American in writing:

(a) Conduct its business only in the ordinary course, it being understood that conduct of its business in the ordinary course includes the making of contracts (other than individual employment contracts unless such contracts are for not more than one year from the date thereof and normal and incidental to the regular business of Overseas) which may extend a reasonable time beyond the Closing Date, appropriately normal and incidental to its regular business, but such contracts, except for contracts with labor unions, shall not be made after the Government Approval Date determined as set forth in paragraph (f) of Article EIGHTH;

(b) Not make any change or increase in its authorized or issued stock, nor issue any options, warrants or rights to acquire any of its stock;

(c) Not declare or pay any dividend or make any other distribution in respect to its stock, nor redeem, purchase or otherwise acquire any of its stock;

(d) Maintain at least such insurance in respect to its aircraft, properties and operations as is normal to the type of business conducted by it, but with the obligation so to do only to the extent such insurance is reasonably available;

(e) Not make any changes in the compensation of officers and employees that are not reasonable under all the circumstances nor enter into or make any bonus or special or contingent compensation payments to or arrangements with any of its officers or employees nor, after the Government Approval Date, make any increases in the compensation of officers or other salaried employees;

(f) Not sell, or lease for a term extending beyond December 31, 1949, any four-engined aircraft now owned or hereafter acquired by it; provided, however, that for each Boeing Model 377 aircraft placed in scheduled operations subsequent to the date hereof, Overseas shall have the right to sell on reasonable terms any one of its Douglas DC-4 aircraft, but only at a price not less than the net book value (determined on rates of depreciation and residual values now used by Overseas) of the aircraft so to be sold;

(g) After the Government Approval Date, not extend or amend in any substantial particular any of its leases or contracts;

(h) Not permit any of its assets to be or become subject to any mortgage, pledge, lien, conditional sale agreement, encumbrance or charge except for such liens as are shown on its above mentioned September 30, 1948 balance sheet as securing specified liabilities (with respect to which no default shall exist), advances under purchase contracts, and deposits and other securities required to be made with governments and others in the ordinary course of business, and liens for current local taxes not yet due or not believed to be substantial in amount, and except for minor imperfections of title and encumbrances, if any, which are not substantial in nature or amount, do not materially detract from the value of the assets subject thereto or materially impair Overseas' operations, and have arisen only in the ordinary course of business, and also except for the fact that substantial amounts of Overseas' properties and assets consist of improvements to leased flight equipment and to other property held under lease or license;

(i) Not make, or contract to make, any substantial purchase of property or equipment;

(j) Not make any changes of a substantial nature in relation to the Boeing Model 377 aircraft being manufactured for it, by modification of the contract with Boeing Aircraft Company dated April 1, 1946, as amended, or otherwise, in respect of which a waiver, however, will not be unreasonably withheld;

(k) Use its best efforts to obtain the consent of Boeing Aircraft Company to the assignment to Pan American on the Closing Date of all rights of Overseas under said contract with Boeing Aircraft Company and with respect to all Boeing Model 377 aircraft theretofore delivered under such contract.

FOURTH. From the date hereof to the Closing Date determined as hereinafter provided, Pan American will, except to the extent waived by Overseas in writing:

(a) Not modify or amend in any respect materially adverse to Overseas its agreement with Holding Company attached as Exhibit B;

(b) Not authorize any stock having a preference in respect to dividends or liquidation over any other of its authorized stock;

(c) Not borrow money to finance the purchase for cash of a substantial part of the stock or assets (other than flight equipment) of any other firm or corporation;

(d) After acquiring all the assets of Holding Company, not declare any dividends in respect to its outstanding stock which, taking into account any dividends declared by Holding Company after the date hereof, would exceed in the aggregate Twenty-five Cents (\$.25) per share on the then outstanding stock of Pan American;

(e) Prior to acquiring all of the assets of Holding Company, not issue any stock other than to Holding Company; and after acquiring all of the assets of Holding Company, not declare any stock dividend, effect any stock split-up, or otherwise issue any of its stock except for value, or purchase or otherwise acquire any of its outstanding stock except for distribution to employees in accordance with past practice.

FIFTH. Subject to obtaining the requisite consent of its stockholders, and subject to the terms and conditions of this agreement, Overseas shall be reorganized in accordance with the following plan:

## (a) Overseas will

1. Sell, assign, convey and deliver to Pan American, on the Closing Date hereinafter provided, all of its business, property and assets, real, personal and mixed, tangible and intangible, including, without limiting the generality thereof, all assets reflected on its books of account as of the Closing Date, and (i) such rights as it may have under any executory contracts, (ii) its franchises and certificates of public convenience and necessity, and (iii) its books and records (including all accounting records, to which, however, Overseas shall have reasonable access, but excluding its corporate records), all free and clear of any mortgage, pledge, lien, conditional sale agreement, encumbrance or charge except for such liens as may be shown on its above mentioned September 30, 1948 balance sheet as securing specified liabilities (with respect to which no default shall exist), advances under purchase contracts, and deposits and other securities required to be made with governments or others in the ordinary course of business, and liens for current local taxes not yet due, or not believed to be substantial in amount, and except for minor imperfections of title and encumbrances, if any, which are not substantial in nature or amount, do not materially detract from the value of the properties subject thereto or materially impair Overseas' operations, and have arisen only in the ordinary course of business, and also except for the fact that substantial amounts of Overseas' properties and assets consist of improvements to leased flight equipment and other property held under lease or license, but subject nevertheless, as to each such executory contract, franchise and certificate of public convenience and necessity, to Overseas' obligations thereunder. In the event the assignment, transfer or conveyance of any franchises, claims against the United States or other governments or others, or rights under leases or other executory contracts cannot be effected without consent of another party or parties or without violation of law or a breach of contract or conditions, or for any other reason, Overseas will retain such franchises, claims or lease-hold or other contract rights, and as trustee for Pan American hold and realize on the same for the account and benefit of Pan American and, when any realization is had thereon, or appropriate consent for the transfer thereof is

obtained, which consent Pan American and Overseas each agrees to use its best efforts to obtain, make appropriate transfer thereof or of the proceeds thereof to Pan American, but in the event that Pan American shall at any time request the transfer or assignment of any such franchises, claims or lease-hold or other contract rights, Overseas shall thereupon execute and deliver transfers or assignments thereof to Pan American and Pan American shall indemnify and hold Overseas, its officers and directors harmless from any liability it or they may incur or be charged with as a result of the execution and delivery of such assignment or transfer without appropriate consent. Notwithstanding any of the foregoing provisions of this subparagraph (a)1, it is specifically understood and agreed that the contract of Overseas with Boeing Aircraft Company, dated April 1, 1946, as amended, shall be transferred and assigned by Overseas to Pan American on the Closing Date.

2. On the Closing Date hereinafter provided, Overseas shall deliver to Pan American at the office of the Corporation Trust Company in Jersey City, New Jersey, such full covenant and warranty deeds, bills of sale, endorsements, assignments and other good and sufficient instruments of transfer and conveyance as in the opinion of Pan American's counsel shall be effective to vest in Pan American good title to the property, assets and business of Overseas to be sold and transferred to Pan American as above provided, except that Pan American will waive any defect in title arising by reason of, and assume responsibility for any consequential liability to Overseas and to itself arising by reason of, a conveyance, transfer or assignment requested by Pan American or made in accordance herewith but in violation of law or contract and shall hold Overseas, its officers and directors harmless in respect thereto.

3. From time to time, at Pan American's request (whether at or after the Closing Date, and without further consideration) Overseas will execute and deliver such further instruments of conveyance and transfer and take such other action as Pan American reasonably may require most effectively to convey and transfer to Pan American any of the property to be sold hereunder, and will assist Pan American in the reduction to possession of such property; and Pan American from

and after the Closing Date is authorized in its own name or in the name of Overseas to take such action as may be appropriate in the collection or reduction to possession of any or all such property.

(b) In consideration of the foregoing, Pan American will, subject to the terms and conditions of this agreement:

1. Assume the liabilities of Overseas existing on the Closing Date hereinafter provided, including without limiting the generality thereof, any obligations of Overseas to perform, or liability of Overseas for failure of performance, made impossible by the delivery and sale of assets and cessation of operations herein contemplated on the part of Overseas, as well as any liabilities of Overseas existing or incurred by reason of any transfers, assignments, conveyances or sales made in accordance herewith, and any reasonable expenses in connection with the dissolution of Overseas, but excluding, however, any liabilities or obligations which Overseas may have on the Closing Date by reason of the violation of any of the representations or covenants made by it in this agreement.

2. Indemnify and hold harmless Overseas, its officers and directors from and against any and all claims or liability arising under or by virtue of the obligations which Pan American has hereinbefore undertaken to assume, and waive any claims against Overseas, its officers or directors for loss of any claims or rights on the part of Overseas or Pan American arising by reason of any transfers, assignments, sales or conveyances made in accordance herewith.

3. Issue and deliver forthwith to Overseas, at the office of the Corporation Trust Company in Jersey City, New Jersey, that number of shares of its common stock which constitutes the whole number nearest to the number determined by dividing (a) the net assets of Overseas as of December 31, 1948 or the amount obtained by multiplying \$10.77 by the total number of shares of Overseas outstanding on December 31, 1948, whichever is the greater, by (b) the net assets per outstanding share of common stock of Holding Company as of December 31, 1948, determined by dividing the net assets of Holding Company consolidated with Pan American as of December

31, 1948 by the total number of shares of Holding Company outstanding on December 31, 1948 other than shares of Holding Company held by Holding Company in its treasury or by Pan American. The number of shares so issuable to Overseas as hereinbefore provided shall be computed by Messrs. Lybrand, Ross Bros. & Montgomery, independent public accountants, or if they are unable or unwilling to act, by such other firm of public accountants as shall be agreed by the parties (hereinafter referred to as the "Accountants") in a report to be rendered to Pan American and to Overseas on May 5, 1949, which computation shall be conclusive and binding upon the parties. Such report shall be based on the facts existing or known on or before March 15, 1949 or, in the case of facts arising from orders of the Civil Aeronautics Board fixing temporary or final rates of mail pay (including orders relating to Pan American-Grace Airways, Inc.), shall be based on the facts existing or known on or before April 30, 1949. The Accountants shall make such report on the basis of examinations of the financial statements of Overseas, Holding Company and Pan American as well as the companies referred to in clause (ii) below, and, for the purpose of making the computations specified in clause (iii) below, reviews of the financial statements of the companies referred to in such clause (iii), but without any requirement of an audit and without examination of the books and records of the companies referred to in such clause (iii) except and to the extent that the Accountants deem appropriate, as to any major item involved, if Pan American shall have failed to satisfy the Accountants with respect thereto. In making such examinations and reviews and performing all other responsibilities imposed upon them by this agreement, the Accountants may employ such procedures as they consider appropriate in the circumstances and may rely to the extent that they deem appropriate on other independent public accountants (including independent public accountants retained by the parties, by Holding Company, or by subsidiaries, associates and affiliates of Holding Company and Pan American) and accounting officials of the foregoing.

The Accountants are instructed to make the foregoing computations of net assets in accordance with the following principles, the Accountants' interpretation of which shall be conclusive:

(i) The net assets of Overseas, Holding Company, Pan American, and the companies referred to in clause (ii) shall be computed, on uniform bases, in accordance with such accounting principles as the Accountants shall determine to be proper under the circumstances, giving such consideration as they deem appropriate to accounting practices relating to the air transport industry of the United States. Notwithstanding the foregoing, the accounting principles or application thereof agreed upon hereinafter in clauses (ii) to (xi) inclusive shall be deemed to be controlling in respect to the matters specifically covered by such clauses.

(ii) There shall be included in the net assets of Holding Company consolidated with Pan American as of December 31, 1948, the proportionate share of Holding Company and Pan American in the net assets as of December 31, 1948, giving effect to the principles set forth in clauses (i) and (iv) to (xi), inclusive, of Pan American-Grace Airways, Inc., Aerovias Nacionales de Colombia, Compania Mexicana de Aviacion, S. A., Panair do Brasil, S. A., and China National Aviation Corporation, if audited figures for China National Aviation Corporation as of December 31, 1948 shall be available, in lieu of the amount at which such investments are carried on the books of Holding Company and Pan American.

(iii) All other investments of Holding Company and Pan American in stocks of the companies listed in Exhibit E (other than Intercontinental Hotels Corporation) and in China National Aviation Corporation if audited figures for China National Aviation Corporation as of December 31, 1948 shall not be available, shall be valued at cost to Holding Company or Pan American, reduced or increased by any significant intercompany profit or loss on assets owned on December 31, 1948 to the extent that reserve provision therefor had not been made, and also reduced by such amount, if any, as may represent a deficiency in the proportionate share of Holding Company and Pan American in the net assets of such companies in the aggregate below the total cost of Holding Company's and Pan American's investment therein. In the computation of the net assets of such companies the Accountants shall give effect in respect of all substantial matters to the accounting principles set forth in clauses (iv), (vii)



and (x) hereof and, to the extent reasonable and appropriate in the opinion of the Accountants in view of the type of operations, the geographical locations, peculiar operating conditions or other pertinent circumstances applicable to such companies, to the accounting principles set forth in clauses (i), (vi) and (viii) hereof. Notwithstanding any other provision of this agreement, Holding Company's investment in stock of Intercontinental Hotels Corporation shall be valued at cost to Holding Company. If Holding Company's investment in China National Aviation Corporation is valued under this clause (iii), China National Aviation Corporation shall not be deemed to be a company referred to in clause (ii) within the meaning of any provision of this agreement.

(iv) Net assets shall be stated in terms of U. S. dollars but shall reflect such adjustment in conversion of items carried in books of account in foreign currency, items legally payable in foreign currencies and items situated in foreign countries as may be reasonable in the light of good accounting practice and of all the circumstances.

(v) Accrued compensation receivable for transportation of United States mail for 1948 and prior years shall be included in assets at rates, whether temporary or final, established by the latest orders of the Civil Aeronautics Board on or before April 30, 1949, except that if by said date the Civil Aeronautics Board shall not have entered orders establishing final mail rates in respect to Overseas' certificated routes or any part thereof, or in respect to the routes certificated to Pan American extending between New York, Washington and Boston as co-terminals in the United States via Newfoundland, Ireland, the Azores, and points beyond in Europe and Asia as far east as Calcutta, and including, in the case of flights over such routes destined to or originating in Africa, that portion of the flight west of the Azores, or, in the case of flights over such routes destined to or originating in Africa routed via Lisbon, that portion of the flight west of Lisbon, estimated final mail pay receivable shall be computed by the Accountants on an equitable and, to the extent possible, a comparable basis for appropriate periods through December 31, 1948 for such routes or such portions thereof as shall have had only temporary mail rates established by the Civil Aeronautics Board.

(vi) Inventories of materials, parts and supplies included in current assets and inventories of flight equipment spare parts included in property and equipment, shall be subject to the Accountants satisfying themselves as to such inventories, which shall be stated at cost to the owner thereof on December 31, 1948 (reduced or increased by such amount, if any, as the Accountants shall find represents a significant intercompany profit or loss on inventories not consumed prior to December 31, 1948, to the extent that reserve provision therefor had not been made), with appropriate reduction for used, repaired, damaged, imperfect or obsolete items and for excessive stocks, and with appropriate reserves for loss on retirement of flight equipment spare parts at the reasonably anticipated date of termination of operations of the related flight equipment.

(vii) Other property and equipment including flight equipment assemblies shall be stated at cost to the owner thereof on December 31, 1948 (reduced or increased by such amount, if any, as the Accountants shall find represents a significant intercompany profit or loss, to the extent that reserve provision therefor had not been made) less appropriate reserves for depreciation and obsolescence.

(viii) The same rates, residual values (if any), methods and policies, shall be employed in computing reserves for depreciation and obsolescence of like property and equipment and reserves for overhaul shall be computed on uniform bases, unless in respect to such reserves for depreciation, obsolescence and overhaul there be good reason, agreeable to and approved by the Accountants, for variation. There shall be deducted from reserves for overhaul the reduction in income taxes for periods subsequent to December 31, 1948 estimated to be realized upon the expenditure of the amounts so reserved, such estimate to be based upon tax rates prevailing in 1948 and upon the assumption that the company concerned will have taxable income in the year in which the amounts reserved are expended.

(ix) Shares of Holding Company held by Holding Company in its treasury or by Pan American shall not be considered an asset.

(x) There shall not be included in assets the following:  
(a) deferred income taxes (other than as provided in clause

(viii)), (b) route development expenses, (c) values attributable to certificates of public convenience and necessity or to goodwill, (d) going concern value and (e) values attributable to contracts, leases, licenses, franchises, concessions, patents, trade names, or trade marks, but this shall not preclude the inclusion in assets of costs of acquisition of items set forth in this sub-clause (e) to the extent that such inclusion is recognized by the accounting principles referred to in clause (i) hereof.

(xi) Accruals for federal and foreign income taxes will include provision for taxes on such United States mail pay as has been taken into account in determining assets under the provisions of clause (v), on the assumption that such mail pay is includible in taxable income of the year in which the mail was transported.

4. The number of shares of stock of Pan American so to be issued in accordance with the foregoing paragraph 3. shall be adjusted by (1) increasing the number of such shares by an amount equal to the whole number nearest to the quotient obtained by dividing the product of (i) the dividends per share declared by Holding Company (or by Pan American after it has acquired all of the assets of Holding Company) after December 31, 1948 and up to and including the Closing Date and (ii) the number of shares of Pan American stock otherwise issuable to Overseas hereunder, by the net assets per outstanding share of common stock of Holding Company consolidated with Pan American as of December 31, 1948, determined as otherwise provided in this agreement; and (2) increasing or decreasing the number of such shares by giving effect to the issuance, or agreement for issuance (other than to Overseas) of shares of common stock by Holding Company or, after Holding Company shall have sold all its assets to Pan American, by Pan American between the date hereof and the Closing Date, through reflecting *pro forma*, as of December 31, 1948, the stock so issued or agreed to be issued on the one hand and the net assets received or to be received on the other hand, as though the transaction had then taken place and were reflected in the consolidated position computed by the Accountants, provided, however, that neither the shares of stock of Pan American or Holding Company so agreed to be issued nor the net assets receivable there-

against shall be so reflected if the agreement so to issue such shares requires the approval of the Civil Aeronautics Board, or of the Civil Aeronautics Board and the President if his approval be required by law, and the Civil Aeronautics Board or the Civil Aeronautics Board and the President, as the case may be, shall not have evidenced their approval in an order which shall have become final by a date thirty days after the Government Approval Date as hereinafter determined. The Accountants shall determine, with conclusive effect on the parties, the amount of any adjustments to be made as herein provided, and in so doing shall estimate, on the basis of the best data obtainable, net assets received or receivable by Holding Company or Pan American to the extent that exact data are not available.

5. Take over as employees thereof, on the Closing Date hereinafter provided, all employees of Overseas (including officers thereof now devoting all their time to the affairs of Overseas) at the rate of compensation then being paid by Pan American for comparable work, and will endeavor to provide continued employment for them with Pan American or one of its subsidiaries or affiliates suitable in the light of their respective qualifications and experience and, for purposes of the Pan American Cooperative Retirement Income Plan, and subject to approval of the Treasury Department under Section 165 of the Internal Revenue Code and to any necessary approval of Pan American's insurance carriers, will, in connection with determination of compliance with requirements as to waiting period, and as to length of service for the purpose of vesting of benefits, under the Pan American Plan, give full recognition to the period of service by such employees with Overseas and, if such employees transferred to the service of Overseas from American Airlines, Inc. or American Export Lines, Inc., of service with such companies.

6. It is recognized that a large proportion of the work of Overseas done within the United States is accomplished by contract for the performance of such work by employees of American Airlines, Inc. This has come about through the integration of the services of both companies at La Guardia Airport and has resulted during the year past in the transfer of a substantial number of Overseas employees to the payroll

of American Airlines, Inc. Pan American agrees to work with Overseas and American Airlines, Inc. toward a program which will aim to provide continued employment for the maximum number of such personnel employed at New York on the Closing Date. In the case of any such employees who become employees of Pan American, Pan American will, as regards its Cooperative Retirement Income Plan, and on the same conditions as are set forth with respect to direct employees of Overseas in paragraph 5 above, give recognition, for the purposes in said paragraph 5 set forth, to periods of service with American Airlines, Inc., Overseas, and American Export Lines, Inc.

SIXTH. Pan American agrees to use reasonable efforts to secure for itself or for Holding Company within sixty (60) days of the date hereof a firm undertaking, on satisfactory terms, contingent upon the acquisition by Pan American of substantially all of the assets of Overseas, for a credit up to the amount of Ten Million Dollars (\$10,000,000) in addition to all sums borrowed or which may be borrowed under Holding Company's Credit Agreement dated October 2, 1946. Overseas agrees to use reasonable efforts under all the circumstances and to the extent desired by Pan American to induce the lenders under its Credit Agreement dated June 20, 1947 to participate in such undertaking. Within the said sixty (60) day period Pan American shall notify Overseas in writing whether or not such undertaking has been secured. In the event Pan American shall notify Overseas that such undertaking has not been secured and can not be secured, then Overseas and Pan American shall each have the right to terminate this agreement by notice to the other in writing given within fifteen (15) days of the expiration of the said sixty (60) day period. It is agreed that if the interest rate and standby charges called for by an available firm undertaking are reasonable, and amortization provisions called for by such available undertaking are reasonable in relation to the probable useful life of the Boeing Model 377 aircraft which Overseas has contracted to purchase as referred to in paragraph (g) of Article FIRST, such interest rate, standby charges and amortization provisions shall not be considered as factors rendering unsatisfactory an undertaking otherwise available and

satisfactory. When and if such a firm undertaking for a credit up to the amount of Ten Million Dollars (\$10,000,000) is obtained, Pan American will not permit any modification or amendment adverse to Pan American or Holding Company, of such undertaking or any collateral undertakings with respect to borrowed monies in the amount of up to Forty Million Dollars (\$40,000,000), to be made between the date of the obtaining of such firm undertaking and the Closing Date hereunder, and Pan American will use its best efforts not to permit an event of default to occur as to either such firm undertaking or any credit agreement or any bank loans outstanding of Pan American or Holding Company.

SEVENTH. The parties hereto agree that between now and the Closing Date:

(a) Each party shall make its books and records and, to the extent of its ability so to do or to cause to be done, those of its subsidiaries, associates or affiliates (other than American Airlines, Inc.) available to the Accountants and will cooperate in order to enable such Accountants to discharge effectively the responsibilities imposed upon them hereunder;

(b) Each party will make available to the other such pertinent facts and information, and will consult with each other, to the end of avoiding, so far as practicable, expenditures or commitments which would be inappropriate in the light of the general purposes of this agreement and in such manner as is appropriate to enable the transactions herein set forth to be accomplished in the most expeditious and efficient manner operationally and in the most orderly manner possible so far as relations of either party with their personnel, contractees and selling and shipping public are concerned;

(c) Overseas will call a meeting of its stockholders, to be held within forty-five (45) days after the Government Approval Date determined as hereinafter provided for the purpose of authorizing the contemplated sale to Pan American of all its assets and its dissolu-

tion, and will use its best efforts to obtain the necessary favorable votes of stockholders at such meeting;

(d) Each party will use its best efforts to obtain approval of the transactions herein contemplated by the Civil Aeronautics Board and the President to the extent required by law so that the Government Approval Date (as hereinafter defined) shall occur within the period provided in Article ELEVENTH;

(e) On or before the Closing Date, Overseas will cause all contracts between Overseas and American Airlines, Inc. to be canceled, without penalty to Overseas, unless such cancelation shall have been waived by agreement of the parties hereto to permit more efficient operations for a limited transitional period;

(f) Pan American will use its best efforts to cause all of the outstanding shares of stock of Pan American on the Closing Date to be listed on the New York Stock Exchange and registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, and to cause the number of authorized but unissued shares thereof proposed to be issued to Overseas hereunder to be listed on the New York Stock Exchange, upon notice of issuance, and likewise appropriately registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

In the event that the sale of assets contemplated hereunder is not consummated, the fee and expenses of the Accountants for work done pursuant hereto shall be paid in equal proportions by Pan American and Overseas.

EIGHTH. The obligations and undertakings of Overseas on its part to be performed at or after the Closing Date hereinafter provided shall be subject to the accuracy of, and compliance with, the representations and covenants of Pan American herein contained and of Holding Company in Exhibit B contained and to the following additional express conditions precedent:

(a) That the Accountants shall have delivered to Overseas a letter stating that, on the basis of reviews (but not audits) of appro-

priate books and records and collateral investigations, (i) the number of outstanding shares of stock of Pan American on the Closing Date is the same as that of Holding Company on the date hereof, except for such shares of common stock as may have been issued between the date hereof and the Closing Date and reflected in the adjustments to be made under paragraph (b) 4.(2) of Article FIFTH hereof as of December 31, 1948, and (ii) on the same basis of accounting the financial condition of Pan American on the latest practicable date prior to the Closing Date (not taking into account contingent liabilities arising out of its acquisition of the assets of Overseas hereunder) reflects no materially adverse change from the financial condition of Holding Company and Pan American consolidated as of September 30, 1948, as shown on Exhibit D, after allowing for (1) the repayment of any debt existing on September 30, 1948 or thereafter created for the purposes hereinafter stated, (2) costs and expenses in connection with the transactions contemplated by this agreement, (3) changes resulting from any transaction reflected in the adjustments to be made under paragraph (b) 4. (2) of Article FIFTH, and (4) changes or losses occurring in the ordinary course of the businesses of Pan American and of Holding Company (the reduction of current assets by the purchase of equipment and spare parts contemplated by contracts existing on September 30, 1948 or the purchase of such additional spare parts as are reasonably required in connection with their operations, and the creation of additional debt or incurring of extraordinary expenses in connection therewith, being considered changes in the ordinary course of business);

(b) That the President or a Vice President and the Comptroller or the Treasurer of Pan American shall have signed and delivered to the Accountants such certificates or information as the Accountants may reasonably request in carrying out their duties hereunder (including investigation of the representations and covenants of Pan American) and shall also have signed and delivered to Overseas a certificate, dated as of the Closing Date, stating (i) that there are no contingent liabilities involving Pan American, or, to the best of their knowledge and belief, any of the companies referred to in clause (ii)



of paragraph (b) 3 of Article FIFTH (other than contingent liabilities of the character and extent referred to in paragraph (g) of Article SECOND, and any contingent liabilities which Pan American may have as the result of any transaction reflected in the adjustments to be made under paragraph (b) 4. (2) of Article FIFTH, and those arising out of its acquisition of the assets of Overseas hereunder) which, in their judgment, will result in any ultimate liability having a material adverse effect on the financial condition of Pan American, (ii) that no event of default has occurred or is existing in respect to any credit agreements or bank loans then outstanding of Pan American, (iii) that, on the same basis of accounting, the financial condition of Pan American on the Closing Date (not taking into account contingent liabilities arising out of its acquisition of the assets of Overseas hereunder) reflects no materially adverse change from the financial condition of Holding Company and Pan American consolidated as of September 30, 1948, as shown on Exhibit D, after allowing for (1) the repayment of any debt existing on September 30, 1948 or thereafter created for the purposes hereinafter stated, (2) costs and expenses in connection with the transactions contemplated by this agreement, (3) changes resulting from any transaction reflected in the adjustments to be made under paragraph (b) 4. (2) of Article FIFTH, and (4) changes or losses occurring in the ordinary course of the businesses of Pan American and of Holding Company (the reduction of current assets by the purchase of equipment and spare parts contemplated by contracts existing on September 30, 1948 or the purchase of such additional spare parts as are reasonably required in connection with their operations and the creation of additional debt or incurring of extraordinary expenses in connection therewith, being considered changes in the ordinary course of business);

(c) That Pan American shall have acquired all of the assets of Holding Company and in consideration therefor shall have assumed all its liabilities of any kind or nature, fixed or contingent, and its expenses of dissolution, and issued therefor shares of its common stock in number equal to the number of shares of stock of Holding Company outstanding on the date of such acquisition;

(d) That the dissolution of Holding Company shall have been authorized by the holders of at least sixty-six and two-thirds per cent ( $66\frac{2}{3}\%$ ) of its shares of stock outstanding, and the shares of Pan American received by Holding Company for its assets shall have been distributed or made available to the stockholders of Holding Company;

(e) That all of the outstanding shares of stock of Pan American shall have been listed on the New York Stock Exchange and registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, and that the number of authorized but unissued shares thereof proposed to be issued to Overseas hereunder shall have been listed on the New York Stock Exchange, upon notice of issuance, and likewise appropriately registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended;

(f) That an order of the Civil Aeronautics Board (with the approval of the President to the extent required by law) shall have been issued and, at the Closing Date, be effective, approving, to the extent such transactions require such approval, all of the transactions contemplated by this agreement (including the transactions contemplated by Exhibits B and C) without any conditions substantially and adversely affecting Overseas, or, so far as Exhibit C is concerned, substantially and adversely affecting American Airlines, Inc. This condition precedent shall enure to the benefit of Overseas, or American Airlines, Inc., as the case may be, only if Overseas or American Airlines, Inc., as the case may be, shall notify Pan American in writing not later than fifteen (15) days after any such order has been issued and become effective, whichever is later, that in its opinion the conditions set forth in such order are of the character described in the preceding sentence. The term "Government Approval Date" as used in this agreement shall mean the next regular business day following the later of the last day on which Overseas or American Airlines, Inc. shall have the right to give a notice under this paragraph (f) or the last day on which Pan American or Holding Company shall have the right to give a notice under paragraph (e) of Article NINTH hereof, without any such notice having been given;

(g) That no injunction issued by any court of competent jurisdiction restraining the consummation of the transactions herein contemplated shall be in effect on or after a date eighty-five (85) days after the Government Approval Date;

(h) That the firm undertaking contemplated in Article SIXTH hereof, if theretofore made, shall not have been amended or modified adversely to Holding Company or Pan American nor any event of default exist with respect thereto or with respect to any credit agreements or bank loans of Holding Company or Pan American outstanding on the Closing Date;

(i) That there shall have been furnished to Overseas the opinion of Messrs. Cleary, Gottlieb, Friendly & Cox, counsel for Pan American, dated as of the Closing Date, to the effect that:

1. Pan American has been duly incorporated and is, at the Closing Date, validly existing as a corporation in good standing under the laws of the State of New York;

2. The sale of all of the assets, and the dissolution, of Holding Company as contemplated herein have been duly authorized by its stockholders, and the shares of stock of Pan American received by Holding Company for its assets have been distributed or made available to the stockholders of Holding Company;

3. The shares of stock of Pan American being issued to Overseas on the Closing Date are duly and validly authorized, issued and delivered, are full paid and non-assessable, and are listed on the New York Stock Exchange on notice of issuance and registered under the Securities Exchange Act of 1934, as amended;

4. The shares of stock of Pan American being issued and delivered to Overseas on the Closing Date are registered under the Securities Act of 1933, as amended, or are not required to be so registered when issued under the circumstances contemplated by this agreement;

5. This agreement and Exhibits B and C have been duly and validly authorized, executed and delivered by Pan American and constitute valid agreements binding upon and enforceable

against Pan American in accordance with their terms; and Exhibit B has been duly and validly authorized, executed and delivered by Holding Company and constitutes a valid agreement binding upon and enforceable against Holding Company in accordance with its terms;

6. The sale of assets and dissolution of Holding Company as contemplated herein will not, taken together, result in gain or loss recognizable for tax purposes under the Internal Revenue Code of the United States.

(j) That there shall have been furnished to Overseas the opinion of Messrs. Debevoise, Plimpton & McLean, counsel for Overseas, dated as of the Closing Date, to the effects stated in clauses 2 and 4 of paragraph (h) of Article NINTH hereof and that, in addition, all legal matters in connection with the consummation of the transactions contemplated by this agreement shall be satisfactory in all respects to Messrs. Debevoise, Plimpton & McLean, and Pan American shall have furnished to Messrs. Debevoise, Plimpton & McLean such documents as they may reasonably request to enable them to pass upon the matters referred to.

(k) That the events described in paragraph (d) of Article NINTH shall have transpired.

Any and all of the foregoing conditions may be waived, in whole or in part, by Overseas, with or without the consent of Pan American.

NINTH. The obligations and undertakings of Pan American on its part to be performed at or after the Closing Date hereinafter provided shall be subject to the accuracy of, and compliance with, the representations and covenants of Overseas herein contained, and to compliance by American Airlines, Inc. with the provisions of Exhibit C to be performed by it on or prior to the Closing Date, and to the following additional express conditions precedent:

(a) That the Accountants shall have delivered to Pan American a letter stating that, on the basis of reviews (but not audits) of appropriate books and records of Overseas and collateral investigations, (i) the number of outstanding shares of stock of Overseas on the Closing Date is the same as on the date hereof, and the number of

shares of Overseas owned by American Airlines, Inc. on the Closing Date is no less than on the date hereof, and (ii) on the same basis of accounting, the financial condition of Overseas on the latest practicable date prior to the Closing Date (not taking into account contingent liabilities arising out of the sale of its assets hereunder) reflects no materially adverse change from the financial condition of Overseas as of September 30, 1948 as shown on Exhibit A after allowing for (1) the repayment of any debt existing on September 30, 1948 or thereafter created for the purposes hereinafter stated, and (2) changes or losses occurring in the ordinary course of the business of Overseas (the reduction of current assets by the purchase of equipment and spare parts contemplated by contracts existing on September 30, 1948 or the purchase of such additional spare parts as are reasonably required in connection with its operations, and the creation of additional debt or incurring of extraordinary expenses in connection therewith, being considered changes in the ordinary course of business);

(b) That the President or a Vice President and the Comptroller or the Treasurer of Overseas shall have signed and delivered to the Accountants such certificates or information as the Accountants may reasonably request in carrying out their duties hereunder (including investigation of the representations and covenants of Overseas) and shall also have signed and delivered to Pan American a certificate, dated as of the Closing Date, stating (i) that Overseas has no contingent liabilities (other than those arising out of the sale of its assets hereunder) which, in their judgment, will involve any material ultimate liability, and (ii) that, on the same basis of accounting, the financial condition of Overseas on the Closing Date, not taking into account contingent liabilities arising out of the sale of assets by Overseas hereunder, reflects no materially adverse change from the financial condition of Overseas as of September 30, 1948 as shown on Exhibit A after allowing for (1) the repayment of any debt existing on September 30, 1948 or thereafter created for the purposes hereinafter stated, and (2) changes or losses occurring in the ordinary course of the business of Overseas (the reduction of current assets by the purchase of equipment and spare parts contemplated by con-

tracts existing on September 30, 1948 or the purchase of such additional spare parts as are reasonably required in connection with its operations, and the creation of additional debt, or incurring of extraordinary expenses in connection therewith, being considered changes in the ordinary course of business);

(c) That the events described in paragraphs (c), (d) and (e) of Article EIGHTH shall have transpired;

(d) That the sale of all of the assets of Overseas and its dissolution as contemplated herein have been duly authorized by its stockholders;

(e) That an order of the Civil Aeronautics Board (with the approval of the President to the extent required by law) shall have been issued and, at the Closing Date, be effective, approving, to the extent such transactions require such approval, all of the transactions contemplated by this agreement (including the transactions contemplated by Exhibits B and C) without any conditions substantially and adversely affecting Pan American or, so far as Exhibit B is concerned, substantially and adversely affecting Holding Company. This condition precedent shall enure to the benefit of Pan American or Holding Company, as the case may be, only if Pan American or Holding Company, as the case may be, shall notify Overseas in writing not later than fifteen (15) days after any such order has been issued and become effective, whichever is later, that in its opinion the conditions set forth in such order are of the character described in the preceding sentence;

(f) That no injunction issued by any court of competent jurisdiction restraining the consummation of the transactions herein contemplated shall be in effect on or after a date eighty-five (85) days after the Government Approval Date;

(g) That the Certificate of Public Convenience and Necessity referred to in paragraph (h) of Article FIRST shall be valid and outstanding and shall not have been amended in any respect which materially impairs the rights and privileges enjoyed by Overseas thereunder at the date of this agreement;

(h) That there shall have been furnished to Pan American the opinion of Messrs. Debevoise, Plimpton & McLean, dated as of the Closing Date, to the effect that:

1. Overseas has been duly incorporated and is, at the Closing Date, validly existing as a corporation in good standing under the laws of the State of Delaware;

2. The sale of all of the assets, and the dissolution, of Overseas as contemplated herein has been duly authorized by its stockholders;

3. This agreement has been duly and validly authorized, executed and delivered by Overseas and constitutes a valid agreement binding upon and enforceable against Overseas in accordance with its terms; and Exhibit C has been duly and validly authorized, executed and delivered by American Airlines, Inc. and constitutes a valid agreement binding upon and enforceable against American Airlines, Inc. in accordance with its terms;

4. The sale of assets and dissolution of Overseas as contemplated herein, with concurrent creation by American Airlines, Inc. of a voting trust as contemplated by Exhibit C, will not, taken together, result in gain or loss recognizable for tax purposes under the Internal Revenue Code of the United States.

(i) That there shall have been furnished to Pan American the opinion of Messrs. Cleary, Gottlieb, Friendly & Cox, dated as of the Closing Date, to the effects stated in clauses 2, 4 and 6 of paragraph (i) of Article EIGHTH hereof and to the effect stated in clause 4. of paragraph (h) of this Article NINTH, and that, in addition, all legal matters in connection with this agreement and Exhibit C shall be satisfactory in all respects to Messrs. Cleary, Gottlieb, Friendly & Cox, and Overseas shall have furnished to Messrs. Cleary, Gottlieb, Friendly & Cox such documents as they may reasonably request to enable them to pass upon the legal matters referred to.

Any and all of the foregoing conditions may be waived, in whole or in part, by Pan American, with or without the consent of Overseas.

TENTH. Subject to the terms and conditions of this agreement, and except to the extent waived by Pan American, Overseas agrees

that on the Closing Date or as soon as possible thereafter it will distribute to its stockholders substantially all the stock of Pan American to be received by it hereunder, and will thereafter complete its dissolution as promptly as reasonably possible.

ELEVENTH. Notwithstanding any other provision of this agreement it is expressly understood that either party may terminate this agreement, by written notice given to the other party at any time after six months from the date hereof if the Government Approval Date shall not have occurred on or before six (6) months from the date hereof unless, prior to the time of the giving of such termination notice, the other party, either before or after six (6) months from the date hereof, shall, by written notice to the other, have extended such six (6) months' period for an additional three (3) months, in which event either party, by written notice given to the other party at any time after nine (9) months from the date hereof, may terminate this agreement if the Government Approval Date shall not have occurred on or before nine (9) months from the date hereof.

TWELFTH. The "Closing Date", as such term is used anywhere in this agreement, shall be such date as may be agreed upon by Overseas and Pan American in writing or, failing such agreement, on the ninetieth day after the Government Approval Date (or if such day shall be a Saturday, Sunday or holiday, on the first business day thereafter).

THIRTEENTH. The representations and covenants of each of the parties hereto shall be in no way affected by any investigation of the other party and shall survive the Closing Date hereinabove provided for.

FOURTEENTH. Any written notice provided for herein from either party to the other shall

(a) If to Pan American, be delivered personally to its Vice President and General Counsel, or sent to it by registered mail, postage prepaid, addressed to it at its address hereinabove set forth, marked "Attention Vice President and General Counsel", or delivered per-



sonally to such other officer, or addressed in such other manner, as may be requested by Pan American in any notice given to Overseas in the manner in this Article FOURTEENTH provided; and

(b) If to Overseas, be delivered personally to its President or its Vice President and General Manager, or sent to it by registered mail, postage prepaid, addressed to it at its address hereinabove set forth, marked "Attention President or Vice President and General Manager", or delivered personally to such other officer, or addressed in such other manner, as may be requested by Overseas in any notice given to Pan American in the manner in this Article FOURTEENTH provided.

Any notice given as herein provided shall be deemed to have been given at the time personally delivered, if personally delivered, or at the time received, if sent by mail.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed by their respective officers thereunto duly authorized, and their respective corporate seals to be hereunto affixed, the day and year first above written.

PAN AMERICAN AIRWAYS, INC.

by (s) JUAN T. TRIPPE

*President*

Attest:

(s) H. PRESTON MORRIS

*Secretary*

(CORPORATE SEAL)

AMERICAN OVERSEAS AIRLINES, INC.

by (s) C. R. SMITH

*President*

Attest:

(s) GRANT TITSWORTH

*Ass't Sec'y*

(CORPORATE SEAL)

**EXHIBITS**

**EXHIBIT A****AMERICAN OVERSEAS AIRLINES, INC. AND AMERICAN  
OVERSEAS AIRLINES, LTD.****CONSOLIDATED BALANCE SHEET  
AS AT SEPTEMBER 30, 1948****ASSETS**

	<u>Sept. 30, 1948</u>
<b>CURRENT ASSETS:</b>	
Cash in banks and on hand.....	\$ 3,413,901
U. S. Government securities.....	<u>\$ 4,000,000</u>
Accounts Receivable:	
U. S. Government	
Contract services .....	\$ 1,315,305
Less: reserve .....	103,495
	<u>\$ 1,211,810</u>
Transportation of U. S. Mail.....	432,838
Transportation of Foreign Mail.....	203,368
U. S. Government—air travel, etc. ....	887,049
Traffic and express balances.....	1,097,060
Other trade accounts.....	<u>376,888</u>
	<u>\$ 2,360,997</u>
Less: reserve .....	149,282
	<u>\$ 2,211,715</u>
Due from employees.....	70,203
Net Accounts Receivable.....	<u>\$ 4,129,934</u>
Inventories—parts and supplies.....	476,484
Other current assets.....	<u>276,282</u>
Total Current Assets.....	<u>\$12,296,601</u>
<b>INVESTMENTS AND SPECIAL FUNDS:</b>	
Equipment purchase advances.....	\$ 2,774,222
Other .....	65,507
Total Investments & Special Funds.....	<u>\$ 2,839,729</u>
<b>FLIGHT EQUIPMENT, AT COST.....</b>	<u>\$12,255,827</u>
Less: reserve for depreciation.....	3,718,095
Flight Equipment—Net .....	<u>\$ 8,537,732</u>
<b>BUILDINGS AND OTHER EQUIPMENT, AT COST.....</b>	<u>\$ 1,622,367</u>
Less: reserve for depreciation.....	520,182
Buildings & Other Equipment—Net.....	<u>\$ 1,102,185</u>
<b>UNAMORTIZED EXTENSION &amp; DEVELOPMENT COSTS.....</b>	<u>\$ 726,744</u>
<b>DEFERRED CHARGES:</b>	
Prepaid expenses .....	\$ 203,075
Other deferred charges.....	230,740
Total Deferred Charges.....	<u>\$ 433,815</u>
	<u>\$25,936,806</u>

The notes set forth at the end of Exhibit A are an integral part of the above statement

AMERICAN OVERSEAS AIRLINES, INC. AND AMERICAN  
OVERSEAS AIRLINES, LTD.

CONSOLIDATED BALANCE SHEET  
AS AT SEPTEMBER 30, 1948

LIABILITIES, CAPITAL STOCK AND SURPLUS

	<u>Sept. 30, 1948</u>
<b>CURRENT LIABILITIES:</b>	
Notes payable—banks .....	\$ 150,000
Accounts payable .....	351,173
Traffic balances payable.....	427,181
Accounts payable—American Airlines, Inc. ....	773,321
Accrued salaries and wages.....	80,064
Other accrued taxes.....	38,309
Accrued interest .....	34,567
Other accrued liabilities .....	1,213,209
Total Current Liabilities.....	<u>\$ 3,067,824</u>
UNEARNED TRANSPORTATION REVENUE.....	<u>\$ 1,147,699</u>
OTHER DEFERRED CREDITS.....	<u>\$ 308,807</u>
RESERVE FOR AIRCRAFT OVERHAUL.....	<u>\$ 407,738</u>
RESERVE FOR AIRCRAFT ENGINE OVERHAUL.....	<u>\$ 271,527</u>
LONG TERM DEBT—BANKS.....	\$ 3,000,000
Less: installments due within one year included in current liabilities above.....	150,000
	<u>\$ 2,850,000</u>
SUBORDINATED NOTES DUE OCTOBER 30, 1954.....	<u>\$ 2,000,000</u>
<b>CAPITAL STOCK:</b>	
Capital 1,749,825 shares at \$1 par value.....	<u>\$ 1,749,825</u>
<b>SURPLUS:</b>	
Paid-in surplus .....	\$14,881,855
Earned surplus ( <i>deficit</i> )	
Balance at January 1, 1948.....	\$ 1,491,401
Net profit for period.....	742,932
Total Earned Surplus ( <i>deficit</i> ).....	<u>\$ 748,469</u>
Total Surplus .....	<u>\$14,133,386</u>

\$25,936,806

The notes set forth at the end of Exhibit A are an integral part of the above statement

**AMERICAN OVERSEAS AIRLINES, INC. AND AMERICAN  
OVERSEAS AIRLINES, LTD.**

**STATEMENT OF CONSOLIDATED PROFIT AND LOSS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1948**

OPERATING REVENUES:	
Passenger .....	\$11,780,345
Mail—U. S. ....	2,954,014
Mail—Foreign .....	457,795
Express and freight .....	1,053,187
Excess baggage .....	206,110
Charter and special .....	248,468
Incidental revenue .....	147,895
Total Operating Revenue .....	<u>\$16,847,814</u>
OPERATING EXPENSES:	
Flying operations .....	\$ 4,316,640
Flight equipment maintenance—direct .....	2,136,696
Depreciation—flight equipment .....	1,152,152
Total Flying Expenses .....	<u>\$ 7,605,488</u>
Ground operations .....	\$ 2,001,360
Ground and indirect maintenance .....	1,265,366
Passenger service .....	884,626
Sales .....	1,685,650
Advertising and publicity .....	718,297
Provision for adjustments on Govt. contract .....	—
General and administrative .....	1,443,373
Depreciation—ground property and equipment .....	169,078
Total Ground Expenses .....	<u>\$ 8,167,750</u>
Total Operating Expenses .....	<u>\$15,773,238</u>
Net operating income (loss) .....	\$ 1,074,576
Income deductions (net)	
Extension and development costs .....	\$ 145,349
Interest expenses .....	80,786
Other deductions .....	264,290
Other income .....	(158,781)
Total Income Deductions (net) .....	<u>\$ 331,644</u>
NET INCOME BEFORE FEDERAL INCOME TAXES .....	\$ 742,932
Provision for Federal Income Taxes .....	—
NET PROFIT TRANSFERRED TO SURPLUS .....	<u>\$ 742,932</u>

The notes set forth at the end of Exhibit A are an integral part of the above statement

## AMERICAN OVERSEAS AIRLINES, INC.

## NOTES TO SEPTEMBER 30, 1948 FINANCIAL STATEMENTS

- (1) The foregoing balance sheet includes in cash \$610,000 of foreign currencies at official rates of exchange.
- (2) Physical inventories of materials and supplies are currently being taken and are expected to be completed and compiled as of December 31, 1948.
- (3) The foregoing statements reflect U. S. Mail Pay for the years 1945, 1946, 1947 and the nine months ended September 30, 1948 at temporary rates of mail pay established by the CAB. Subsequent to September 30, 1948 final mail pay for 1945 in the additional amount of approximately \$175,000 has been awarded by the CAB and is not included in the foregoing statements. Final rates of mail pay for the periods subsequent to December 31, 1945 are presently under consideration by the CAB and are expected to yield additional amounts of revenue.
- (4) Depreciation on Constellations has been reflected in the foregoing statements beginning with date of purchase. The company contemplates adjusting such depreciation to begin recording with date of commencement of regular operations.
- (5) The only assets and liabilities of American Overseas Airlines, Ltd. included in the foregoing consolidated balance sheet are as follows: Cash, \$344.00; other accrued liabilities, \$4.00. Such corporation had no income or expenses for the nine months ended September 30, 1948.

**EXHIBIT B**

Jersey City, N. J.,  
December 13, 1948.

PAN AMERICAN AIRWAYS, INC.,  
New York, N. Y.

Dear Sirs:

In consideration of your execution of a certain contract with American Overseas Airlines, Inc. bearing even date herewith, the undersigned hereby agrees with you as follows:

The undersigned, all as contemplated by said contract, will call a meeting of the stockholders of the undersigned, to be held within forty-five (45) days after the Government Approval Date (determined as provided in said contract), for the purpose of authorizing the sale to you of all the assets of the undersigned and the dissolution of the undersigned, and will use its best efforts to obtain the necessary favorable votes of stockholders at such meeting, and, after obtaining such necessary favorable votes, will sell to you all the assets of the undersigned in consideration of your assumption of all of the liabilities of the undersigned, including its expenses of dissolution, and your issuance to the undersigned of a number of shares of your stock (of such par value or, if of no par value, with such stated value, as you shall determine) equal to the number of shares of the undersigned then outstanding, and will thereafter dissolve, and you agree to purchase all the assets of the undersigned as aforesaid.

From the date hereof until such time as you shall have acquired the assets of the undersigned, or until the above mentioned contract shall have been terminated, the undersigned will not (1) authorize any stock having a preference in respect to dividends or liquidation over any other of its authorized stock, or (2) borrow money to finance the purchase for cash of all or a substantial part of the stock or assets (other than flight equipment) of any other firm or corporation, or (3) declare dividends on its outstanding stock aggregating more than 25 cents per share, or (4) declare any stock dividend, effect any stock split-up, or otherwise issue any of its stock except for value, (5) purchase or otherwise acquire any of its outstanding stock, or (6) take any action inconsistent with any commitment which you have made regarding the undersigned in the above mentioned contract.

This agreement shall terminate and become null and void whenever the above mentioned contract shall terminate and become null and void (the word "terminate" as here used not being intended to include termination of said contract by way of consummation of all of the transactions provided for therein).

If the foregoing is in accordance with your understanding, kindly indicate, in the place provided below, your confirmation hereof and your agreement hereto.

Very truly yours,

PAN AMERICAN AIRWAYS CORPORATION  
By (s) HENRY J. FRIENDLY  
*Vice-President*

Confirmed and agreed, at Jersey City, N. J.

PAN AMERICAN AIRWAYS, INC.  
By (s) JUAN T. TRIPPE  
*President*

**EXHIBIT C**

Jersey City, N. J.,  
December 13, 1948.

PAN AMERICAN AIRWAYS, INC.,  
New York, N. Y.

Dear Sirs:

In consideration of your execution of a certain contract with American Overseas Airlines, Inc. (herein referred to as "Overseas") bearing even date herewith, the undersigned hereby agrees with you (herein referred to as "Pan American") as follows:

(1) The undersigned will, at the special meeting of Overseas stockholders contemplated by paragraph (c) of Article SEVENTH of the contract, vote all of the shares of stock of Overseas owned by it in favor of (i) the proposed sale of assets by Overseas to Pan American and (ii) the dissolution of Overseas and the prompt distribution to its stockholders of the stock of Pan American to be received by Overseas for its assets.

(2) The undersigned will, promptly upon receipt thereof, deposit in a voting trust all of the Pan American shares received by it on the dissolution of Overseas. Such voting trust will be for a period of seven years, extendable by the undersigned for an additional three years if the Civil Aeronautics Board should approve such extension. It will provide, among other things, that

(a) There shall be three trustees, one of whom shall at all times be selected by the undersigned, the second of whom shall at all times be selected by Pan American, and the third of whom shall be mutually agreed upon between the undersigned and Pan American or, failing such agreement within ten (10) days after the Government Approval Date as defined in the above mentioned contract in the case of the initial third trustee, or within thirty (30) days after a vacancy in the office of such third trustee shall arise, be selected by the President of The National City Bank of New York or, if he shall not act, by such other party as may be mutually agreed upon;

(b) The voting trust certificates shall not be transferable by the undersigned except in connection with a sale or disposition thereof similar to the sale or other disposition of shares of Pan American described in clauses (a) and (b) of paragraph (3) below;

(c) Underlying shares on deposit in the voting trust may be withdrawn therefrom at any time by any holder of voting trust certificates other than the undersigned, and the undersigned may also withdraw underlying shares at any time but only for the purpose of making an immediate sale or other disposition thereof of the kind described in clauses (a) and (b) of paragraph (3) below;

(d) Expenses in connection with the voting trust shall be paid as follows: Expenses of creation of the voting trust shall be paid by the undersigned; transfer taxes payable in connection with the deposit of shares thereunder shall be payable by the parties depositing shares thereunder; expenses in connection with the maintenance of the voting trust (other than the full compensation, of the voting trustee selected by Pan American, and one-half of the compensation of the third voting trustee, which shall be paid by Pan American), shall be paid out of any



dividends received by the voting trustees on deposited stock or, if sufficient dividends are not so received, such expenses shall be paid *pro rata* by the holders of voting trust certificates at the time of withdrawal by them of underlying shares from the voting trust either before or after termination of the voting trust; and the expenses in connection with the termination of the trust and the withdrawal of underlying shares at or prior to such termination, including transfer taxes payable in connection with the transfer of deposited shares out of the voting trust, shall be payable *pro rata* by holders of voting trust certificates at the time of delivery to them of underlying shares.

(3) If the undersigned shall not, prior to the termination of the voting trust, have sold or otherwise disposed of all of its voting trust certificates, or all of the shares underlying its voting trust certificates, in the manner permitted by clauses (b) and (c) of paragraph (2) above, the undersigned will, promptly upon the termination of said voting trust:

(a) Distribute its Pan American shares to the holders of its common stock on a *pro rata* basis, or

(b) To the extent not so distributed, sell all of such Pan American shares, either by *bona fide* public distribution through sale on the New York Stock Exchange, or by sales to underwriters or dealers for *bona fide* distribution to the public, or by sales to selected purchasers not purchasing with a view to immediate resale with not over 100,000 Pan American shares being sold to any one purchaser or associated group of purchasers.

(4) Pan American agrees that if the Securities and Exchange Commission should require that a registration under the Securities Act of 1933, as amended, be effected in connection with any proposed sale of shares of Pan American stock provided for in this agreement, Pan American will effect such registration of such stock provided that its then latest annual audit may be utilized for the most recent financial data required to be included in such registration or, if such then latest annual audit may not be so utilized, provided the undersigned pays for the cost of such special audit as may be required for utilization for the most recent financial data to be included in such registration.

(5) The undersigned guarantees the right of Overseas to repay without premium sums borrowed under its Credit Agreement, dated June 20, 1947, with The Chase National Bank of the City of New York provided that no such repayment is made by Pan American as a result of the above mentioned contract with Overseas without a reasonable opportunity being afforded the undersigned to resist any claim that a premium is payable; and in the event that any premium has to be paid notwithstanding the foregoing, the undersigned will, in satisfaction of its obligation under this guarantee, deliver to Pan American shares of stock of Pan American in number equal to the amount of such premium divided by the net asset value per share of Pan American and Pan American Airways Corporation consolidated as of December 31, 1948, as determined by the Accountants under said above mentioned contract.

(6) The undersigned agrees not to sell any of its Overseas stock prior to the earlier of either (a) the completion of the dissolution of Overseas, or (b) the termination of the above mentioned contract pursuant to any of the provisions thereof.

(7) The undersigned and Pan American each agrees not to use the word "Overseas" as a part of a corporate name, trade or service name, or other name generally used for the purpose of identifying it or its operations in the field of air transportation or any other field in any other way related to the operation or manufacture of aircraft.

(8) Pan American agrees that it will not use, or at any time claim by reason of its purchase of the assets of Overseas that it is entitled to the use of, any trade or service marks or names, the use of which by Overseas is based on a grant by, license from, or permission of, the undersigned. It is further understood that the undersigned retains full right itself to use any such trade or service marks or names in any manner whatsoever, except as provided in paragraph (7).

(9) The undersigned agrees to consent to the cancelation, without penalty to Overseas, of all contracts between Overseas and the undersigned unless such cancelation shall have been waived by Pan American to permit more efficient operations for a limited transitional period.

(10) This agreement shall terminate and become null and void whenever the above mentioned contract between Overseas and Pan American shall terminate and become null and void (the word "terminate" as here used not being intended to apply to termination of said contract by way of consummation of all of the transactions provided for therein).

If the foregoing is in accordance with your understanding, kindly indicate, in the place provided below, your confirmation hereof and your agreement hereto.

Very truly yours,

AMERICAN AIRLINES, INC.

By (s) C. R. SMITH  
*Chairman of the Board*

Confirmed and agreed at Jersey City, N. J.

PAN AMERICAN AIRWAYS, INC.

By (s) JUAN T. TRIPPE  
*President*

## EXHIBIT D

## PAN AMERICAN AIRWAYS CORPORATION AND PAN AMERICAN AIRWAYS, INC.

## CONSOLIDATED AND CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 1948

ASSETS	<u>Consolidated</u>	<u>Eliminations</u>	<u>Pan American Airways Corporation</u>	<u>Pan American Airways, Inc.</u>
Current Assets:				
Cash, working funds and special deposits .....	\$ 24,392,908.42	\$ —	\$ 172,556.95	\$ 24,220,351.47
Notes receivable (including \$2,650,173.52 from associated companies) .....	2,895,522.36	—	—	2,895,522.36
Current receivables:				
U. S. Government (including \$3,040,723.50 for the carriage of U. S. mail) .....	5,065,367.74	—	3,172.21	5,062,195.53
Foreign governments .....	4,556,581.92	—	—	4,556,581.92
Traffic .....	3,763,462.15	—	—	3,763,462.15
Affiliated companies .....	725,888.69	—	—	725,888.69
Interest and dividends receivable .....	265,455.35	—	183,237.17	82,218.18
Other current receivables (including \$4,198,459.17 from associated companies) .....	9,876,243.34	—	—	9,876,243.34
Materials and supplies (at cost) .....	5,371,944.86	—	—	5,371,944.86
Other current and accrued assets .....	203,710.13	—	—	203,710.13
Total current assets .....	<u>\$ 57,117,084.96</u>	<u>\$ —</u>	<u>\$ 358,966.33</u>	<u>\$ 56,758,118.63</u>
Investments and special funds:				
Investments in and advances to affiliates .....	1,763,065.31	106,818,054.98	107,818,054.98	763,065.31
Investments—other .....	7,820,506.02	—	4,171,753.37	3,648,752.65
Special funds: Funds for equipment purchases (cash—\$7,021,952.00 held by others under equipment purchase contracts and \$15,955,840.00 United States Government Treasury Bills) .....	22,977,792.00	—	—	22,977,792.00
Other special funds .....	23,652.91	—	—	23,652.91
Operating property and equipment (stated generally at cost):				
Flight equipment (including spare parts, \$16,332,020.66) .....	70,643,007.12	—	—	70,643,007.12
Ground property and equipment .....	13,648,368.25	—	—	13,648,368.25
Land .....	143,032.85	—	—	143,032.85
Aircraft conversion and other construction work in progress .....	2,160,930.17	—	—	2,160,930.17
Deferred charges:				
Estimated additional balance receivable—U. S. Mail (after deduction of reserve of \$5,852,140.06) .....	13,091,974.63	—	—	13,091,974.63
Prepayments .....	937,062.94	—	—	937,062.94
Long term operating property prepayments .....	227,831.38	—	—	227,831.38
Extension and development .....	34,493.06	—	—	34,493.06
Other deferred charges .....	5,958,014.43	—	—	5,958,014.43
	<u>\$196,546,816.03</u>	<u>\$106,818,054.98</u>	<u>\$112,348,774.68</u>	<u>\$191,016,096.33</u>

The following notes are an integral part of the above statement.

## PAN AMERICAN AIRWAYS CORPORATION AND PAN AMERICAN AIRWAYS, INC.

## CONSOLIDATED AND CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 1948

LIABILITIES	<u>Consolidated</u>	<u>Eliminations</u>	<u>Pan American Airways Corporation</u>	<u>Pan American Airways, Inc.</u>
Current liabilities:				
Notes payable under credit agreement .....	\$ 10,000,000.00	\$ —	\$ 10,000,000.00	\$ —
Accounts payable:				
General .....	9,082,340.27	—	1,100.00	9,081,240.27
Collections as agent .....	1,124,957.77	—	—	1,124,957.77
Airline traffic accounts .....	1,273,522.68	—	—	1,273,522.68
Accrued salaries and wages .....	1,278,394.19	—	—	1,278,394.19
Accrued interest .....	287,340.13	—	176,738.87	110,601.26
Accrued taxes .....	8,469,636.01	—	1,375,587.63	7,094,048.38
Air travel plan liability .....	192,500.00	—	—	192,500.00
Other current and accrued liabilities .....	4,974,110.02	—	—	4,974,110.02
Total current liabilities .....	<u>\$ 36,682,801.07</u>	<u>\$ —</u>	<u>\$ 11,553,426.50</u>	<u>\$ 25,129,374.57</u>
Long term debt:				
Notes payable under credit agreement .....	30,000,000.00	—	30,000,000.00	—
Advances from affiliates .....	—	90,182,380.91	—	90,182,380.91
Deferred credits:				
Unearned transportation revenue .....	8,959,001.42	—	—	8,959,001.42
Other deferred credits .....	521,048.18	—	12,100.00	508,948.18
Reserve for depreciation:				
Flight equipment (including spare parts \$3,397,888.18) .....	25,428,428.69	—	—	25,428,428.69
Ground property and equipment .....	5,881,525.32	—	—	5,881,525.32
Reserve for aircraft and engine overhaul .....	3,091,065.85	—	—	3,091,065.85
Other operating reserve .....	337,660.63	—	—	337,660.63
Capital stock:				
Pan American Airways Corporation—par value \$2.50 per share:				
10,000,000 shares authorized				
6,145,082 shares issued and outstanding .....	15,362,705.00	—	15,362,705.00	—
Pan American Airways, Inc.—par value \$100.00 per share:				
10,000 shares authorized				
10,000 shares issued and outstanding .....	—	1,000,000.00	—	1,000,000.00
Surplus:				
Capital surplus .....	53,626,252.49	15,635,674.07	53,626,252.49	15,635,674.07
Unappropriated earned surplus .....	13,411,792.00	(4,357.25)	493,127.93	12,914,306.82
Profit or loss—year to date .....	3,244,535.38	4,357.25	1,301,162.76	1,947,729.87
	<u>\$ 85,645,284.87</u>	<u>\$ 16,635,674.07</u>	<u>\$ 70,783,248.18</u>	<u>\$ 31,497,710.76</u>
	<u>\$196,546,816.03</u>	<u>\$106,818,054.98</u>	<u>\$112,348,774.68</u>	<u>\$191,016,096.33</u>

The following notes are an integral part of the above statement.

PAN AMERICAN AIRWAYS CORPORATION AND PAN AMERICAN AIRWAYS, INC.

CONSOLIDATED AND CONSOLIDATING PROFIT AND LOSS STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1948

	<u>Consolidated</u>	<u>Eliminations</u>	<u>Pan American Airways Corporation</u>	<u>Pan American Airways, Inc.</u>
Operating Revenues				
Transportation:				
Passenger .....	\$ 65,803,590.17	\$ —	\$ —	\$ 65,803,590.17
Mail—United States—based on temporary and final rates .....	17,806,938.11	—	—	17,806,938.11
Mail—United States—additional estimated (after deducting provision for reserve of \$1,141,843.90) .....	5,493,619.50	—	—	5,493,619.50
Mail—foreign .....	2,799,246.74	—	—	2,799,246.74
Express .....	10,028,390.66	—	—	10,028,390.66
Excess baggage .....	1,740,613.82	—	—	1,740,613.82
Non-scheduled transport services .....	1,408,827.54	—	—	1,408,827.54
Other transportation .....	141,534.69	—	—	141,534.69
Total Transportation .....	<u>\$105,222,761.23</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$105,222,761.23</u>
Incidental revenues—net .....	1,110,240.71	—	—	1,110,240.71
Total Operating Revenues .....	<u>\$106,333,001.94</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$106,333,001.94</u>
Operating Expenses				
Flying operations .....	28,221,153.11	—	—	28,221,153.11
Direct maintenance—flight equipment .....	10,320,438.25	—	—	10,320,438.25
Depreciation—flight equipment .....	9,527,488.93	—	—	9,527,488.93
Ground operations .....	13,336,446.85	—	—	13,336,446.85
Ground and indirect maintenance .....	8,294,978.70	—	—	8,294,978.70
Passenger service .....	6,264,322.25	—	—	6,264,322.25
Traffic and sales .....	11,953,673.64	—	—	11,953,673.64
Advertising and publicity .....	3,314,013.50	—	—	3,314,013.50
General and administrative (including operating divisions) .....	9,322,425.42	—	62,663.16	9,259,762.26
Depreciation—ground equipment .....	907,886.36	—	—	907,886.36
Total Operating Expenses .....	<u>\$101,462,827.01</u>	<u>\$ —</u>	<u>\$ 62,663.16</u>	<u>\$101,400,163.85</u>
Net Operating Income .....	<u>\$ 4,870,174.93</u>	<u>\$ —</u>	<u>\$ (62,663.16)</u>	<u>\$ 4,932,838.09</u>
Non-operating income:				
Interest and dividends .....	\$ 761,760.12	\$ 2,159,170.09	\$ 2,463,364.64	\$ 457,565.57
Gain on sales and retirements of property and equipment—net .....	346,258.86	—	—	346,258.86
Sundry non-operating credits .....	166,004.54	—	2.93	166,001.61
	<u>\$ 1,274,023.52</u>	<u>\$ 2,159,170.09</u>	<u>\$ 2,463,367.57</u>	<u>\$ 969,826.04</u>
	<u>\$ 6,144,198.45</u>	<u>\$ 2,159,170.09</u>	<u>\$ 2,400,704.41</u>	<u>\$ 5,902,664.13</u>
Non-operating expense:				
Interest .....	\$ 302,885.29	\$ 2,154,812.84	\$ 302,054.79	\$ 2,155,643.34
Extension and development .....	255,839.03	—	—	255,839.03
Sundry non-operating charges .....	266,724.47	—	—	266,724.47
	<u>\$ 825,448.79</u>	<u>\$ 2,154,812.84</u>	<u>\$ 302,054.79</u>	<u>\$ 2,678,206.84</u>
Net income before income taxes .....	<u>\$ 5,318,749.66</u>	<u>\$ 4,357.25</u>	<u>\$ 2,098,649.62</u>	<u>\$ 3,224,457.29</u>
Income taxes .....	2,074,214.28	—	797,486.86	1,276,727.42
Net profit or loss for period .....	<u>\$ 3,244,535.38</u>	<u>\$ 4,357.25</u>	<u>\$ 1,301,162.76</u>	<u>\$ 1,947,729.87</u>

The following notes are an integral part of the above statement.

PAN AMERICAN AIRWAYS CORPORATION AND PAN AMERICAN AIRWAYS, INC.

CONSOLIDATED AND CONSOLIDATING STATEMENTS OF CAPITAL SURPLUS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1948

	<u>Consolidated</u>	<u>Eliminations</u>	<u>Pan American Airways Corporation</u>	<u>Pan American Airways, Inc.</u>
Balance, January 1, 1948 .....	\$ 53,626,252.49	\$ 15,635,674.07	\$ 53,626,252.49	\$ 15,635,674.07
Additions:				
None .....	—	—	—	—
Charges:				
None .....	—	—	—	—
Balance, September 30, 1948 .....	<u>\$ 53,626,252.49</u>	<u>\$ 15,635,674.07</u>	<u>\$ 53,626,252.49</u>	<u>\$ 15,635,674.07</u>

The following notes are an integral part of the above statement.

CONSOLIDATED AND CONSOLIDATING STATEMENTS OF EARNED SURPLUS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1948

	<u>Consolidated</u>	<u>Eliminations</u>	<u>Pan American Airways Corporation</u>	<u>Pan American Airways, Inc.</u>
Balance, January 1, 1948 .....	\$ 14,943,704.75	\$ —	\$ 2,029,397.93	\$ 12,914,306.82
Additions:				
None .....	—	—	—	—
Charges:				
Dividend .....	1,531,912.75	4,357.25	1,536,270.00	—
	13,411,792.00	(4,357.25)	493,127.93	12,914,306.82
Net profit for period .....	3,244,535.38	4,357.25	1,301,162.76	1,947,729.87
Balance, September 30, 1948 .....	<u>\$ 16,656,327.38</u>	<u>\$ —</u>	<u>\$ 1,794,290.69</u>	<u>\$ 14,862,036.69</u>

The following notes are an integral part of the above statement.

PAN AMERICAN AIRWAYS CORPORATION AND PAN AMERICAN AIRWAYS, INC.

NOTES RELATING TO CONSOLIDATED AND CONSOLIDATING FINANCIAL STATEMENTS  
SEPTEMBER 30, 1948

1. The usual historical accounting basis which has been followed in these financial statements is not intended to represent present or future values. The operations of Pan American Airways, Inc. are principally outside of the continental United States; substantial amounts of the assets owned are outside of the United States and its possessions and territories.
2. Balances receivable under temporary and permanent rate orders, for carriage of United States mail, which are being currently collected, are included in current assets on the balance sheet herewith. The total estimated additional amount receivable for carriage of United States mail represents the Company's estimate of additional amounts which should be received in accordance with the terms of the Civil Aeronautics Act; this additional amount, less a reserve, is included among non-current assets.

Proceedings are pending with respect to final rates for the carriage of United States mail on the Latin American services from February 29, 1944, through August 31, 1945 (with respect to limited issues), and from April 1, 1948; on the Pacific services from November 16, 1945; and on the Alaskan and Atlantic services from January 1, 1946. The Civil Aeronautics Board has fixed temporary mail rates for the Pacific services from November 16, 1945, and for the Alaskan and Atlantic services from January 1, 1946. Application has been made for a temporary rate on the Latin American services from April 1, 1948. These temporary rates serve only as an interim basis of payment until such time as final rates are fixed and are subject to retroactive increase or decrease upon the fixing of final rates.

3. Included in shares outstanding of Pan American Airways Corporation, in the accompanying balance sheet, are 32,429 shares acquired in the open market by Pan American Airways, Inc. and carried at cost under "Investments in and Advances to Affiliates" in the balance sheet herewith. The amount shown as charged to consolidated earned surplus for the dividend declared by Pan American Airways Corporation does not include \$4,357.25 applicable to 17,429 shares held by Pan American Airways, Inc. on the dividend date; 15,000 additional shares were acquired since that date.
4. Pan American Airways Corporation has an agreement with banks providing for extension of credit aggregating \$40,000,000. The notes payable under this agreement amounted to \$40,000,000 at September 30, 1948, which is payable in eight equal semi-annual instalments beginning December 31, 1948, with interest at 1¾% per annum. The agreement provides, among other things, that dividends may be paid by the Corporation only to the extent of consolidated net earnings accrued since 1945, except as to stock dividends and as to other dividends of not more than \$4,000,000 in total and not more than \$2,000,000 in any calendar year. It also provides that the Corporation and its principal subsidiary will maintain a combined working capital of not less than \$10,000,000, and that the Corporation will reduce the total amount of indebtedness outstanding under the agreement, whenever it shall equal or exceed the depreciated value of unencumbered flight equipment and spare parts of the Corporation and its principal subsidiary, so that such total indebtedness shall be less than such depreciated value.
5. At September 30, 1948 Pan American Airways, Inc. had commitments for acquisition of airplanes, engines and related equipment approximating \$34,500,000. These commitments are expected to require cash of approximately \$27,150,000 to be furnished within the next year, in addition to amounts of \$7,350,000 in advance payments previously made under the foregoing contracts. Pan American Airways, Inc. also had other commitments for parts, materials, supplies, etc., approximating \$5,200,000.
6. The other known contingent liabilities were those inherent in operation of international air transportation service under changing laws, regulations, contracts and economic conditions in many countries; those existing under obligations undertaken in guarantee of performance and payment; letters of credit and similar credits of minor amount; certain pending suits, the liabilities in connection with which cannot now be ascertained, the management being of the opinion that such liabilities will not materially affect the financial condition of the companies; obligations to make payments in cases of termination of employment and for vacations under some conditions; possible losses, estimated to be of relatively minor amounts, in case of sale of equipment not required in operations; charges which may result from settlement of claims under government contracts; possible claims for additional United States taxes on income for the years for which examinations of returns have not yet been completed, namely the years 1943, 1944, 1945, 1946 and 1947, and for other domestic and foreign taxes; and sundry claims not covered by insurance.
7. Accrued Federal income tax relating to "estimated additional balance receivable—U. S. mail" under deferred charges is included in "accrued taxes" under current liabilities.

**EXHIBIT E****PAN AMERICAN AIRWAYS CORPORATION AND  
PAN AMERICAN AIRWAYS, INC.****OWNERSHIP OF STOCK OF OTHER CORPORATIONS**

	<u>Number of Shares</u>	<u>Percent of Ownership</u>
Owned by Pan American Airways Corporation		
Aerovias Nacionales de Colombia .....	1,144,032	47.7
China National Aviation Corporation .....	2,000	20
Intercontinental Hotels Corporation .....	100,000	100
Pan American-Grace Airways, Inc. ....	50,000	50
Owned by Pan American Airways, Inc.		
Aeronaves de Mexico, S. A. ....	900	40
Aeropuerto de Bogota y Leticia, Ltda. ....	441	49
Aerovias Venezolanas, S. A. ....	741	37.05
Compania Cubana de Aviacion, S. A. ....	48,000	48
Compania de Aviacion Pan American Argentina, S. A. ....	2,500	100
Compania Dominicana de Aviacion, C por A. ....	400	40
Compania Mexicana de Aviacion, S. A. ....	73,250	41.9
Compania Panamena de Aviacion, S. A. ....	1,650	33
Grandes Hoteis, S. A. ....	400	100
Lineas Aereas Costarricenses, S. A. ....	20	40
Lineas Aereas de Nicaragua, S. A. ....	800	40
Panair do Brasil, S. A. ....	192,000	43.6
Servicio Aereo de Honduras, S. A. ....	800	40
Uraba, Medellin & Central Airways, Inc. ....	4,500	100



**EXHIBIT F****PAN AMERICAN AIRWAYS, INC.****CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY**

Pan American is the holder of the following Certificates of Public Convenience and Necessity issued by the Civil Aeronautics Board and authorizing the transportation of persons, property and (except where specified) mail:

(i) Between the co-terminal points Boston, Mass., Chicago, Ill., Detroit, Mich., New York, N. Y., Philadelphia, Pa., Baltimore, Md., and Washington, D. C. (authorization as to all co-terminals other than New York being for a period expiring 7 years from July 5, 1945), the Azores, Lisbon, Portugal, Barcelona, Spain (authorization as to Barcelona to expire 7 years from July 5, 1945), and Marseille, France; and between Lisbon, Portugal, and London, England.

(ii) Between the co-terminal points listed in item (i) (and for the same period therein stated), Newfoundland, Foynes and Dublin, Eire, and London; and (for a period terminating 7 years from July 5, 1945) between London and intermediate points within the following areas: Belgium; that portion of Germany which lies south of the 50th parallel; Frankfurt, Germany; Czechoslovakia; Austria; Hungary; Yugoslavia; Rumania; Bulgaria; Turkey; Lebanon; Iraq; Iran; and Afghanistan; and intermediate and terminal points within that portion of India which lies north of the 20th parallel.

(iii) Between the terminal point New York, N. Y., the Azores, Dakar, French West Africa, Monrovia, Liberia, Accra, Gold Coast, Leopoldville, Belgian Congo, and the co-terminal points Johannesburg and Capetown, Union of South Africa (for a period terminating 7 years from August 15, 1946).

(iv) Between the co-terminal points New York, N. Y., and Boston, Mass. and the terminal point Bermuda.

(v) (1) Between the terminal point Miami, Fla., the intermediate points Camaguey and Santiago, Cuba, Port-au-Prince, Haiti, Ciudad Trujillo, Dominican Republic, San Juan, Puerto Rico, Charlotte Amalie, St. Thomas, Virgin Islands, St. Croix, Guadeloupe, Ft. de France, Martinique, Barbados, Port of Spain, Trinidad, Georgetown, British Guiana, Paramaribo, Surinam (Dutch Guiana), Cayenne, French Guiana, Belem (Para), Sao Luiz (Maranhao), Camocim, Fortaleza, Areia Branca, and Natal, Brazil, and (a) beyond Natal the intermediate points Recife (Pernambuco), Maceio, Aracaju, Sao Salvador (Bahia), Caravellas, Victoria, Rio de Janeiro, Sao Paulo, and Porto Alegre, Brazil, Montevideo, Uruguay, and the terminal point Buenos Aires, Argentina, and (b) beyond Natal the intermediate point Ascension Island, an intermediate point in West Africa, and the co-terminal points Johannesburg and Capetown, Union of South Africa (such authorization under (b) hereof to expire on August 15, 1953); and also between the intermediate point Rio de Janeiro, Brazil, the intermediate points Sao Paulo, Curityba, Iguassu Falls, Brazil, and Asuncion, Paraguay, and the terminal point Buenos Aires, Argentina; and also between the intermediate point Ciudad Trujillo, Dominican Republic, the intermediate points Aruba, Netherlands West Indies, Curacao, Netherlands West Indies, and the terminal point Caracas, Venezuela; and also between the intermediate point Belem (Para), Brazil, the intermediate point Barreiras, Brazil, and the intermediate point Rio de Janeiro, Brazil; and also between the intermediate point Port-au-Prince, Haiti, the intermediate point Santiago, Cuba, and the terminal point Kingston, Jamaica;

(2) Between the terminal point Miami, Fla., the intermediate point Havana, Cuba, and the terminal point Merida, Mexico;

(3) Between the terminal point Miami, Fla., the intermediate points Cienfuegos, Cuba, Montego Bay, Jamaica, and Kingston, Jamaica, and the terminal point Balboa, Canal Zone; and also between the intermediate point Kingston, Jamaica, and the terminal point Barranquilla, Colombia;

(4) Between the terminal point Miami, Fla., the intermediate point Cat Cay, Bahama Islands (except with respect to mail), and the terminal point Nassau, Bahama Islands;

(5) Between the terminal point Houston, Tex., the intermediate points Corpus Christi and Brownsville, Tex., Tampico, Mexico City, and Tapachula, Mexico, Guatemala City, Guatemala, San Salvador, El Salvador, Tegucigalpa, Republic of Honduras, Managua, Nicaragua, San Jose, Costa Rica, and David, Panama, and the terminal point Balboa, Canal Zone (Ancon, Canal Zone or Panama City, Panama);

(6) Between the terminal point Balboa, Canal Zone, the intermediate points Barranquilla, Colombia, Maracaibo, Venezuela, Aruba, Netherlands West Indies, Caracas, Barcelona, and Maturin, Venezuela, and the terminal point Port of Spain, Trinidad;

(7) Between the terminal point New York, N. Y., the intermediate points San Juan, Puerto Rico, Curacao, Netherlands West Indies, and the terminal point, Caracas, Venezuela.

(vi) Between the co-terminal points Houston, Texas, and New Orleans, La., Merida, and Guatemala City.

(vii) (1) Between the co-terminal points San Francisco and Los Angeles, Calif., the intermediate points Honolulu, Hawaii, Midway Island, Wake Island, the island of Guam, and Manila, Philippine Islands, and (a) beyond the intermediate point Manila, Philippine Islands, the intermediate points Saigon, French Indo-China, and Singapore, Straits Settlements, and the terminal point Batavia, Java (such authorization to continue in effect up to and including July 30, 1953); and (b) beyond the intermediate point Manila, Philippine Islands, the intermediate points the Portuguese Colony of Macao, the British Crown Colony of Hong Kong, Saigon, French Indo-China, Bangkok, Thailand, and Rangoon, Burma, and intermediate and terminal points within the portions of India and Pakistan lying north of the 20th parallel (such authorization as to points beyond the intermediate point the British Crown Colony of Hong Kong to continue in effect up to and including July 4, 1952);

(2) Between the co-terminal points Seattle-Tacoma, Wash., and Portland, Oreg., and the intermediate point Honolulu, Hawaii (such authorization to expire 5 years from October 2, 1948);

(3) Between the intermediate points Honolulu, Hawaii, and Wake Island;

(4) Between the intermediate points Midway Island, Tokyo, Japan, and Shanghai, China, and the British Crown Colony of Hong Kong (such authorization to continue in effect up to and including July 30, 1953);

(viii) Between the terminal point San Francisco, Calif., the intermediate points Los Angeles, Calif., Honolulu, Hawaii, Canton Island, Suva, British Crown Colony of Fiji, and Noumea, New Caledonia; and (a) beyond Noumea, New Caledonia, the intermediate point Sydney, Australia, and the terminal point Melbourne, Australia; and (b) beyond Noumea, New Caledonia, the terminal point Auckland, New Zealand.

(ix) Between the terminal point Seattle, Wash., the intermediate points Ketchikan, Alaska, Juneau, Alaska, Whitehorse, Yukon Territory, Canada, and the terminal point Fairbanks, Alaska.

(x) Between the terminal point Fairbanks, Alaska, various intermediate points in Alaska, and Bethel, Alaska (except for mail).

(xi) Between the terminal point Fairbanks, Alaska, various intermediate points in Alaska, and the terminal point Nome, Alaska.

The said certificates are subject to certain restrictions set forth therein.

Service is being operated over substantially all of said certificates (although not to all points listed therein) except for: (a) service to the co-terminals listed in items (i) and (ii) other than New York and Boston; (b) the portions of the certificate listed in item (i) between Barcelona and Marseille and between Lisbon and London; (c) the portion of the certificate listed in item (ii) consisting of Hungary, Yugoslavia, Rumania, Bulgaria, Iran and Afghanistan; (d) the portions of the certificate listed in item (v) consisting of routes along the coast of Brazil north of Rio de Janeiro, the route to Africa via Ascension Island, and the route between Rio de Janeiro and Buenos Aires via Asuncion; (e) the portion of the certificate listed in item (vii) authorizing service to Indo-China, Singapore and Batavia; (f) service south of Sydney, Australia authorized by the certificate listed in item (viii); and (g) the service between Fairbanks and Bethel, Alaska, authorized by the certificate listed in item (x); and (h) service to the co-terminal Capetown, Union of South Africa.