



ANNUAL REPORT

AMERICAN OVERSEAS AIRLINES, INC.

YEAR ENDING
DECEMBER 31
1946



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



**1946 ANNUAL REPORT
TO THE STOCKHOLDERS OF
AMERICAN OVERSEAS
AIRLINES, INC.**

AMERICAN OVERSEAS AIRLINES, INC.



1948 ANNUAL REPORT
TO THE STOCKHOLDERS OF
AMERICAN OVERSEAS
AIRLINES, INC.

OFFICES:

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

Transfer Agent.....Manufacturers Trust Company, New York 15,
N. Y.

Registrar.....Commercial National Bank and Trust Com-
pany of New York, New York 15, N. Y.

General Counsel.....Douglas and Proctor, Washington, D. C.

AMERICAN OVERSEAS AIRLINES, INC.

DIRECTORS

W. H. COVERDALE	H. R. HARRIS
R. S. DAMON	C. W. JACOB
R. E. S. DEICHLER	J. E. SLATER
C. R. SMITH	

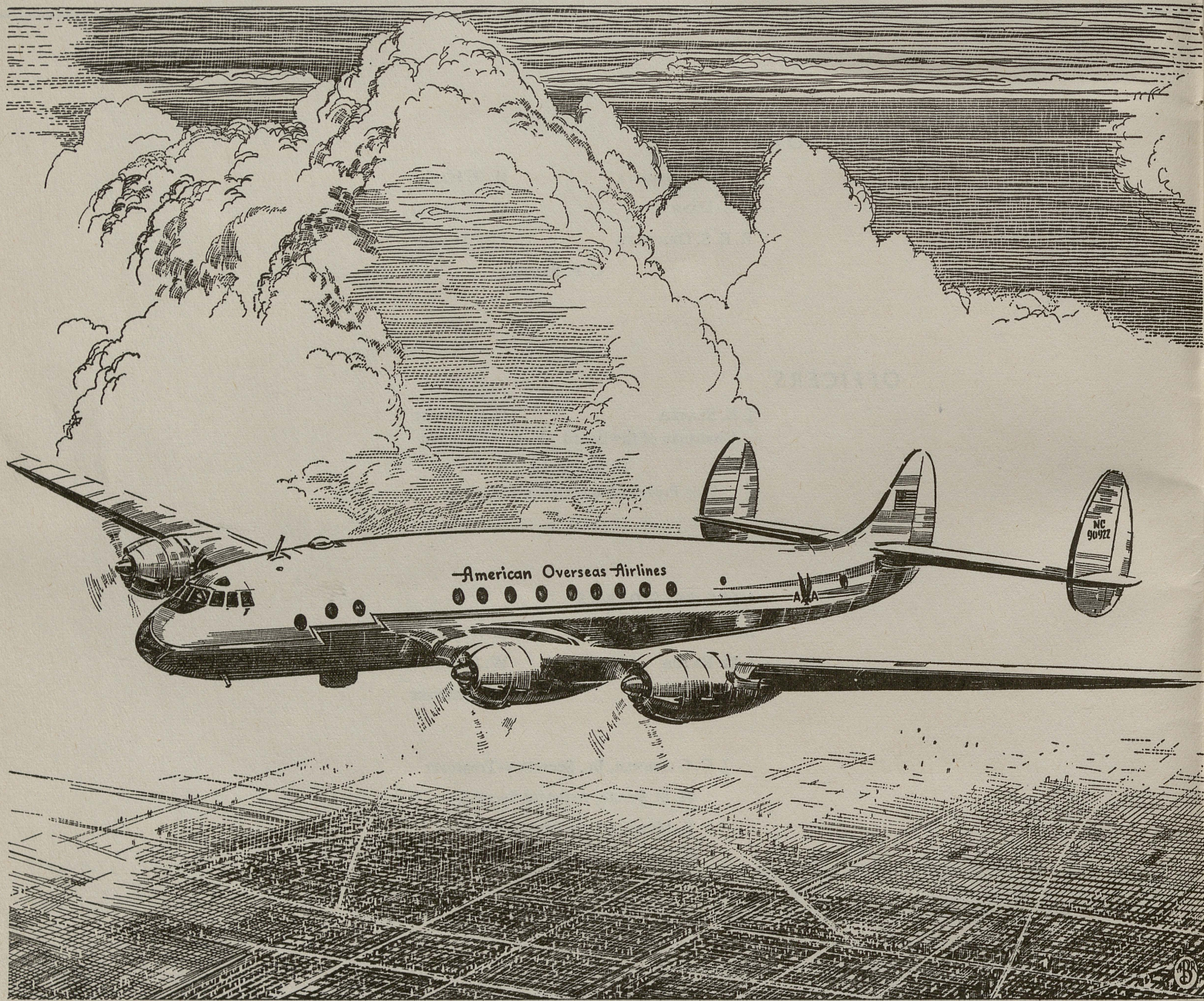
OFFICERS

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.	J. S. ROBBINS

J. C. GARDINER, JR., Secretary-Treasurer
H. D. STARR, Assistant Secretary
K. MURDOCH, Assistant Secretary
R. G. ROSE, Assistant Treasurer



Lockheed "Constellation"

REPORT TO THE STOCKHOLDERS

New York, New York
March 26, 1947

COMMERCIAL OPERATIONS

The 1945 Annual Report informed you that the company was awarded a Certificate of Convenience and Necessity by the Civil Aeronautics Board to engage in operations as an air carrier in service between the United States and several European countries.

As of January 1, 1946, services were in operation under this Certificate to Newfoundland, Eire, and the United Kingdom. On February 1, service was inaugurated to Denmark and Sweden and on February 19 to the Netherlands. On April 5, Norway was added to our Scandinavian service and on May 21, services were inaugurated to Germany. Services are now in operation, under this Certificate, to London, Shannon (Eire), Gander (Newfoundland), Amsterdam, Frankfurt, Berlin, Copenhagen, Oslo, Stockholm and Keflavik (Iceland). The Iceland service was inaugurated on March 17, 1947.

Necessary transit and landing rights have not yet been obtained permitting service to Russia, Poland, or Finland.

Immediately following this report is a statement of comparative statistics of progress of the company for the years 1942-1946, which graphically illustrates the increased activities of the company during 1946.

EQUIPMENT

The company is presently operating five Douglas DC-4 aircraft purchased from the War Assets Corporation. Five additional DC-4 aircraft scheduled in commercial service are leased from the War Department. The company during 1946 took delivery of seven "Constellation" aircraft purchased from the Lockheed Aircraft Corporation, three of which were placed into scheduled services during the year. It is expected that delivery of the eight Boeing "Stratocruisers" which the company has ordered will begin early in 1948.

MILITARY OPERATIONS

Transportation services for the United States Army Air Forces Air Transport Command, under Contract with the War Department, were terminated on January 31, 1947. During the period in which this Contract was in force, from November 14, 1944 to January 31, 1947, 2056 transatlantic crossings were performed and a total of 9,192,338 miles were flown. Vital supplies, personnel, mail and wounded soldiers were transported across the ocean both during and after the war in our military operations which provided service to North Africa, Italy, France, Germany, England, Scotland, Sweden, Denmark and Iceland. 93,867,204 passenger miles and 23,917,717 ton-miles were accomplished during the period of operations without the loss of a single life.

Certain other services are being performed for the War Department, and will continue.

CIVIL AERONAUTICS BOARD PROCEEDINGS

The Civil Aeronautics Board, in a decision rendered on May 17, 1946, denied our application for a Certificate of Convenience and Necessity to engage in operation as an air carrier in service between the United States, Bermuda and Puerto Rico. In a similar decision rendered August 13, 1946, our application to provide service to South America and South Africa was also denied.

The Civil Aeronautics Board on July 15, 1946 fixed a rate of \$1.50 per ton-mile for the transportation of United States mail for the year ended December 31, 1945. In an Order to Show Cause dated July 15, 1946, the Civil Aeronautics Board proposed a temporary rate of \$.75 per ton-mile for the transportation of United States mail to be effective on and after January 1, 1946. At the same time, the Civil Aeronautics Board indicated that it would not proceed to consider the final rate to be paid for the period on and after January 1, 1946 until adequate experience and operating data are provided on the basis of which a fair and reasonable final rate can be fixed.

EARNINGS

Operations for the year resulted in a net loss of \$302,371.22, based on what is believed to be a conservative policy in respect to creation of reserves, compared with the net loss of \$209,129.44 for the year 1945. Revenue for the carriage of U. S. mail during the year 1946 was accrued at the temporary rate of \$.75 per ton-mile set by the Civil Aeronautics Board for the period beginning January 1, 1946 pending the determination and establishment of a final rate. The company believes this rate to be inadequate and, in a hearing to be held in the future, will seek a higher rate which will be retroactive to January 1, 1946. In any event it is expected that the permanent rate will result in greater mail compensation.

It should also be noted that the rulings of the Civil Aeronautics Board when it established a rate of \$1.50 per ton-mile for the carriage of U. S. mail during the year 1945 had the effect of reducing the net profit of \$211,551.41 originally reported for the year 1945 to a net loss of \$209,129.44. This rate of \$1.50 per ton-mile is substantially below the rate at which the company accrued U. S. mail revenue during 1945. The company has requested rehearing and reconsideration of this rate and the request has been granted by the Civil Aeronautics Board.

Comparative financial statements for the years 1946 and 1945 certified by Arthur Andersen & Co., independent auditors, are attached.

SURPLUS

Paid-in surplus increased \$11,519,074.29 during the year. The reason for this increase was the issue of additional capital stock for consideration in excess of par value.

Earned surplus decreased \$346,656.97 during the year as reflected in the accompanying statement of earned surplus.

CHANGES IN CAPITAL STRUCTURE

On July 11, 1946 the stockholders of the company approved an amendment to the articles of incorporation splitting up the 1,000,000 authorized shares of capital stock, par value three dollars per share, three for one into 3,000,000 shares, par value one dollar per share. The effect of this amendment correspondingly changed each outstanding share into three shares, becoming effective on August 2, 1946 so that 699,930 shares were then outstanding.

On August 21, 1946, the company offered to the holders of its capital stock of record the right to subscribe for 1,049,895 shares of its authorized but unissued capital stock, in the ratio of one and one-half additional shares for each share held, at a price of \$12 per share. 540,000 shares were offered to American Airlines, Inc., as a stockholder, which that company agreed to purchase at the offering price. 509,895 shares were offered to other stockholders, including 252,000 shares to American Export Lines, Inc. and the latter company agreed to purchase 12,000 shares and to distribute to its shareholders of record the Subscription Warrants for 240,000 shares enabling them to take up one share of the stock of American Overseas Airlines, Inc. for each five shares of American Export Lines, Inc. stock held. American Export Lines, Inc. also agreed to take up all of the 240,000 shares not subscribed by its stockholders, while American Airlines, Inc. agreed to purchase such of the 257,895 remaining shares offered to stockholders of this company as were not subscribed for. With the approval of American Airlines, Inc. and American Export Lines, Inc., during the first four weeks after the expiration of the Subscription Warrants, the company offered to its Officers and Supervisory Personnel, at the offering price to the stockholders, an aggregate of 25,950 shares of capital stock not purchased pursuant to the exercise of the Subscription Warrants.

As a result of the foregoing, 721,079 shares were purchased by American Airlines, Inc., 175,708 shares were purchased by American Export Lines, Inc., 141,136 shares were purchased by other stockholders through the exercise of warrants and 11,972 shares were purchased by Officers and Supervisory Personnel. The proceeds to the company as a consequence of the foregoing was \$12,598,740 before deducting expenses in the amount of \$29,771. Thus at the end of the year, the total common shares issued and outstanding was 1,749,825, of which American Airlines, Inc. held 1,081,079 shares, or approximately 62 per cent.

ADDITIONAL CAPITAL REQUIREMENTS

To provide for interim capital requirements, the company borrowed \$10,000,000 at 1½% interest from banks on March 7, 1946. This short term bank loan was reduced to \$5,000,000 in August 1946 at the time of the issue and sale of additional common stock, and was completely retired on its due date in March 1947 through a temporary advance of \$3,000,000 at 3% interest from American Airlines, Inc. Plans for securing additional capital to defray the cost of aircraft now on order and other capital expenditures are under consideration by the management and directors.

ORGANIZATION

The number of employees at the end of 1946 was 3,930, but decreased to approximately 3,335 on March 15, 1947, primarily due to termination of the transportation activity for the U. S. Army Air Forces Air Transport Command.

A Retirement Benefit Plan for employees of the company was placed into effect on December 1, 1946. The plan provides for contributions by both the company and the employees.

During the year, Mr. Sumner Sewall resigned his position as President of the company, to accept a position with the Allied Military Government in Germany.

Mr. C. R. Smith was elected President in April, 1946, succeeding Mr. Sewall. He is Chairman of the Board of Directors and Chief Executive Officer of American Airlines, Inc.

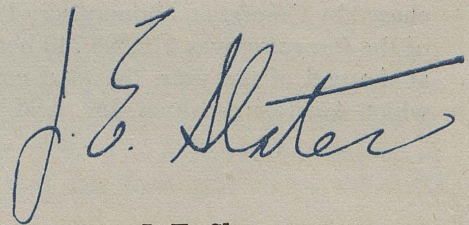
Mr. J. S. Robbins resigned his position as Vice President of Traffic to accept his present position of Vice President and European General Manager.

Mr. R. E. S. Deichler was elected Vice President of Traffic to replace Mr. Robbins. He is Vice President for Sales of American Airlines, Inc. to which he was elected after having previously served as Executive Assistant to the Chairman of the Board of that company and as its Vice President for Administration.

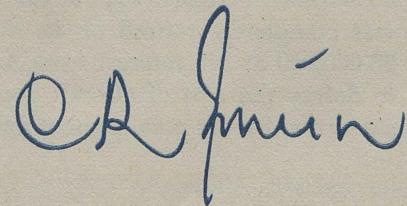
Mr. T. C. Drinkwater resigned his position as Vice President of this company to assume the Presidency of Western Air Lines.

Mr. C. W. Jacob, associated with American Airlines, Inc. for many years, was promoted from Secretary of that company to Vice President for both American Airlines, Inc. and this company, succeeding Mr. Drinkwater.

On the eve of the tenth anniversary of the incorporation of the company, the Board of Directors respectfully submits this review of the accomplishments in the expansion and development of the company during the last year, and wishes to express its gratitude to the stockholders for their continued support and to all employees for their cooperation and collective efforts in enabling the company to attain its present position in the air transportation industry.



J. E. Slater
Chairman of the Board



C. R. Smith
President

By order of the
Board of Directors
March 26, 1947

COMPARATIVE STATISTICS OF PROGRESS

YEARS 1942-1946

Operating Revenues:	1946	1945	1944	1943	1942
Passenger	\$11,004,092.54	\$1,928,544.73	\$ — ¹	\$ — ¹	\$ — ¹
Mail	2,449,108.85	1,845,218.39	— ¹	— ¹	— ¹
Express, Freight and Other	1,430,600.53	153,826.08	— ¹	— ¹	— ¹
Military Contract Fees	86,384.25	66,375.00	350,000.00	192,892.50	285,439.48
Total	14,970,186.17	3,993,964.20	350,000.00	192,892.50	285,439.48
Expenses and Federal Income Taxes ²	15,272,557.39	4,203,093.64	333,670.01	178,736.04	252,621.64
Net Profit (Loss) Carried to Surplus	(302,371.22)	(209,129.44)	16,329.99	14,156.46	32,817.84
Current Assets	14,652,114.96	4,250,791.41	1,032,025.59	1,283,966.07	846,681.75
Current Liabilities	8,909,678.59	3,091,951.80	529,221.28	731,961.98	401,340.25
Net Working Capital	5,742,436.37	1,158,839.61	502,804.31	552,004.09	445,341.50
Aircraft, Ground and Other Equipment (depreciated value)	8,856,686.62	1,365,467.28	69,716.35	94,285.34	104,918.74
Total Assets	27,104,056.61	7,244,415.04	2,747,927.85	3,037,338.11	2,559,923.59
Paid-In Surplus	14,881,855.14	3,362,780.85	317,390.00	267,890.00	260,000.00
Earned Surplus	(431,710.55)	(85,053.58)	104,369.54	88,039.55	107,249.56
Total Surplus	14,450,144.59	3,277,727.27	421,759.54	355,929.55	367,249.56
Common Stock Outstanding	1,749,825.00	699,930.00	251,478.00	241,578.00	240,000.00
Net Worth	16,199,969.59	3,977,657.27	673,237.54	597,507.55	607,249.56
Airplanes in Scheduled Service (at end of year)	13	6	2	2	2
Expenses per Revenue Mile Flown (Exclu- sive of Federal Income Taxes and Pro- vision for Possible Adjustments on Cost- Plus-A-Fixed-Fee Contracts):					
Expenses, before Provision for De- preciation, Obsolescence and In- terest	\$3.161	\$4.111	NC	NC	NC
Provision for Depreciation and Ob- solescence	\$.317	\$.149	NC	NC	NC
Interest	\$.019	\$.043	\$.080	\$.101	\$.296
Total	\$3.497	\$4.303	NC	NC	NC
Revenue Miles Flown ³	4,306,366 ⁴	946,232	769,467	650,387	318,900
Passengers per Revenue Mile Flown in Passenger Service ⁵	26.3	15.0	12.0	12.1	15.2
Passenger Seat Miles Flown ⁶	140,926,278	18,164,284	12,311,472 ⁶	10,406,192 ⁶	5,102,400 ⁶
Revenue Passenger Miles ^{3,5}	112,198,418	14,215,295	9,256,896	7,885,519	4,859,211
Passenger Load Factor ⁷	79.6	78.3	75.2 ⁶	75.8 ⁶	95.2 ⁶
Air Mail Ton-Miles ³	1,165,526	611,227	1,216,213	433,341	128,845
Air-Express-Freight Ton-Miles ³	1,134,102	70,198	104,525	250,518	47,046
Average Revenue Load Per Plane, per Mile (pounds):					
Passenger and Excess Baggage	5,749 ⁷	3,365	2,755	2,963	3,469
Mail	546 ⁷	1,292	3,161	1,333	808
Express-Freight	531 ⁷	148	272	770	295
Total	6,826 ⁷	4,805	6,188	5,066	4,572

NC—Not Comparable.
()—Denotes red figure

N O T E S

¹ Any such revenues received during this period accrued to the U. S. Government pursuant to contracts with such Government under which the Company was operating.
² Includes net of Other Income and Deductions.
³ 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 carried for 1946 would have been approximately 2% more than the amounts shown above if the "course mile" basis had been used.
⁴ Includes charter and other revenue flights.
⁵ Excludes infants not occupying seats.
⁶ Sixteen seats considered as available on each VS-44 aircraft.
⁷ Excludes charter and other revenue flights mileage.

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, 1946

ASSETS

	December 31	
	1946	1945*
CURRENT ASSETS:		
Cash, including working funds of \$176,961.88 and \$28,804.76	\$ 3,708,764.11	\$1,435,338.28
United States Treasury Bonds, 1¾%, at cost	\$ 3,029,283.09	\$ —
Accounts receivable—		
Due from U. S. Government—		
For services performed at cost under cost-plus-a-fixed-fee contracts (less advances of \$1,611,695.24 and \$1,398,178.83)	\$ 2,481,976.12	\$ 558,767.56
Less—Reserve	289,849.56	131,000.00
	\$ 2,192,126.56	\$ 427,767.56
For transportation of air mail—United States (Note 1)	1,025,951.25	435,576.00
For transportation of air mail—foreign	1,079,852.30	1,035,918.55
For air travel, etc.	242,864.96	261,435.83
Total due from U. S. Government	\$ 4,540,795.07	\$2,160,697.94
Other airline companies—traffic and express balances (\$613,482.26 due from American Airlines, Inc. at December 31, 1946)	985,703.55	288,223.90
Other trade accounts, etc.	1,431,896.56	164,262.59
Total accounts receivable	\$ 6,958,395.18	\$2,613,184.43
Inventories—parts and supplies, at cost	\$ 955,672.58	\$ 202,268.70
TOTAL CURRENT ASSETS	\$14,652,114.96	\$4,250,791.41
INVESTMENTS AND SPECIAL FUNDS:		
Advances on purchase of aircraft and engines	\$ 2,319,944.97	\$ 50,000.00
Other	45,506.88	59,310.70
	\$ 2,365,451.85	\$ 109,310.70
PROPERTY AND EQUIPMENT—At original cost:		
Flight equipment	\$ 8,945,169.40	\$1,087,420.01
Less—Reserves for depreciation	1,319,307.56	79,902.74
	\$ 7,625,861.84	\$1,007,517.27
Buildings and other equipment	\$ 1,576,313.99	\$ 628,221.17
Less—Reserves for depreciation and amortization	345,489.21	270,271.16
	\$ 1,230,824.78	\$ 357,950.01
	\$ 8,856,686.62	\$1,365,467.28
DEFERRED CHARGES:		
Prepaid rents, insurance, etc.	\$ 96,119.77	\$ 172,652.58
Other	67,792.06	86,503.28
	\$ 163,911.83	\$ 259,155.86
EXPERIMENTAL AND DEVELOPMENT COSTS, in process of amortization to July, 1952 (Note 2)		
	\$ 1,065,891.35	\$1,259,689.79
	\$27,104,056.61	\$7,244,415.04

*The above balance sheet for 1945 has been restated to give affect to adjustments mentioned in Note 2 to the financial statements.
The notes to financial statements are an integral part of the above balance sheets.

**AIRLINES, INC.
COMPANY**

BALANCE SHEETS

AND DECEMBER 31, 1945

LIABILITIES

	December 31	
	1946	1945*
CURRENT LIABILITIES:		
Notes payable to banks, 1½%, due March 3, 1947 (guaranteed by American Airlines, Inc.)	\$ 5,000,000.00	\$ —
Advances from American Airlines, Inc.	—	1,000,000.00
Accounts payable—		
Trade (\$566,732.52 due to American Airlines, Inc. at December 31, 1946)	1,568,638.71	893,027.79
Other airline companies—traffic balances payable	372,319.82	87,201.22
Accrued salaries and wages	305,533.00	97,528.54
Taxes payable—		
Federal income	—	2,114.12
Other	288,893.21	21,819.13
Other current and accrued liabilities	1,374,293.85	990,261.00
TOTAL CURRENT LIABILITIES	<u>\$ 8,909,678.59</u>	<u>\$3,091,951.80</u>
 UNEARNED TRANSPORTATION REVENUE	 <u>\$ 1,670,186.38</u>	 <u>\$ 174,805.97</u>
 RESERVES FOR AIRCRAFT AND ENGINE OVERHAUL	 <u>\$ 324,222.05</u>	 <u>\$ —</u>
 CAPITAL STOCK AND SURPLUS:		
Capital stock—		
Authorized 3,000,000 shares, par value \$1 per share, issued and outstanding 1,749,825 shares	\$ 1,749,825.00	\$ —
Authorized 1,000,000 shares, par value \$3 per share, issued and outstanding 233,310 shares	—	699,930.00
Paid-in surplus (see accompanying statement)	14,881,855.14	3,362,780.85
Earned surplus (deficit) (Notes 1 and 2) (see accompanying statement)	(431,710.55)	(85,053.58)
	<u>\$16,199,969.59</u>	<u>\$3,977,657.27</u>
	<u>\$27,104,056.61</u>	<u>\$7,244,415.04</u>

*The above balance sheet for 1945 has been restated to give affect to adjustments mentioned in Note 2 to the financial statements.

The notes to financial statements are an integral part of the above balance sheets.

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

STATEMENTS OF CONSOLIDATED INCOME

FOR THE YEARS ENDED DECEMBER 31, 1946 AND DECEMBER 31, 1945

OPERATING REVENUE:	<u>1946</u>	<u>1945*</u>
Commercial operations—		
Passenger	\$11,004,092.54	\$1,928,544.73
Mail—United States (Note 2)	590,375.25	435,576.00
Mail—foreign	1,858,733.60	1,409,642.39
Express and freight	872,459.42	79,919.58
Excess baggage	306,609.38	61,106.79
Other incidental revenue	251,531.73	12,799.71
	<u>\$14,883,801.92</u>	<u>\$3,927,589.20</u>
Fixed fees under cost-plus-a-fixed-fee contracts	86,384.25	66,375.00
Total operating revenue	<u>\$14,970,186.17</u>	<u>\$3,993,964.20</u>
 OPERATING EXPENSES:		
Flying expense—		
Flying operations	\$ 4,049,823.74	\$1,239,400.80
Flight equipment maintenance—direct	1,468,252.65	369,899.93
Depreciation—flight equipment	1,267,868.66	107,752.71
Total flying expense	<u>\$ 6,785,945.05</u>	<u>\$1,717,053.44</u>
Ground expense—		
Ground operations	\$ 1,648,551.34	\$ 392,835.23
Ground equipment maintenance—direct	313,247.23	55,937.92
Equipment maintenance—indirect	1,528,270.97	539,461.61
Passenger service	1,161,474.47	206,325.12
Traffic and sales	1,320,173.24	237,484.24
Advertising and publicity	305,762.29	133,675.77
Provision for adjustments under cost-plus-a-fixed-fee contracts (Note 1)	211,000.00	131,000.00
General and administrative	1,779,536.10	517,155.24
Depreciation—property and ground equipment	96,850.75	33,425.02
Total ground expense	<u>\$ 8,364,866.39</u>	<u>\$2,247,300.15</u>
Total operating expenses	<u>\$15,150,811.44</u>	<u>\$3,964,353.59</u>
Gross profit or (loss) from operations	<u>(\$ 180,625.27)</u>	<u>\$ 29,610.61</u>
 OTHER DEDUCTIONS AND (OTHER INCOME):		
Amortization of extension and development costs	\$ 200,154.34	\$ 193,798.44
Interest expenses	82,523.08	40,726.29
Excess of insurance indemnity over net book value of aircraft lost	(129,476.89)	—
Other (net)	(31,454.58)	4,215.32
	<u>\$ 121,745.95</u>	<u>\$ 238,740.05</u>
Net loss	<u>\$ 302,371.22</u>	<u>\$ 209,129.44</u>

*The above income statement for 1945 has been restated to give effect to adjustments mentioned in Note 2 to the financial statements.

The notes to financial statements are an integral part of the above income statements.

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

**STATEMENTS OF EARNED SURPLUS (DEFICIT)
AND PAID-IN SURPLUS**

FOR THE YEAR ENDED DECEMBER 31, 1946

EARNED SURPLUS—DEFICIT

Deficit, December 31, 1945 (Note 2)	\$ 85,053.58
Provision for aircraft and engine overhaul applicable to 1945	44,285.75
Deficit, December 31, 1945, as adjusted	<u>\$ 129,339.33</u>
Net loss for the year ended December 31, 1946	302,371.22
Deficit, December 31, 1946 (Note 1)	<u><u>\$ 431,710.55</u></u>

PAID-IN SURPLUS

Balance, December 31, 1945	\$ 3,362,780.85
Excess of sales price over par value of capital stock issued for cash, less \$29,770.71 expenses of issue	<u>11,519,074.29</u>
Balance, December 31, 1946	<u><u>\$14,881,855.14</u></u>

(The accompanying notes to financial statements are an integral part of the above statements)

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1946

(1) U. S. Mail Compensation:

The amount included as U. S. mail compensation for the year ended December 31, 1945, is in accordance with the decision of the Civil Aeronautics Board dated July 15, 1946 fixing a rate of \$1.50 per ton-mile. In arriving at the rate fixed, the Board (1) applied a rate of depreciation in respect to flying equipment based on a longer life than that adopted by the Company and (2) recognized for rate making purposes only \$695,378 of the extension and development costs and provided that such recognized costs should be amortized on the basis of 3% per annum of non-U. S. mail revenue which it was estimated would fully amortize such costs in seven years.

The amount included as U. S. mail compensation for the year ended December 31, 1946 is based upon the temporary rate proposed by the Civil Aeronautics Board of 75c per ton-mile to be effective on and after January 1, 1946, in an Order to Show Cause dated July 15, 1946. At the same time the Civil Aeronautics Board indicated that it would not proceed to consider the final rate to be paid for the period on and after January 1, 1946 until adequate experience and operating data are provided on the basis of which a fair and reasonable final rate can be fixed.

The Company considers the final award for 1945 inadequate and is opposing the Board's decision and order. The Company is also opposing the temporary rate proposed for the period on and after January 1, 1946 as inadequate. Among other objections to the temporary rate the Company will contest the appropriateness of using ton-miles as the basis for compensation.

(2) Restatements of Financial Statements:

The financial statements for 1945 have been restated to reflect the effect of the order of the Civil Aeronautics Board referred to in Note 1 above by (1) reducing mail pay \$1,023,597, (2) recording amortization of extension and development costs in the amount of \$193,798, (3) eliminating provision for contingencies, \$678,000 (effectively applying such provision, in accordance with the purpose thereof, to the reduction in mail pay and to the amortization of extension and development costs), and (4) eliminating income taxes, \$163,000, which (5) resulted in a reduction of net income of \$376,395.

The statement of consolidated income for 1945 has been further restated to reflect a retroactive provision of \$44,285.75 for aircraft and engine overhaul upon adoption of a reserve policy for such charges in 1946.

(3) Commitments For Capital Expenditures:

Commitments and proposed expenditures for capital equipment are estimated at \$17,500,000 as of December 31, 1946. It is expected that \$6,800,000 thereof will be paid in 1947 and \$10,700,000 (principally for aircraft) in 1948.

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 company as of December 31, 1946 and the statements of consolidated income and surplus for the year then ended, 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.

As stated in Note 1 of the accompanying financial statements, the Civil Aeronautics Board on July 15, 1946 fixed a rate for the transportation of United States mail for the year 1945 and set a temporary rate applicable to the year 1946. The Company considers these rates inadequate and is opposing the decision and order fixing the rate for 1945 and the temporary rate set for 1946 but pending final determination thereof has restated income for 1945 and has accrued income for 1946 in accordance with such rates.

Except as affected by the rates of compensation for transportation of United States mail referred to in the preceding paragraph, in our opinion, the accompanying consolidated balance sheet and related statements of income and surplus present fairly the position of American Overseas Airlines, Inc. and subsidiary company at December 31, 1946 and the results of their operations for the year then ended, and are in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

New York, N. Y.,
March 17, 1947.

