

AMERICAN AIRLINES, INC. AND CONSOLIDATED SUBSIDIARY

FINANCIAL STATEMENTS

JULY 31, 1947

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8/20/47



AMERICAN AIRLINES SYSTEM

CABLE ADDRESS AMAIR

100 EAST 42nd STREET • NEW YORK 17, N. Y. • MURRAY HILL 3-9000

August 21st, 1947

To: THE DIRECTORS

Report on Business

Domestic

This summer has seen a continuation of the steady growth of seat miles flown by American Airlines, Inc., and has been accompanied by steadily increasing competition from other carriers. Despite an unsettled element in the economic situation and the effect of the Memorial Day accidents, which, I might add, has been felt longer than on any previous occasion, American has increased steadily in the number of passenger miles flown and the number of passengers carried, and has also increased its proportion of the traffic carried on certain competitive routes. This increase has been accomplished by offering more service with the DC-6 and intensified sales efforts on all flights, but in particular on the transcontinental and other special flights.

As of mid-August American appears to have passed the crux of the summer lull which was brought about by a public apprehension regarding air travel and at a time when we were adding new service quite rapidly. Business suffered in July as compared with June. However, the first fifteen days of August have shown a remarkable upsurge and the five days from the 15th to the 20th have been even better. We confidently expect this trend to continue and it will probably mark August as a record month in passengers carried and should certainly be a profitable month.

Although we do not have the figures for air cargo for the first fifteen days of August, we have continued to make marked increases in the number of pounds carried and August should be the highest month in our history for air cargo.

	<u>Traffic Statistics</u>		First 15 days <u>August</u>
	<u>June</u>	<u>July</u>	
Seat Miles	178,700,000	200,100,000	98,440,000
Passenger Miles	131,700,000	128,700,000	68,501,000
No. Passengers	244,000	253,000	143,671
Psgr. Load Factor	73.7%	64.3%	69.6%
Mail Ton Miles	565,000	572,000	*
Express Ton Miles	368,000	365,000	*
Airfreight Miles	779,000	841,000	*

*Figures not available.

Overseas

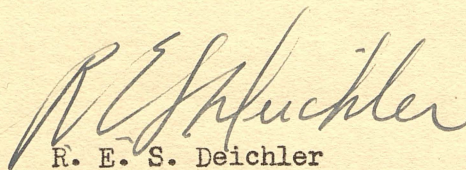
Distressing economic conditions in Europe, particularly England, and international tension have combined to make the overseas performance less satisfactory than had been expected. We anticipated the months of June, July and August would be very good eastbound. This moved back to the point where we had very good business from April 15th to July 15th, from which time the trend was downward.

During the month of July, earned revenues for the Company are estimated at \$2,598,000, 5.7% above the \$2,458,695 of June, although revenues per mile decreased from \$2.97 to \$2.93. Decreased eastbound passenger loads were experienced by AOA, together with all other North Atlantic carriers, somewhat sooner than had been anticipated. Passenger average eastbound during June was 34 per trip, a 97½% load factor, considered the maximum for good passenger handling. This declined to 28 during July, and has continued to drop to an average of 17½ for the week ending August 16th. Westbound loads, reflecting the return of passengers carried eastbound during the spring and early summer has risen to virtually 100% of passenger capacity and reports from Europe indicate that high passenger traffic may be anticipated through the fall and early winter months. It is anticipated that a lower load factor, such as we are now experiencing, will continue eastbound until next spring with the exception of certain tour parties and other special business which we are now soliciting. With reductions in schedules, overall load factor eastbound and westbound should remain about constant during the winter months.

Cargo business has not shown the increases anticipated eastbound since introduction of the air freighter service and during the month of July showed a decrease of 11% from the month of June. However, westbound cargo nearly doubled for the month of July reaching a total of 32,000 pounds compared to 17,000 in June, due largely to carriage of dogs from Germany, not possible before inauguration of air-freighter service. During the first 10 days of August eastbound cargo has increased to the June level with 25,360 pounds carried while westbound continues to increase with 17,800 pounds for the 10 days.

You will be interested to know that the overseas advertisement with the coupon attached has been very successful in eliciting inquiries and we feel that it will be of real help in bolstering our eastbound loads. A copy of the booklet mentioned in the ad will be sent to you in the next few days.

During the month of July sales meetings were held in the five regional cities and beginning with August an intensive advertising campaign has been started which is designed to continue the present upswing in business.



R. E. S. Deichler
Vice President - Sales



AMERICAN AIRLINES INC.

CABLE ADDRESS AMAIR

LA GUARDIA FIELD • NEW YORK AIRPORT STATION, N Y • HAVEMEYER 6-8800

TO: THE DIRECTORS

August 21, 1947

Douglas DC-6

To date, we have received our fourteen DC-6 sleeper type airplanes (operated currently as dayplanes and including two NX airplanes currently being modified to NC airplanes at Douglas) and seventeen DC-6 dayplanes. These airplanes are being routed through our Tulsa shops for certain modifications prior to operation, partly to expedite the initial operation and partly to accommodate last minute changes found desirable in early operation. A substantial program of such corrections and improvements has been developed by our operating experience to date and it has been found desirable to accept a temporary deferment of continued DC-6 deliveries beyond our thirty-first to accommodate the majority of such corrections and improvements in the factory program, prior to our acceptance of delivery. This program has been arranged with Douglas (involving a forty-two day delay in subsequent DC-6 deliveries) and is similar to a concurrent United program. According to this program, we will receive our next DC-6 on September 18, after which the gap will rapidly be closed so that not later than October 15, we will be back on the previous DC-6 delivery schedule. Subsequent airplanes are to be delivered as per previous schedule to a total of fifty not later than December 15. According to this program, it should be possible to have all our DC-6's in operation before the first of the year.

Last week we negotiated an arrangement believed to be fair to both parties, covering the costs and accomplishment of DC-6 corrections and improvements, both those contemplated under the contract warranty and those partly or entirely outside such provisions. According to this agreement, Douglas will bear all costs of warranty corrections whether accomplished at the factory by the return of the aircraft, or accomplished with their permission by AA in its shops. With respect to items of agreed joint responsibility, constituting partly corrections and partly improvements, negotiation resulted in Douglas' agreeing to accomplish such changes on undelivered aircraft and to provide kits for installation in already delivered aircraft, AA agreeing to bear the cost of the labor of installation in such delivered aircraft. Obviously, those items considered to be improvements over and above the contract and specifications will be subject to individual negotiation with AA bearing any resultant costs. A substantial program has also been arranged, leading to the early correction of such operating difficulties as have been experienced, the majority of which have been confined to the supercharging system. These supercharging and ventilating difficulties have been both annoying and expensive and Douglas is about to submit to us a proposal which contemplates a continued sharing of the costs of materials and overhaul, pending the demonstration of completely satisfactory performance and endurance. This, plus the competitive situation existing with other supercharged aircraft, should provide a distinct incentive for the most industrious efforts leading to early correction and improvement. Our difficulties in this field are largely matters of detailed mechanical design and workmanship, since we have repeatedly demonstrated that when the equipment is working properly, the results are very satisfactory. The failures to operate correctly have been all traceable to deficiencies of design, materials or workmanship in which we must, however, admit some joint responsibility due to the undeveloped state of the art. Other troubles of less comprehensive nature are, I believe, of a type to be anticipated in the early operation of any new airplane and are being corrected as



AMERICAN AIRLINES

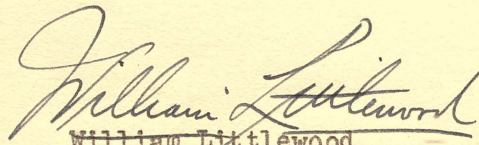
CABLE ADDRESS AMAIR

rapidly as possible. In general, the performance and operation of DC-6 aircraft has been very satisfactory. We are particularly pleased with the performance to date of our engines and propellers, the engines demonstrating equal quality with new and substantially more expensive engines, and the propellers operating with reversing as an accomplished and satisfactory feature, whereas competitive propellers are still without reversing ability.

Convair

The Convair situation is definitely disappointing with respect to delivery accomplishment, although the quality and usefulness of the eventual airplane remains assured. Consolidated-Vultee are finding their production difficulty in the final stages of engineering development of the innumerable details of design, shop techniques and assembly system which have, from my observation, always proven to be the critical times in the development of new aircraft, particularly by those inexperienced in such transport developments. Consolidated-Vultee is far ahead in the manufacture of fuselages, landing gears, wings, center sections, nacelles and all major units of the basic airplane. They have had to greatly slow down their production of these units to allow finished airplanes to start coming off the assembly line. The final completion of the airplanes, however, awaits the detailed design development and functional demonstration of innumerable matters such as door latches, cowl latches, front door and step operation, engine exhaust outlet and associated fairings, headlinings, passenger chairs and buffet details, etc., etc. Each of these units and details is well along toward completion but is not yet ready to release in fully satisfactory functional form and the delivery of airplanes must await the final releases to production and installation of these units. This is not an unanticipated condition nor one about which Consolidated-Vultee were not adequately advised. There is apparently, however, no substitute for experience, and that experience is now being acquired. The situation is frankly admitted by Consolidated-Vultee management and every effort is being made by them to reach an early solution of the problems. Meanwhile, the CAA flight testing program is proceeding and we have been unofficially assured that no characteristics are recognized which should impede the normal progress of such tests and the fairly early granting of an approved type certificate. We have currently negotiated the early availability of three NX airplanes which, admittedly, will be deficient in some of the functional refinements mentioned above, but which are now promised for delivery in September. Subsequently, it is believed that the first NC'd airplane with adequate correction of all anticipated deficiencies may be available about November 15. We should thereafter receive airplanes to an estimated eight by January 1, and an estimated six per month thereafter with some further acceleration possible by spring.

WL/**


William Littlewood

AMERICAN AIRLINES, INC. AND CONSOLIDATED SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

AT JULY 31, 1947, JUNE 30, 1947 AND JULY 31, 1946

ASSETS

	<u>July 31, 1947</u>	<u>June 30, 1947</u>	<u>July 31, 1946</u>
CURRENT ASSETS:			
Cash on hand and demand deposits	\$ 8,778,200.	\$ 7,148,270.	\$ 10,326,648.
Marketable securities (approximately market):			
U. S. Government	\$ 13,165,394.	\$ 15,062,981.	\$ 52,658,885.
Canadian Government	-	-	226,250.
	<u>\$ 13,165,394.</u>	<u>\$ 15,062,981.</u>	<u>\$ 52,885,135.</u>
Accounts Receivable:			
U. S. Government			
For the transportation of air mail	\$ 632,870.	\$ 634,550.	\$ 927,930.
For air travel, etc.	503,720.	556,406.	832,558.
For services performed at cost under war contracts	-	53,920.	634,999.
Air travel plan subscribers	3,066,288.	3,241,439.	2,867,885.
Airline companies and agents	7,932,900.	7,329,546.	4,013,576.
Intercompany accounts	58,767.	-	-
Other trade accounts	1,800,596.	2,148,222.	1,893,149.
Indebtedness of employees	172,300.	120,717.	130,290.
Federal tax refund receivable under "carry-back" provisions of the tax law	-	-	540,000.
	<u>\$ 14,167,441.</u>	<u>\$ 14,084,802.</u>	<u>\$ 11,840,389.</u>
Less: Reserve for doubtful accounts	111,529.	107,736.	128,065.
	<u>\$ 14,055,912.</u>	<u>\$ 13,977,066.</u>	<u>\$ 11,712,324.</u>
Inventories of materials and supplies	\$ 2,759,364.	\$ 2,678,438.	\$ 1,472,700.
Total Current Assets	<u>\$ 38,758,870.</u>	<u>\$ 38,866,756.</u>	<u>\$ 76,396,808.</u>
INVESTMENTS AND SPECIAL FUNDS:			
Investments in and advances to subsidiaries not consolidated:			
American Overseas Airlines, Inc. less reserve of \$225,671.	\$ 12,931,288.	\$ 14,281,288.	\$ 3,000,000.
Other, at cost	1,501,000.	1,501,000.	600,000.
Miscellaneous investments	339,884.	339,384.	177,192.
Deposits- acquisition of airplanes and engines:			
Cash	6,412,690.	6,813,940.	4,903,647.
U. S. Government Securities (approximately market)	156,000.	156,000.	5,256,788.
Other special deposits	144,087.	164,269.	185,645.
	<u>\$ 21,484,950.</u>	<u>\$ 23,255,882.</u>	<u>\$ 14,123,274.</u>
FEDERAL INCOME TAX ADJUSTMENT (For 1947 See Note 4)	\$ 2,015,000.	\$ 2,045,000.	\$ -
FLIGHT EQUIPMENT (INCLUDING SPARE PARTS AND ASSEMBLIES)	\$ 60,793,069.	\$ 59,442,285.	\$ 39,364,809.
Less: Reserve for obsolescence and depreciation	15,718,729.	15,672,314.	9,382,582.
	<u>\$ 45,074,339.</u>	<u>\$ 43,769,970.</u>	<u>\$ 29,982,226.</u>
LAND, BUILDINGS AND OTHER EQUIPMENT, AT COST	\$ 17,913,194.	\$ 17,296,804.	\$ 10,548,857.
Less: Reserve for depreciation	4,623,916.	4,481,577.	3,342,908.
	<u>\$ 13,289,277.</u>	<u>\$ 12,815,226.</u>	<u>\$ 7,205,948.</u>
LONG TERM OPERATING PROPERTY PREPAYMENTS	\$ 904,739.	\$ 909,623.	\$ 709,073.
DEFERRED CHARGES:			
Prepaid rents, insurance and other expenses	\$ 451,829.	\$ 428,814.	\$ 339,831.
Unamortized debenture discount and expenses	576,222.	579,517.	615,445.
Other deferred charges	2,040,866.	1,834,666.	564,946.
	<u>\$ 3,068,917.</u>	<u>\$ 2,842,997.</u>	<u>\$ 1,520,223.</u>
	<u>\$124,596,092.</u>	<u>\$124,505,457.</u>	<u>\$129,937,555.</u>

8/19/47

Explanatory Notes are Attached Hereto

AMERICAN AIRLINES, INC. AND CONSOLIDATED SUBSIDIARY

Page 1

CONSOLIDATED BALANCE SHEETS

AT JULY 31, 1947, JUNE 30, 1947 AND JULY 31, 1946

LIABILITIES, CAPITAL STOCK AND SURPLUS

	<u>July 31, 1947</u>	<u>June 30, 1947</u>	<u>July 31, 1946</u>
CURRENT LIABILITIES:			
Accounts payable	\$ 3,978,937.	\$ 4,326,252.	\$ 6,320,057.
Dividends declared - preferred stock	350,000.	-	-
Airline companies- traffic balances	8,188,914.	6,834,880.	4,115,344.
Intercompany accounts	-	1,315,167.	1,300,404.
Air travel plan subscribers' deposits	5,150,575.	5,193,075.	5,027,325.
Accrued salaries and wages	1,086,406.	752,567.	718,443.
Accrued Federal income taxes (1945 and prior years)	238,650.	238,650.	2,149,669.
Other accrued taxes	282,201.	466,896.	222,222.
Accrued interest on debentures	200,000.	100,000.	200,000.
Other accrued liabilities	1,097,606.	985,547.	1,154,626.
Total Current Liabilities	<u>\$ 20,573,292.</u>	<u>\$ 20,213,038.</u>	<u>\$ 21,208,093.</u>
UNEARNED TRANSPORTATION REVENUE	<u>\$ 830,169.</u>	<u>\$ 815,907.</u>	<u>\$ 656,262.</u>
3% SINKING FUND DEBENTURES - DUE JUNE 1, 1966	<u>\$ 40,000,000.</u>	<u>\$ 40,000,000.</u>	<u>\$ 40,000,000.</u>
RESERVE FOR TRANSITION TO PEACETIME OPERATIONS	<u>\$ 1,329,934.</u>	<u>\$ 1,330,928.</u>	<u>\$ 1,897,561.</u>
CAPITAL STOCK:			
Preferred stock, par value \$100 per share			
Authorized - 600,000 shares			
Issued and outstanding- 400,000 shares (3 1/2% Cumulative Convertible)	<u>\$ 40,000,000.</u>	<u>\$ 40,000,000.</u>	<u>\$ 40,000,000.</u>
Common stock, par value \$1 per share			
Authorized - 12,000,000 shares			
Issued and outstanding - 6,452,835 shares	<u>\$ 6,452,835.</u>	<u>\$ 6,452,835.</u>	<u>\$ 6,452,835.</u>
250,000 shares reserved for option expiring 6/1/50 at \$11.70 per share - 1,904,762 shares reserved for conversion of 3 1/2% Cumulative Convertible Preferred stock (at \$21 per share)			
Employees stock, par value \$1 per share			
Authorized - 500,000 shares			
Issued and outstanding - none	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SURPLUS			
Paid-in surplus	<u>\$ 6,159,653.</u>	<u>\$ 6,159,653.</u>	<u>\$ 6,267,434.</u>
Earned surplus			
Balance at beginning of year	\$ 12,520,391.	\$ 12,520,391.	\$ 13,422,302.
Net profit (loss)- year to date	2,220,179.	2,287,293.	33,064.
	<u>\$ 10,300,211.</u>	<u>\$ 10,233,097.</u>	<u>\$ 13,455,367.</u>
Less: Dividends declared on preferred stock	1,050,000.	700,000.	-
Total Earned Surplus	<u>\$ 9,250,211.</u>	<u>\$ 9,533,097.</u>	<u>\$ 13,455,367.</u>
Total Surplus	<u>\$ 15,409,865.</u>	<u>\$ 15,692,751.</u>	<u>\$ 19,722,801.</u>
	<u>\$124,596,092.</u>	<u>\$124,505,457.</u>	<u>\$129,937,555.</u>

Explanatory Notes are Attached Hereto

8/19/47

COMPARATIVE STATEMENT OF PROFIT AND LOSS

FOR THE MONTHS OF JULY 1947, JUNE 1947 AND JULY 1946
AND THE SEVEN MONTHS ENDED JULY 31, 1947 AND JULY 31, 1946

	July 1947	Cents Per Rev. Ton Mile	June 1947	Cents Per Rev. Ton Mile	July 1946	Cents Per Rev. Ton Mile	Seven Months Ended July 31, 1947	Cents Per Rev. Ton Mile	Seven Months Ended July 31, 1946	Cents Per Rev. Ton Mile
OPERATING REVENUES										
Passenger	\$6,446,540.	52.7	\$6,652,073.	52.5	\$5,352,538.	47.8	\$38,948,930.	49.5	\$30,218,352.	47.0
Mail	258,464.	45.2	255,926.	45.3	220,169.	45.5	1,866,243.	45.3	1,829,796.	45.1
Express	157,134.	43.1	142,796.	38.8	174,096.	55.5	1,096,147.	40.3	937,221.	41.1
Freight	229,941.	27.3	226,078.	29.0	141,407.	31.4	1,501,022.	28.9	691,998.	33.3
Excess baggage	73,684.	44.5	87,043.	51.0	60,441.	46.3	455,446.	44.5	357,092.	50.6
Charter and special- Passenger	14,637.	72.4	4,854.	20.9	1,110.	57.6	69,337.	41.2	5,227.	62.5
Charter and special- Freight	16,858.	24.4	29,479.	72.9	109,172.	18.0	826,451.	21.9	199,845.	17.0
Other transportation revenue	-	-	-	-	-	-	7,316.	-	-	-
Incidental revenue	25,141.	-	32,390.	-	19,108.	-	270,653.	-	146,759.	-
Total Operating Revenue	\$7,222,403.	50.7	\$7,430,643.	50.8	\$6,078,043.	46.1	\$45,011,548.	47.1	\$34,386,294.	46.1
OPERATING EXPENSES										
Flying operations	\$1,599,160.	11.2	\$1,429,950.	9.8	\$1,198,632.	9.1	\$10,147,429.	10.6	\$ 7,215,780.	9.7
Flight equipment maintenance- direct	796,583.	5.6	738,961.	5.0	655,402.	5.0	5,283,421.	5.5	3,527,011.	4.7
Depreciation- flight equipment	670,146.	4.7	752,102.	5.1	388,565.	2.8	4,765,578.	5.0	1,783,835.	2.4
Total Flying Expenses	\$3,065,890.	21.5	\$2,921,014.	19.9	\$2,222,600.	16.9	\$20,196,428.	21.1	\$12,526,627.	16.8
Ground operations	\$1,210,057.	8.5	\$1,138,454.	7.8	\$1,029,635.	7.8	\$ 8,325,134.	8.7	\$ 5,907,286.	7.9
Ground and indirect maintenance	636,921.	4.5	601,930.	4.1	672,466.	5.1	4,808,475.	5.0	3,503,778.	4.7
Passenger service	499,632.	3.5	534,645.	3.7	414,738.	3.1	3,620,706.	3.8	2,678,288.	3.6
Traffic and sales	728,150.	5.0	733,746.	5.0	669,565.	5.1	5,130,950.	5.4	4,456,651.	6.0
Advertising	77,525.	.6	79,334.	.5	102,674.	.7	528,867.	.6	814,096.	1.1
Publicity	90,598.	.7	131,837.	.9	48,004.	.4	645,673.	.7	332,716.	.4
General and administrative	575,772.	4.0	555,438.	3.8	563,726.	4.3	4,220,459.	4.4	3,392,685.	4.6
Depreciation- ground property and equipment	142,027.	1.0	138,638.	1.0	64,581.	.5	903,460.	.9	446,177.	.6
Total Ground Expenses	\$3,960,685.	27.8	\$3,914,026.	26.8	\$3,565,392.	27.0	\$28,183,728.	29.5	\$21,531,661.	28.9
Total Operating Expenses	\$7,026,575.	49.3	\$6,835,040.	46.7	\$5,787,993.	43.9	\$48,380,157.	50.6	\$34,058,288.	45.7
Net operating income	\$ 195,827.	1.4	\$ 595,602.	4.1	\$ 290,050.	2.2	\$ 3,338,609.	3.5	\$ 328,005.	.4
Non operating income	34,305.	.2	30,913.	.3	65,847.	.5	271,572.	.3	180,198.	.3
Gross Income	\$ 230,133.	1.6	\$ 626,516.	4.4	\$ 355,897.	2.7	\$ 3,067,036.	3.2	\$ 508,203.	.7
Deductions from Gross Income										
Portion of estimated expenses of transition to peacetime operations representing amount equivalent to Federal income tax credit resulting therefrom	\$ 6,590.	-	\$ 2,285.	-	\$ 9,602.	.1	\$ 356,004.	.4	\$ 522,625.	.7
Interest on bank loans and long term debt	100,000.	.7	100,000.	.7	100,000.	.8	700,000.	.7	272,291.	.4
Interest deferred	39,845.	.3	37,321.	.3	25,959.	.2	302,982.	.3	80,114.	.1
Other	66,274.	.5	40,691.	.4	57,442.	.4	415,121.	.4	300,336.	.4
Total Deductions from Income	\$ 133,018.	.9	\$ 105,654.	.8	\$ 144,084.	1.1	\$ 1,168,143.	1.2	\$ 1,015,139.	1.4
Net Income before Federal taxes	\$ 97,114.	.7	\$ 520,861.	3.6	\$ 214,813.	1.6	\$ 4,235,179.	4.4	\$ 506,935.	.7
Federal income tax credit resulting from loss for the period	30,000.	.2	175,000.	1.2	60,000.	.5	2,015,000.	2.1	540,000.	.7
NET PROFIT OR LOSS CARRIED TO SURPLUS	\$ 67,114.	.5	\$ 345,861.	2.4	\$ 154,813.	1.1	\$ 2,220,179.	2.3	\$ 33,064.	-
REVENUE MILES FLOWN	5,632,146		5,235,627		5,467,905		36,340,538		33,973,903	
REVENUE TON MILES FLOWN	14,255,905		14,615,908		13,186,310		95,668,531		74,561,752	
REVENUE PASSENGER MILES FLOWN	128,703,649		131,686,735		115,198,618		808,683,920		653,454,813	
REVENUE PASSENGERS CARRIED	252,588		243,767		225,478		1,542,522		1,220,660	

AMERICAN AIRLINES, INC. AND CONSOLIDATED SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

JULY 31, 1947

NOTE 1: The accompanying financial statements include American Airlines de Mexico, S.A., a wholly owned subsidiary, but do not include Sky Chops, Inc., Manhattan Air Terminals, Inc. (both wholly owned) or American Overseas Airlines, Inc. (61.8% owned).

American Overseas Airlines, Inc. on the basis of a temporary airmail rate of 75¢ per ton mile operated at a loss for the seven months ending July 31, 1947, the Company's proportionate share of which is not reflected in the attached statements. This subsidiary has pending before the Civil Aeronautics Board a request for adjustment of airmail rates for the years 1945, 1946 and 1947. The extent, if any, by which such airmail rates may be adjusted and its effect upon the Company's profit and loss statement is indeterminable at this time.

NOTE 2: The Company has commitments for the purchase of operating property and equipment approximating \$29,000,000. It is expected that \$14,000,000 thereof will be expended in the last five months of 1947 and \$15,000,000 in 1948.

The Company is guarantor of American Overseas Airlines, Inc. airplane purchase agreement involving a contingent liability of \$9,150,000 at July 31, 1947.

NOTE 3: Operating expenses for the seven months ended July 31, 1947 do not include costs and expenses of retraining and reassigning personnel returning from military services, or costs sustained in cancellation of the Republic Rainbow purchase contract, or profit or loss on disposal of superseded aircraft. The portion of such costs equivalent to the Federal income tax credit resulting from their deductibility for tax purposes was charged to profit and loss in the amount of \$356,004. and the balance in the amount of \$604,607. was charged to the reserve for transition to peacetime operations.

NOTE 4: The attached statements reflect an anticipated reduction in 1947 Federal income tax of \$2,015,000. computed at 38% of the loss on the tax basis for the seven months ended July 31, 1947. Should operations for the year result in a loss, the rate of the anticipated credit would be increased to approximately 48% due to the carry-back provisions of the Federal tax law as a refund on taxes paid for the year 1945.

NOTE 5: The financial statements include provision of \$165,935. for the estimated cost of overhauling DC-6 aircraft and engines, \$126,556 of which is reflected in operating expenses.

NOTE 6: During the seven months ending July 31, 1947 the Company deferred \$1,138,854. interest paid on debentures used for financing acquisition of equipment and facilities, and expense incurred in training of personnel for operation of new type airplanes. The interest is being capitalized as the equipment is placed in service, and the training expenses are being amortized over a period of four years. The Federal income tax credit includes \$432,765. resulting from the aforementioned deferred interest and training expenses.

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AMERICAN AIRLINES, INC.

Passenger, Mail, Express and Airfreight Statistics
July 1947

	<u>July 1947</u>	<u>July 1946</u>	<u>% Increase or Decrease</u>	<u>7 Months July 1947</u>	<u>7 Months July 1946</u>	<u>% Increase or Decrease</u>
Passengers						
Revenue Miles Flown in Passenger Service	5,377,060	5,250,807	2.4	33,003,982	32,683,989	1.0
Revenue Miles Flown - Total	5,632,146	5,406,022	4.2	34,359,140	33,912,020	1.3
Revenue Miles - DC-3	2,447,086	4,334,808	43.5	18,799,832	30,485,548	38.3
Revenue Miles - DC-4	2,113,735	1,071,214	97.3	14,870,514	3,426,472	334.0
Revenue Miles - DC-6	1,071,325	-	-	1,990,659	-	-
Revenue Passengers Carried	252,588	225,478	12.3	1,542,522	1,220,660	26.4
Revenue Passenger Miles Flown - Total	128,703,649	115,198,618	11.7	808,683,920	653,454,813	23.8
Revenue Passenger Miles - DC-3	31,374,475	71,303,346	56.0	237,716,892	512,655,112	53.6
Revenue Passenger Miles - DC-4	61,445,985	43,895,272	40.0	494,814,326	140,799,701	251.4
Revenue Passenger Miles - DC-6	35,883,189	-	-	76,152,702	-	-
Seat Miles Operated - Total	200,119,162	139,183,367	43.8	1,164,953,077	761,889,209	52.9
Seat Miles - DC-3	49,238,621	85,634,536	42.5	351,108,467	591,922,352	40.7
Seat Miles - DC-4	95,760,592	53,548,831	78.8	711,149,870	169,966,857	318.4
Seat Miles - DC-6	55,119,949	-	-	102,694,740	-	-
Passenger Load Factor - System	64.3	82.8	-	69.4	86.4	-
Passenger Load Factor - DC-3	63.7	83.3	-	67.7	87.2	-
Passenger Load Factor - DC-4	64.2	82.0	-	69.6	83.2	-
Passenger Load Factor - DC-6	65.1	-	-	74.1	-	-
Average Length of Haul Per Passenger	310	511	0.2	524	535	2.1
Mail						
Tons Carried	691	722	4.3	4,916	6,031	18.5
Ton Miles Flown	571,939	483,734	18.2	4,118,989	4,055,543	1.6
Express						
Tons Carried	814	675	20.6	5,913	4,518	30.9
Ton Miles Flown	364,686	313,497	16.4	2,721,030	2,280,813	19.3
Airfreight						
Tons Carried	1,624	809	100.7	9,398	3,437	173.4
Ton Miles Flown	840,844	449,932	86.9	5,198,132	2,077,646	150.2
Payload						
Average Revenue Load Carried Per Mile	5,052	4,653	8.6	5,133	4,285	19.8
Weight Load Factor	53.8	64.0	-	60.6	72.7	-

Red Figures denote decreases

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

FINANCIAL STATEMENTS

JULY 31, 1947

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

CONSOLIDATED BALANCE SHEETS

AS AT JULY 31, 1947, JUNE 30, 1947 AND JULY 31, 1946

ASSETS AND DEFERRED CHARGES

	<u>July 31, 1947</u>	<u>June 30, 1947</u>	<u>July 31, 1946*</u>
CURRENT ASSETS:			
Cash in banks and on hand	\$ 3,688,865.	\$ 1,984,769.	\$ 1,686,088.
U. S. Government Securities	\$ 1,497,475.	\$ -	\$ -
Accounts Receivable			
U. S. Government			
Services performed under contracts	\$ 3,427,464.	\$ 3,396,036.	\$ 2,453,550.
Less: advance payments received	2,386.	111,154.	1,357,827.
	\$ 3,425,078.	\$ 3,284,882.	\$ 1,095,723.
Less: reserve for adjustments on govt. contracts	298,353.	298,353.	189,150.
	\$ 3,126,725.	\$ 2,986,529.	\$ 906,573.
Transportation of air mail - U.S.	556,890.	1,067,341.	661,548.
Transportation of air mail - Foreign	1,083,414.	1,446,792.	1,753,836.
Air travel, etc.	243,478.	226,089.	260,729.
Traffic and express balances	1,330,157.	1,150,870.	547,036.
Due from employees	102,982.	113,656.	69,323.
American Airlines, Inc.		1,363,850.	1,290,197.
Other trade accounts	620,203.	551,540.	158,960.
Net Accounts Receivable	\$ 7,063,849.	\$ 8,906,667.	\$ 5,648,202.
Inventories- parts and supplies	\$ 1,216,993.	\$ 1,202,330.	\$ 548,840.
Other current assets	259,860.	271,734.	16,129.
Total Current Assets	<u>\$13,727,042.</u>	<u>\$12,365,500.</u>	<u>\$ 7,899,259.</u>
GOVT. CONTRACT ADVANCE PAYMENT ACCOUNT	\$ -	\$ -	\$ 1,000.
INVESTMENTS AND SPECIAL FUNDS			
Advance on purchase of aircraft and engines	\$ 2,839,722.	\$ 2,839,722.	\$ 1,359,593.
Other	249,709.	55,507.	42,907.
Total Investments and Special Funds	\$ 3,089,431.	\$ 2,895,229.	\$ 1,402,500.
FLIGHT EQUIPMENT, AT COST	\$10,118,941.	\$10,013,852.	\$ 8,075,966.
Less: reserve for depreciation	2,779,861.	2,556,847.	405,167.
Flight Equipment - Net	\$ 7,339,080.	\$ 7,457,005.	\$ 7,670,799.
BUILDINGS AND OTHER EQUIPMENT, AT COST	\$ 1,715,329.	\$ 1,660,402.	\$ 1,013,076.
Less: reserve for depreciation	453,604.	436,445.	315,776.
Buildings and Other Equipment - Net	\$ 1,261,725.	\$ 1,223,957.	\$ 697,300.
NON-OPERATING PROPERTY AND EQUIPMENT	\$ 74,229.	\$ 69,129.	\$ -
UNAMORTIZED EXTENSION AND DEVELOPMENT COSTS	\$ 952,843.	\$ 968,992.	\$ 1,146,641.
LONG TERM OPERATING PROPERTY PREPAYMENTS	\$ 13,443.	\$ 14,875.	\$ -
DEFERRED CHARGES:			
Prepaid rents, insurance and other expenses	\$ 194,892.	\$ 232,536.	\$ 185,731.
Other deferred charges	217,688.	207,011.	299,855.
Total Deferred Charges	\$ 412,580.	\$ 439,547.	\$ 485,586.
Total Assets and Deferred Charges	<u>\$26,870,373.</u>	<u>\$25,434,234.</u>	<u>\$19,303,085.</u>

* 1946 Figures restated to a basis comparable to 1947

Explanatory Notes are Attached Hereto.

8/15/47

CONSOLIDATED BALANCE SHEETS

AS AT JULY 31, 1947, JUNE 30, 1947 AND JULY 31, 1946

LIABILITIES, CAPITAL STOCK AND SURPLUS

	July 31, 1947	June 30, 1947	July 31, 1946*
CURRENT LIABILITIES			
Notes payable	\$ -	\$ -	\$10,000,000.
Accounts payable	208,036	112,710.	902,301.
Traffic balances payable	524,757.	425,992.	77,045.
Accrued salaries and wages	388,009.	286,367.	103,212.
Reserve for federal income taxes	-	-	320,114.
Other accrued taxes	49,941.	91,301.	148,238.
Accrued interest	241.	1,908.	60,833.
Advance - American Airlines, Inc.	58,735.	1,350,000.	-
Other accrued liabilities	1,989,114.	2,073,375.	1,494,266.
Total Current Liabilities	\$ 3,218,833.	\$ 4,341,653.	\$13,106,009.
LIABILITY FOR ADVANCE PAYMENT ON GOVERNMENT CONTRACT	\$ -	\$ -	\$ 1,000.
UNEARNED TRANSPORTATION REVENUE	\$ 3,242,816.	\$ 3,720,408.	\$ 1,579,711.
OTHER DEFERRED CREDITS	\$ 181,687	\$ 355,071.	\$ 256,177.
RESERVE FOR AIRCRAFT OVERHAUL.	\$ 302,092.	\$ 275,853.	\$ -
RESERVE FOR AIRCRAFT ENGINE OVERHAUL.	\$ 385,619.	\$ 339,645.	\$ -
LONG TERM DEBT - BANKS	\$ 3,000,000.	\$ -	\$ -
SUBORDINATED NOTES DUE OCTOBER 30, 1954	\$ 2,000,000.	\$ 2,000,000.	\$ -
CAPITAL STOCK			
Capital 1,749,825 shares at \$1 par value	\$ 1,749,825.	\$ 1,749,825.	\$ -
233,310 " " \$3 " "	-	-	699,930.
	\$ 1,749,825.	\$ 1,749,825.	\$ 699,930.
SURPLUS			
Paid-in Surplus	\$14,881,855.	\$14,881,855.	\$ 3,362,781.
Earned Surplus (deficit)			
Balance at beginning of year	\$ 431,710.	\$ 431,710	\$ 85,054
Net profit (loss)- year to date	1,660,644.	1,798,366.	382,531.
Total Earned Surplus	\$ 2,092,354.	\$ 2,230,076.	\$ 297,477.
Total Surplus	\$12,789,501.	\$12,651,779.	\$ 3,660,258.
Total Liabilities, Reserves and Capital	26,870,373.	\$25,434,234.	\$19,303,085.

* 1946 Figures restated to a basis comparable to 1947.

Explanatory Notes are Attached Hereto.

8/15/47

COMPARATIVE STATEMENT OF PROFIT AND LOSS

FOR THE MONTHS OF JULY 1947, JUNE 1947 AND JULY 1946
AND THE SEVEN MONTHS ENDED JULY 31, 1947 AND JULY 31, 1946

	July 1947	Cents Per Rev. Mile	June 1947	Cents Per Rev. Mile	July 1946*	Cents Per Rev. Mile	Seven Months Ended July 31, 1947	Cents Per Rev. Mile	Seven Months Ended July 31, 1946*	Cents Per Rev. Mile
OPERATING REVENUES										
Passenger	\$2,222,080.	250.7	\$2,135,300.	258.1	\$1,188,037.	321.5	\$ 9,004,231.	203.6	\$5,229,014.	260.9
Mail- U. S.	114,090.	12.9	107,360.	13.0	43,788.	11.9	740,035.	16.7	225,972.	11.3
Mail- Foreign	32,900.	3.7	54,711.	6.6	162,434.	44.0	548,608.	12.4	1,143,419.	57.1
Express and freight	69,453.	7.8	128,088.	15.5	50,916.	13.8	718,742.	16.2	339,549.	16.9
Excess baggage	37,491.	4.2	26,139.	3.2	34,054.	9.2	163,059.	3.7	167,752.	8.4
Charter and special	-	-	7,097.	.8	277.	-	13,268.	.3	18,620.	.9
Incidental revenue	43,994.	5.0	32,539.	3.9	29,572.	8.0	327,591.	7.4	83,750.	4.2
Total Operating Revenue	\$2,520,008.	284.3	\$2,491,234.	301.1	\$1,509,078.	408.4	\$11,515,534.	260.3	\$ 7,208,076.	359.7
OPERATING EXPENSES										
Flying operations	\$ 675,216.	76.2	\$ 542,789.	65.6	\$ 346,532.	93.8	\$ 3,181,004.	71.9	\$ 1,705,141.	85.1
Flight equipment maintenance- direct	283,445.	32.0	217,536.	26.3	80,393.	21.8	1,565,735.	35.4	501,503.	25.0
Depreciation- flight equipment	215,342.	24.3	186,863.	22.6	42,169.	11.4	1,289,450.	29.1	294,305.	14.7
Total Flying Expenses	\$1,174,003.	132.5	\$ 947,188.	114.5	\$ 469,094.	127.0	\$ 6,036,189.	136.4	\$ 2,500,949.	124.8
Ground operations	\$ 267,303.	30.1	\$ 215,132.	26.0	\$ 153,518.	41.5	\$ 1,544,123.	34.9	\$ 905,289.	45.2
Ground and indirect maintenance	171,327.	19.3	188,987.	22.8	130,506.	35.3	1,352,616.	30.6	793,288.	39.6
Passenger service	160,983.	18.2	126,306.	15.3	99,755.	27.0	843,380.	19.1	556,971.	27.8
Traffic and sales	284,015.	32.0	385,329.	46.6	177,831.	48.1	1,514,685.	34.2	585,877.	29.2
Advertising and publicity	93,123.	10.5	75,590.	9.1	19,537.	5.3	313,031.	7.1	177,374.	8.8
Provision for adjustments on govt. contract.	-	-	-	-	10,500.	2.8	8,504.	.2	58,150.	2.9
General and administrative	189,354.	21.4	201,519.	24.3	128,678.	34.8	1,308,384.	29.6	744,569.	37.2
Depreciation- ground equipment	18,597.	2.1	18,477.	2.4	8,576.	2.4	121,956.	2.7	39,506.	2.0
Total Ground Expenses	\$1,184,612.	133.6	\$1,211,340.	146.4	\$ 728,901.	197.2	\$ 7,006,679.	158.4	\$ 3,861,024.	192.7
Total Operating Expenses	\$2,358,615.	266.1	\$2,158,528.	260.9	\$1,197,995.	324.2	\$13,042,868.	294.8	\$ 6,361,973.	317.5
Net operating income (loss)	\$ 161,393.	18.2	\$ 332,706.	40.2	\$ 311,083.	84.2	\$ 1,527,334.	34.5	\$ 846,102.	42.2
Non operating income	3,218.	.4	5,096.	.6	19,783.	5.3	27,835.	.6	41,254.	2.1
Gross Income (loss)	\$ 164,611.	18.6	\$ 337,802.	40.8	\$ 330,866.	89.5	\$ 1,499,499.	33.9	\$ 887,356.	44.3
Deductions from gross income										
Extension and development costs	\$ 16,150.	1.8	\$ 16,302.	2.0	\$ 16,147.	4.4	\$ 114,234.	2.6	\$ 119,405.	5.9
Interest expense	5,832.	.6	1,378.	.2	-	-	16,323.	.4	-	-
Other	4,908.	.6	2,963.	.3	14,045.	3.8	30,588.	.7	67,420.	3.4
Total Deductions from Gross Income	\$ 26,890.	3.0	\$ 20,643.	2.5	\$ 30,192.	8.2	\$ 161,145.	3.7	\$ 186,825.	9.3
Net income (loss) before federal income taxes	\$ 137,721.	15.6	\$ 317,159.	38.3	\$ 300,674.	81.3	\$ 1,660,644.	37.6	\$ 700,531.	35.0
Provision for Federal income taxes	-	-	-	-	122,000.	33.0	-	-	318,000.	15.9
NET PROFIT (LOSS) TRANSFERRED TO SURPLUS	\$ 137,721.	15.6	\$ 317,159.	38.3	\$ 178,674.	48.3	\$ 1,660,644.	37.6	\$ 382,531.	19.1
REVENUE MILES FLOWN	886,484		827,297		369,502		4,423,514		2,004,089	
REVENUE PASSENGER MILES FLOWN	25,149,000		24,762,000		11,910,066		101,224,000		51,565,159	
REVENUE PASSENGERS CARRIED	9,012		8,651		3,480		35,037		14,713	

* 1946 Figures restated to a basis comparable to 1947

8/15/47

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

Notes to Financial Statements for July 31, 1947

(1) GOVERNMENT CONTRACT RECEIVABLE

The Provision for Adjustments on Government contracts is made on the basis of 3% of total charges incurred for the War Department in each month plus a net addition of \$58,399.56 during December 1946 representing estimated adjustments to be made in the Army contract charges. A reserve of \$298,353.04 has been provided for possible disallowances.

An allocation of the General and Administrative overhead has been made to the Hypo project prior to August 31 and to the Westover project since inception and is included in the above Accounts Receivable. The basis for allocation of this overhead is under discussion with the Contracting Officer and an unfavorable outcome could result in a loss estimated to be not in excess of \$90,000.00.

(2) U. S. MAIL PAY

A decision of the Civil Aeronautics Board fixed a temporary rate of compensation for the transportation of U. S. Mail for the year 1945 at \$1.50 per U. S. Mail ton-mile on a scheduled airport-to-airport statute mileage basis. In a case still pending before the Board, the Company is requesting that a higher permanent rate be established.

U. S. Mail pay has been accrued (for the period on and after January 1, 1946) at a rate of 75 cents per U. S. Mail ton-mile on a scheduled airport-to-airport statute mileage basis. This temporary rate is in accordance with the Civil Aeronautics Board Order E-186. The Company has requested that a permanent rate be established and that in the interim a higher temporary rate be established.

(3) COMMITMENTS

The Company has contracted with the Boeing Aircraft Company for the purchase of eight aircraft at a basic consideration of approximately \$10,600,000.00. Deposits totaling \$2,649,221.63 have been made in connection with this contract. Delivery of the latter aircraft is expected late in 1947 or early in 1948.

The Company is obligated for the purchase of 20 engines from Pratt & Whitney and five engines from American Airlines at a cost of \$962,466.10. The Company has made deposits in the amount of \$190,500.00 in connection with these contracts. In addition, the Company is committed for approximately \$3,200,000.00 for the purchase of engine parts, spare parts, tools and equipment relating to the Boeing Aircraft.

(4) DEPRECIATION POLICY

Property and equipment is being depreciated at various rates based on the estimated useful lives of the individual classes of such property. Improvements to leased property are being amortized over the period of the primary term of the lease.

Estimated service lives for the flight equipment in use are as follows:

	<u>Years</u>	<u>Residual Value</u>
Constellations		
Aircraft (including engines)	5	10%
Propellers, radio equipment, spare parts and assemblies	5	None
DC 4's		
Aircraft (including engines)	3	10%
Propellers, radio equipment, spare parts and assemblies	3	None
DC 4's Leased from Army		
Conversion Costs	1½*	None
DC 3's Purchased in 1946		
Aircraft, engines, propellers, radio equipment, spare parts and assemblies	To be fully depreciated Dec. 31, 1947	None
DC 3 Purchased from American Airlines in 1947		
Aircraft, engines, propellers, radio equipment, spare parts and assemblies	Fully depreciated on July 31, 1947	None
AT 6		
Aircraft, engines, propellers, radio equipment, spare parts and assemblies	Fully depreciated Dec. 31, 1946	None

*Primary term of lease

(5) EXTENSION AND DEVELOPMENT

Extension and development costs are being amortized over the period from the beginning of commercial operations, January 1, 1945 to July 4, 1952, the date upon which the company's present Certificate of Public Convenience and Necessity ceases to be effective.

(6) RETIREMENT BENEFIT PLAN

In December 1946 a payment of \$200,000 for prior service credits under the Employees' Pension Plan was made to John Hancock Mutual Life Insurance Company. An additional liability for prior service credits estimated at \$120,419 remains at July 31, 1947. Payments to meet this liability need not be made in near future.

(7) FOREIGN STATION ACCRUALS

Accruals for landing, transit, passenger and cargo, and other service fees at foreign airports amounting to \$630,530.00 included in Other Accrued Liabilities. These accruals, for the most part, are of necessity based upon estimates and are, therefore, subject to subsequent adjustment.

A billing for landing fees at Gander Airport for the period from October 1, 1945 to March 31, 1946 in the amount of \$21,840 has been received from the Newfoundland Government. The Company and two other international airlines are withholding payment on the contention that the Newfoundland Government is not entitled to fees during this period. Accruals totaling this amount had been made during the above mentioned period and are included in Other Accrued Liabilities.

(8) RETROACTIVE SALARY INCREASES

Negotiations now in process with respect to pilots salaries probably will result in salary increases retroactive to December 1, 1945. While the amount of these increases cannot be estimated accurately until conclusion of the negotiations, \$214,345.00 has been provided as a partial provision for these increases.

(9) SUBORDINATED INDEBTEDNESS

Subordinated notes shown on the balance sheet represent notes due to American Airlines, Inc. and American Export Lines in the amounts of \$1,500,000 and \$500,000 respectively under the terms of a subordination agreement dated June 20, 1947. Payment of these notes is subordinated to payment of any Bank Debt under the Credit Agreement.

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