

ANNUAL  
REPORT

AMERICAN OVERSEAS AIRLINES, INC.

YEAR ENDED  
DECEMBER 31  
1947





**1947 ANNUAL REPORT  
TO THE STOCKHOLDERS OF  
AMERICAN OVERSEAS  
AIRLINES, INC.**





# AMERICAN OVERSEAS AIRLINES, INC.

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## DIRECTORS

R. S. DAMON	J. A. JACKSON
R. E. S. DEICHLER	C. W. JACOB
H. M. GILLESPIE	J. E. SLATER
H. R. HARRIS	C. R. SMITH

## OFFICERS

J. E. SLATER	C. R. SMITH
Chairman of the Board	President
H. R. HARRIS	
Vice-President and General Manager	

## VICE-PRESIDENTS

R. E. S. DEICHLER	C. W. JACOB
J. M. EATON	W. LITTLEWOOD
J. G. FLYNN, JR.	

H. D. STARR — Secretary-Treasurer  
K. MURDOCH — Assistant Secretary  
G. TITSWORTH — Assistant Secretary  
T. O. ENGLISH — Assistant Treasurer

## OFFICES:

General Offices: 100 East 42nd Street, New York 17, New York  
Corporate Office . . . . 21 Dover Green, Dover, Delaware

Transfer Agent: Manufacturers Trust Co., New York 15, N. Y.  
Registrar . . Commercial National Bank and Trust Company  
of New York, New York 15, N. Y.  
General Counsel . . Douglas and Proctor, Washington, D. C.



# REPORT TO THE STOCKHOLDERS

New York, March 19, 1948

## OPERATIONS

The operating record for the year was excellent. The company transported more passengers, mail and cargo than in any previous year, without serious or fatal accident. Transatlantic crossings were 1,907, an increase of 65% over 1946. Preliminary reports indicate that American Overseas was the low cost U. S. operator on the North Atlantic route in 1947.

Revenue miles flown increased 71.1% over 1946. 99.2% of the miles scheduled were completed, a good record of dependable performance. The 59,741 revenue passengers for the year represents an increase of 79.3% over 1946. There was an increase of 94.1% in the volume of U. S. mail, and cargo increased 80.8%. Foreign mail decreased 22.5%, due to entry of additional foreign flag competition on the North Atlantic route.

## SERVICES AND EQUIPMENT

New services were instituted to Reykjavik, Iceland, in March and to Glasgow, Scotland, and Helsinki, Finland, in June. The company now serves ten overseas countries. No permission has yet been secured to serve Poland and Russia. Three charter flights were flown to Moscow in March, transporting delegates to the Foreign Ministers Conference.

Eight Boeing Stratocruisers are on order. The first of these is expected to be delivered late in 1948. At the end of 1947 fifteen aircraft were in operation; seven Constellations, seven Douglas DC-4's and one Douglas DC-3, the latter operating between Stockholm and Helsinki.

The last of the military operating contracts has been completed. A limited amount of work for the United States Government continues to be performed by one of our subsidiary companies.

## EARNINGS

The operating loss for 1947, based upon temporary mail rates, was \$1,773,200, compared with a profit of \$411,138 for 1946. Final results for both years are subject to adjustment when permanent rates for the transportation of U. S. mail are established.



Revenues and expenses for 1946 were re-stated to reflect: a retroactive increase in U. S. mail compensation; a decrease in the provision for flight equipment depreciation, to conform with estimated useful life of the equipment; a retroactive wage adjustment and adjustments to overhaul reserves to accord with experience. The net effect of the adjustments was to change the loss of \$302,371, reported for the year of 1946, to a profit of \$411,138, after Federal taxes, for that year.

The volume of operations for the year increased substantially but revenues per mile decreased, from \$3.70 in 1946 to \$2.74 in 1947. The decrease resulted from the following factors: decline in load factor from 68.3% in 1946 to 62.3% in 1947; a 13% reduction in passenger fares late in 1946 and applicable to all of 1947; a 22% reduction in the effective cargo rates; a 40% reduction in rates paid by the foreign governments for mail transportation; a 22.5% reduction in the volume of foreign mail and a reduction in the temporary U. S. mail compensation from 35.8¢ per revenue mile in 1946 to 31.6¢ per revenue mile in 1947.

Despite the cost of a pilots' strike and the generally higher level of wage and material costs, operating expenses per mile were reduced from \$3.51 in 1946 to \$2.97 in 1947.

Comparative financial statements, 1946 and 1947, certified by Arthur Andersen & Company, are submitted with this report. The statements give effect to consolidation of accounts of American Overseas Airlines, Inc. and its subsidiary companies.

## MAIL RATE CASES

The mail rate cases pending before the Civil Aeronautics Board are for the purpose of determining the permanent rates to be paid to the company from January 1, 1945. Since that date, as you know, the company has been operating on temporary rates and has been keeping its accounts on the basis of those temporary rates.

The company holds that it is entitled to a higher rate of compensation for the transportation of the U. S. mail, under the terms of the Civil Aeronautics Act, and has presented proof and justification, in its opinion, for additional retroactive mail compensation. The cases should be decided during 1948.

## CAPITAL

There were no changes in the capital structure during the year. There are approximately 1,250 common stockholders. American Airlines, Inc. owns approximately 62% of the outstanding shares, American Export Lines, Inc. owns approximately 20% and approximately 18% is owned by other shareholders.

To finance the purchase of the eight Boeing Stratocruisers, with spare parts and ground equipment, the company entered into a credit agreement with a group of twelve banks on June 20, 1947, providing for a maximum credit of \$12,000,000. A total of \$3,000,000 has been borrowed against this credit. Notes drawn pursuant to this agreement are payable in quarterly installments over a five year period estimated to begin in April, 1949.



In June, 1947, the company also entered into an agreement with American Airlines, Inc. and American Export Lines, Inc., whereby further funds in maximum amount of \$5,000,000 are available to the company. \$2,000,000 has been borrowed against this credit. Notes drawn pursuant to this agreement mature in 1954 and are subordinate to the loans from banks discussed in the preceding paragraph.

## ORGANIZATION

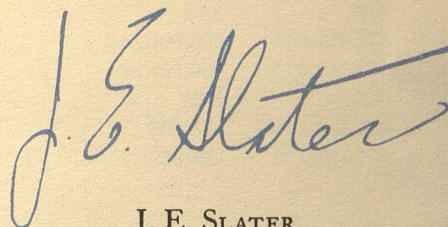
At December 31, 1947, there were 1,722 employees in the United States and 747 in Europe, a total of 2,469. This total compares with 3,335 on March 15, 1947.

Mr. W. H. Coverdale, who had been associated with the company since its inception, resigned as Director. Major H. M. Gillespie, Vice President of American Export Lines, Inc., was elected to replace him. Mr. James A. Jackson, Investment Banker, New York, was also elected a Director during the year. Mr. H. D. Starr was elected Secretary-Treasurer, replacing Mr. J. C. Gardiner, Jr., resigned.

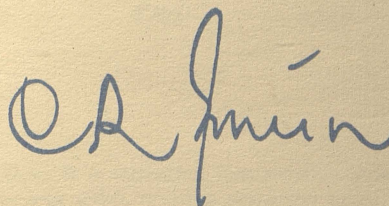
## OUTLOOK

The losses during the first quarter of 1948 were substantial. Advance reservations for the late spring and summer season are heavy and profitable operation during that period is anticipated. The company should receive an increase in compensation for transportation of U. S. mail during the year, having effect both on the future and the past. The operations are being conducted with continuing economy and with continuation of the present level of general prices additional reductions in operating cost may be anticipated.

Respectfully submitted,



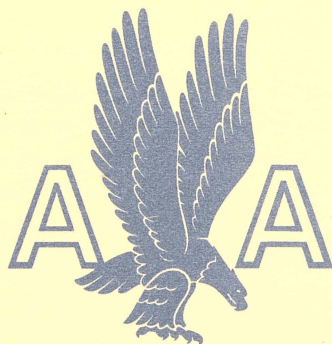
J. E. SLATER  
Chairman of the Board



C. R. SMITH  
President

By order of the  
Board of Directors  
March 19, 1948







## COMPARATIVE STATISTICS OF PROGRESS

### YEARS 1945-1947

Operating Revenues:	1947	1946 <sup>1</sup>	1945
Passenger . . . . .	\$15,017,154	\$11,004,093	\$1,928,545
Mail . . . . .	3,115,743	3,398,956	1,845,218
Express, Freight and Other . . . . .	1,827,953	1,430,600	153,826
Military Contract Fees . . . . .	235,170	86,384	66,375
Total . . . . .	20,196,020	15,920,033	3,993,964
Expenses and Federal Income Taxes <sup>2</sup> . . . . .	21,969,220	15,508,895	4,203,093
Net Profit (Loss) Carried to Surplus . . . . .	(1,773,200)	411,138	(209,129)
Current Assets . . . . .	12,860,675	15,402,328	4,250,791
Current Liabilities . . . . .	3,960,754	9,349,112	3,091,952
Net Working Capital . . . . .	8,899,921	6,053,216	1,158,839
Aircraft, Ground and Other Equipment (depreciated value) . . . . .	8,856,072	9,182,568	1,365,467
Total Assets . . . . .	26,549,417	28,371,248	7,244,415
Paid-In Surplus . . . . .	14,881,855	14,881,855	3,362,781
Earned Surplus . . . . .	(1,491,401)	281,799	(85,054)
Total surplus . . . . .	13,390,454	15,163,654	3,277,727
Common Stock Outstanding . . . . .	1,749,825	1,749,825	699,930
Net Worth . . . . .	15,140,279	16,913,479	3,977,657
Airplanes in Scheduled Service (at end of year) . . . . .	15	13	6
Expenses per Revenue Mile Flown (Exclusive of Federal Income Taxes and Provision for Possible Adjustments on Cost-Plus-A-Fixed-Fee Contracts):			
Expenses, before Provision for Depreciation, Obsolescence and Interest . . . . .	\$2.793	\$3.208	\$4.111
Provision for Depreciation and Obsolescence . . . . .	\$ .211	\$ .241	\$ .149
Interest . . . . .	\$ .008	\$ .019	\$ .043
Total . . . . .	\$3.012	\$3.468	\$4.303
Revenue Miles Flown <sup>3</sup> . . . . .	7,367,357	4,306,366	946,232
Passengers per Revenue Mile Flown in Passenger Service . . . . .	23.1	26.3	15.0
Passenger Seat Miles Flown <sup>3</sup> . . . . .	248,309,000	140,926,278	18,164,284
Revenue Passenger Miles <sup>3</sup> . . . . .	168,496,000	112,198,418	14,215,295
Passenger Load Factor . . . . .	67.9	79.6	78.3
Air Mail Ton-Miles <sup>3</sup> . . . . .	1,806,509	1,165,526	611,227
Air-Express-Freight Ton-Miles <sup>3</sup> . . . . .	1,926,553	1,134,102	70,198
Average Revenue Load per Plane, per Mile (pounds):			
Passenger and Excess Baggage . . . . .	5,014 <sup>4</sup>	5,749 <sup>4</sup>	3,365
Mail . . . . .	492 <sup>4</sup>	546 <sup>4</sup>	1,292
Express-Freight . . . . .	525 <sup>4</sup>	531 <sup>4</sup>	148
Total . . . . .	6,031 <sup>4</sup>	6,826 <sup>4</sup>	4,805

#### N O T E S

( ) Denotes red figure.

<sup>1</sup> Figures for 1946 have been restated to give effect to adjustments mentioned in Note 2 to the financial statements.

<sup>2</sup> Includes net of Other Income and Deductions.

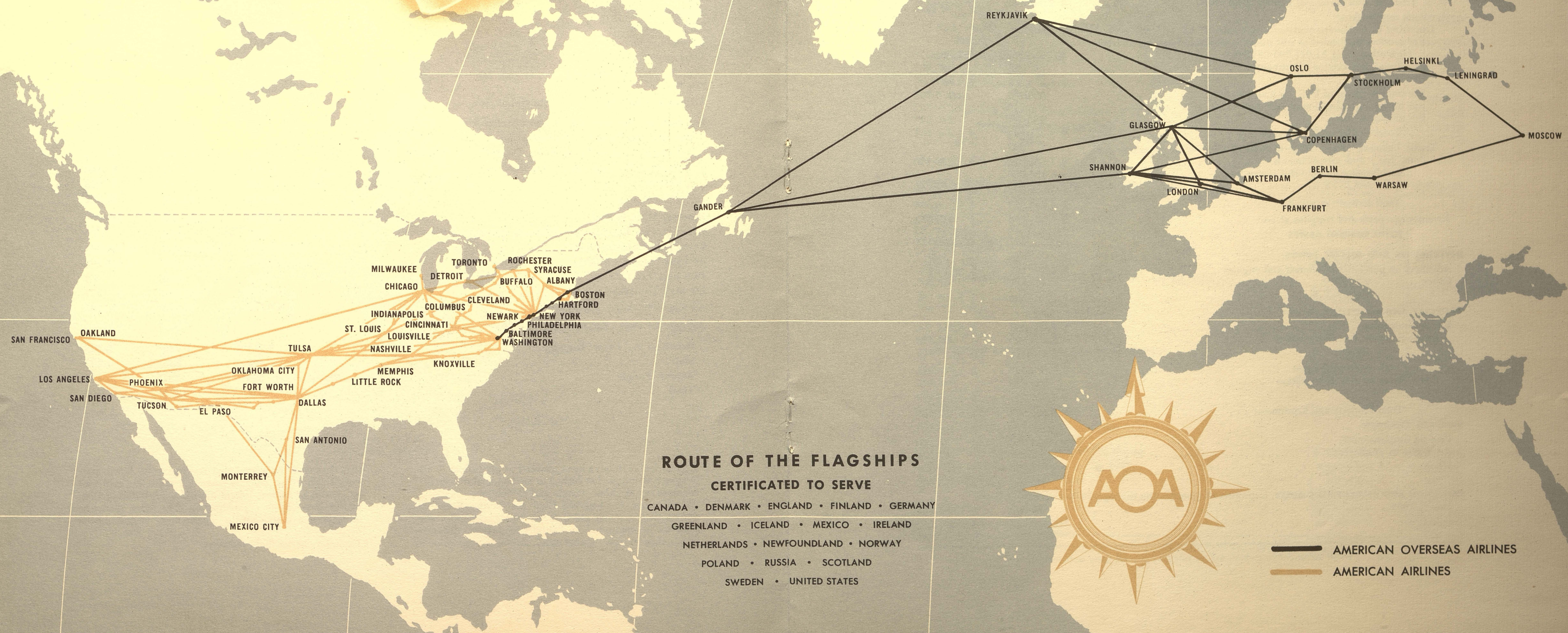
<sup>3</sup> Effective Jan. 1, 1946, the Civil Aeronautics Board required that revenue miles flown and associated traffic statistics be computed on "airport to airport" distances rather than on the "course mile" distances used prior to

that date. It is estimated that revenue miles flown, passenger seat miles, revenue passenger miles, air mail ton-miles, and air express-freight ton-miles flown during 1946 would have been approximately 2% more than the amounts shown above if the "course mile" basis had been used.

<sup>4</sup> Excludes charter flight mileages.



# AMERICAN OVERSEAS AIRLINES



## ROUTE OF THE FLAGSHIPS CERTIFICATED TO SERVE

- CANADA • DENMARK • ENGLAND • FINLAND • GERMANY
- GREENLAND • ICELAND • MEXICO • IRELAND
- NETHERLANDS • NEWFOUNDLAND • NORWAY
- POLAND • RUSSIA • SCOTLAND
- SWEDEN • UNITED STATES



— AMERICAN OVERSEAS AIRLINES  
— AMERICAN AIRLINES



**AMERICAN OVERSEAS  
AND SUBSIDIARY**

**CONSOLIDATED**

DECEMBER 31, 1947

**ASSETS**

	1947	1946 (Note 2)
<b>CURRENT ASSETS:</b>		
Cash . . . . .	\$ 3,094,802	\$ 3,708,764
U. S. Treasury Bonds, 1¾%, at cost . . . . .	\$ —	\$ 3,029,283
U. S. Treasury Bills, principal amount \$3,000,000 . . . . .	\$ 2,996,411	\$ —
Accounts receivable—		
Due from U. S. Government—		
For services performed at cost under cost-plus-a-fixed-fee contracts (less advance of \$1,611,695 in 1946) . . . . .	\$ 2,863,842	\$ 2,481,976
Less—Reserve for adjustments . . . . .	165,000	400,289
	\$ 2,698,842	\$ 2,081,687
For transportation of U. S. air mail (Note 1) . . . . .	528,157	1,975,798
For transportation of foreign air mail . . . . .	288,915	1,079,852
For air travel, etc. . . . .	191,749	242,865
Total due from U. S. Government . . . . .	\$ 3,707,663	\$ 5,380,202
Traffic balances (\$338,125 and \$613,482 due from American Air- lines, Inc.) and miscellaneous . . . . .	\$ 1,880,676	\$ 2,328,406
Less—Reserve for doubtful accounts . . . . .	150,000	—
	\$ 1,730,676	\$ 2,328,406
Total accounts receivable . . . . .	\$ 5,438,339	\$ 7,708,608
Inventories—parts and supplies at cost . . . . .	\$ 1,331,123	\$ 955,673
<b>TOTAL CURRENT ASSETS</b> . . . . .	\$12,860,675	\$15,402,328
<b>INVESTMENTS AND SPECIAL FUNDS:</b>		
Advances on purchases of aircraft and engines . . . . .	\$ 2,957,102	\$ 2,319,945
Other . . . . .	45,507	45,507
	\$ 3,002,609	\$ 2,365,452
<b>PROPERTY AND EQUIPMENT, at cost:</b>		
Flight equipment . . . . .	\$ 9,923,031	\$ 8,945,169
Less—Reserves for depreciation . . . . .	2,604,890	993,426
	\$ 7,318,141	\$ 7,951,743
Buildings and other equipment . . . . .	\$ 2,074,573	\$ 1,576,314
Less—Reserves for depreciation . . . . .	536,642	345,489
	\$ 1,537,931	\$ 1,230,825
Total Property and Equipment . . . . .	\$ 8,856,072	\$ 9,182,568
<b>DEFERRED CHARGES:</b>		
Prepaid insurance, etc. . . . .	\$ 334,767	\$ 96,120
Advances to employees . . . . .	82,106	89,194
Other . . . . .	541,095	169,694
	\$ 957,968	\$ 355,008
<b>EXTENSION AND DEVELOPMENT COSTS, in process of amortization to     July 4, 1952 . . . . .</b>	\$ 872,093	\$ 1,065,892
	\$26,549,417	\$28,371,248

(The accompanying notes are an integral part of these statements)



**AIRLINES, INC.  
COMPANIES**

**BALANCE SHEETS**

AND DECEMBER 31, 1946

**LIABILITIES**

	1947	1946 (Note 2)
<b>CURRENT LIABILITIES:</b>		
Notes payable to banks, 1½%, due March 3, 1947 (guaranteed by American Airlines, Inc.) . . . . .	\$ —	\$ 5,000,000
Accounts payable—		
Traffic balances . . . . .	749,730	372,320
Other trade accounts (\$595,890 and \$566,733 due to American Airlines, Inc.) . . . . .	937,685	1,568,639
Accrued salaries and wages . . . . .	427,434	492,978
Taxes payable—		
Federal income . . . . .	—	251,988
Other . . . . .	68,762	288,893
Other current and accrued liabilities . . . . .	1,777,143	1,374,294
<b>TOTAL CURRENT LIABILITIES . . . . .</b>	<b>\$ 3,960,754</b>	<b>\$ 9,349,112</b>
<b>UNEARNED TRANSPORTATION REVENUE, ETC. . . . .</b>	<b>\$ 1,715,553</b>	<b>\$ 1,670,186</b>
<b>LONG-TERM DEBT (Note 3):</b>		
Notes payable to banks, 3% . . . . .	\$ 3,000,000	\$ —
Subordinated notes payable, 3¾% due October 30, 1954 . . . . .	2,000,000	—
	<u>\$ 5,000,000</u>	<u>\$ —</u>
<b>RESERVES FOR AIRCRAFT AND ENGINE OVERHAUL . . . . .</b>	<b>\$ 732,831</b>	<b>\$ 438,471</b>
<b>CAPITAL STOCK AND SURPLUS:</b>		
Capital stock—par value \$1 per share—		
Authorized 3,000,000 shares		
Issued and outstanding 1,749,825 shares . . . . .	\$ 1,749,825	\$ 1,749,825
Paid-in surplus (no change during 1947) . . . . .	14,881,855	14,881,855
Earned surplus (deficit) (Note 1) . . . . .	( 1,491,401 )	281,799
Total capital stock and surplus . . . . .	<u>\$15,140,279</u>	<u>\$16,913,479</u>
	<u>\$26,549,417</u>	<u>\$28,371,248</u>

(The accompanying notes are an integral part of these statements)



**AMERICAN OVERSEAS AIRLINES, INC.  
AND SUBSIDIARY COMPANIES**

**STATEMENTS OF CONSOLIDATED PROFIT AND LOSS**

FOR THE YEARS ENDED DECEMBER 31, 1947 AND 1946

<b>OPERATING REVENUE:</b>	<u>1947</u>	<u>1946 (Note 2)</u>
Commercial operations—		
Passenger . . . . .	\$15,017,154	\$11,004,093
United States air mail (Notes 1 and 2) . . . . .	2,327,625	1,540,222
Foreign air mail . . . . .	788,118	1,858,734
Express and freight . . . . .	1,160,203	872,459
Excess baggage . . . . .	277,684	306,609
Other incidental revenue . . . . .	390,066	251,532
	<u>\$19,960,850</u>	<u>\$15,833,649</u>
Fixed fees under cost-plus-a-fixed-fee contracts . . . . .	235,170	86,384
Total operating revenue . . . . .	<u>\$20,196,020</u>	<u>\$15,920,033</u>
 <b>OPERATING EXPENSES:</b>		
Flying expense—		
Flying operations . . . . .	\$ 5,366,868	\$ 4,053,352
Flight equipment maintenance—direct . . . . .	2,800,794	1,582,501
Depreciation—flight equipment . . . . .	1,654,347	941,987
Total flying expense . . . . .	<u>\$ 9,822,009</u>	<u>\$ 6,577,840</u>
Ground expense—		
Ground operations . . . . .	\$ 2,706,188	\$ 1,832,468
Ground and indirect maintenance . . . . .	2,318,965	1,841,518
Passenger service . . . . .	1,451,012	1,161,475
Traffic and sales . . . . .	2,118,152	1,218,271
Advertising and publicity . . . . .	812,409	305,762
Provision for adjustment under cost-plus-a-fixed-fee contracts . . . . .	31,651	321,440
General and administrative . . . . .	2,427,790	1,779,536
Depreciation—property and ground equipment . . . . .	222,912	96,851
Total ground expense . . . . .	<u>\$12,089,079</u>	<u>\$ 8,557,321</u>
Total operating expense . . . . .	<u>\$21,911,088</u>	<u>\$15,135,161</u>
Gross profit or (loss) from operations . . . . .	(\$ 1,715,068)	\$ 784,872
 <b>OTHER DEDUCTIONS:</b>		
Amortization of extension and development costs . . . . .	\$ 195,052	\$ 200,154
Interest expense (net) . . . . .	57,659	82,523
Excess of insurance indemnity over net book value of aircraft lost . . . . .	—	( 129,477)
Other (net) . . . . .	57,409	( 31,454)
	<u>\$ 310,120</u>	<u>\$ 121,746</u>
Net profit or (loss) before Federal income taxes . . . . .	(\$ 2,025,188)	\$ 663,126
<b>PROVISION FOR FEDERAL INCOME TAXES . . . . .</b>	—	251,988
<b>CREDIT ARISING FROM 1947 LOSS CARRY-BACK . . . . .</b>	( 251,988)	—
Net loss in 1947 and net profit in 1946 . . . . .	<u>(\$ 1,773,200)</u>	<u>\$ 411,138</u>

( ) Denotes red figure

(The accompanying notes are an integral part of these statements)



**AMERICAN OVERSEAS AIRLINES, INC.  
AND SUBSIDIARY COMPANIES**

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**STATEMENT OF CONSOLIDATED  
EARNED SURPLUS (DEFICIT)  
FOR THE YEAR ENDED DECEMBER 31, 1947**

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Balance, January 1, 1947 per previous report (deficit) . . . . .	(\$ 431,710)
Adjustment of net profit for the year ended December 31, 1946 (Notes 1 and 2) . . . . .	<u>713,509</u>
Balance, January 1, 1947 as adjusted . . . . .	\$ 281,799
Net loss for the year ended December 31, 1947 . . . . .	<u>( 1,773,200)</u>
Balance, December 31, 1947 (deficit) . . . . .	<u><u>(\$1,491,401)</u></u>

(The accompanying notes are an integral part of this statement)

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**AMERICAN OVERSEAS AIRLINES, INC.  
AND SUBSIDIARY COMPANIES**

**NOTES TO FINANCIAL STATEMENTS**

(1) U. S. Mail Compensation:

In an order dated July 15, 1946, the Civil Aeronautics Board proposed a temporary rate for U. S. mail compensation of 75¢ per U. S. mail ton-mile effective on and after January 1, 1946. In an order dated October 16, 1947 the Board amended this temporary rate by an award of \$3,137,000 as compensation for the transportation of U. S. mail for the eighteen months ended June 30, 1947. Such award is equivalent to a rate of \$1.9582 per U. S. mail ton-mile flown during the period. In this same order the Board proposed a composite rate, effective on and after July 1, 1947, whereby the Company receives compensation at the temporary rate of (1) 75¢ per U. S. mail ton-mile between the United States and certain gateway points west of the European mainland and (2) 35¢ per airplane mile, computed without reference to base poundage, for all designated flights east of these gateways.

The amounts included as U. S. mail compensation for the years ended December 31, 1946 and 1947 are based upon the decision of the Civil Aeronautics Board dated October 16, 1947 described above. In cases pending before the Board, permanent U. S. mail rates will be fixed retroactive to January 1, 1945. The Company is presenting grounds for higher mail payments, including increase of the rate of \$1.50 per U. S. mail ton-mile awarded for the year 1945.

(2) Restatement of 1946 Financial Statements:

The consolidated balance sheet and statement of profit and loss for 1946 have been restated to reflect (1) an increase, \$949,847, in mail pay by reason of the order of the Civil Aeronautics Board referred to in Note 1, plus (2) a decrease, \$325,881, in depreciation provided on flight equipment as a result of a redetermination of the estimated service lives of such equipment, offset by (3) net increases, \$310,231 in operating expenses caused largely by retroactive salary increases granted to pilots in 1947 and retroactive adjustments to maintenance and other reserves. The effect of these restatements has been to change the loss of \$302,371 for the year 1946 previously reported to a profit of \$411,138 after provision for Federal income taxes.

(3) Long-term Debt:

On June 20, 1947 the Company negotiated a credit agreement with twelve banks by the terms of which funds to the extent of \$12,000,000 were made available for the purchase of capital equipment. The life of the credit agreement extends to April 30, 1949, or to a date 90 days after the date on which the Company shall have received delivery of the last of the Boeing aircraft presently contracted for, whichever is earlier. Interest on the unpaid balance of the loan accrues at 3% per annum plus a commitment fee of  $\frac{1}{4}$  of 1% per annum on the daily



average unused commitment of the banks. Loans under this agreement are evidenced by notes, the principal amount of which is payable in equal quarterly installments over a five year period from the credit expiration date.

On June 20, 1947 the Company also entered into an agreement with American Airlines, Inc. and American Export Lines, Inc. whereby funds in the aggregate amounts of \$3,750,000 and \$1,250,000, respectively, were made available. Loans under this agreement are evidenced by  $3\frac{3}{4}\%$  notes maturing October 30, 1954 and are subordinate to the loans from banks described above.

(4) Contingent Liabilities:

In connection with certain government contracts the Company is contingently liable for materials furnished thereunder, final accountability for which has not as yet been determined. The Company is also contingently liable for possible assessment of New York City sales tax. The Company believes that such ultimate liability will not be material in amount.

(5) Commitments for Capital Expenditures:

Commitments for expenditures amounted to approximately \$12,400,000 at December 31, 1947 principally for capital equipment, chiefly aircraft, of which it is expected that approximately \$9,100,000 will be paid in 1948. Proposed related expenditures for which the Company is not firmly committed amount to approximately \$2,000,000.





**ARTHUR ANDERSEN & CO.**

**67 WALL STREET  
NEW YORK 5**

*To the Board of Directors,  
American Overseas Airlines, Inc.:*

We have examined the consolidated balance sheet of American Overseas Airlines, Inc. (a Delaware corporation) and subsidiary companies as of December 31, 1947 and the statements of consolidated profit and loss and surplus (deficit) for the the year ended that date, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary, except that we were unable to secure direct confirmation of accounts receivable from Government agencies, with respect to which we were able to satisfy ourselves by other means. We had previously made a similar examination for the year ended December 31, 1946.

Except as affected by rates of compensation for transportation of United States mail, when finally determined, referred to in Note 1 to the accompanying financial statements, in our opinion, the accompanying consolidated balance sheets and related statements of profit and loss and earned surplus (deficit) present fairly the position of American Overseas Airlines, Inc. and subsidiary companies at December 31, 1947 and 1946 and the results of their operations for the years then ended, and are in conformity with generally accepted accounting principles applied consistently during the period under review.

ARTHUR ANDERSEN & CO.

New York, N. Y.,  
February 19, 1948.