

McCarroll

AMERICAN AIRLINES, INC.
AND CONSOLIDATED SUBSIDIARY

FINANCIAL STATEMENTS
FOR
DIRECTORS' MEETING ON JANUARY 18, 1950

14050000 92 67 51-52-B

9444 Profit

+ 297,000

after taxes. 2,893,670 - 48

" " 6,410,000 + 49 net

9,303,670 Def

Ester.

41. Ave
348 Ave
24-27, 111

Agenda for Directors' Meeting

Summary of a Regular Meeting
of the Board of Directors of American Airlines, Inc.
held November 16, 1949

1. Approval of the minutes of the Directors Meeting of November 16, 1949

2. Report of the Finance Committee meetings
Carter, Cheston, Courcy, Fisher, Quincy and Smith.

3. Presentation of financial statements:

1. The minutes of the directors meeting held October 19, 1949 were approved.
 - a. American Airlines, Inc.

2. The Treasurer's statements of the corporation and of American Overseas Airlines, Inc.
4. Revision of AOA loan agreement

3. A report was submitted stating that management had approved capital expenditures totaling \$17,500 for the corporation and \$143 for American Overseas Airlines, Inc.
 - a. Those approved since last meeting:

1. The directors of American Airlines, Inc. approved \$44,473 for improvements to the first and seventh floors of the building at 100 Park Avenue.

American Airlines de Mexico	3,367	\$ 47,840
-----------------------------	-------	-----------

2. Conversion of 3 DC-6 sleepers for coach service \$156,400
3. 150 Propeller blades \$366,800

6. Mr. William E. Glasgow was elected an Assistant Treasurer of the corporation.
 - d. DC-6-B airplanes

6. Insurance

7. It was the consensus of the directors that no regular meeting

7. Consideration of dividend on Preferred Stock
(Record date February 15, payable March 1)

8. Lease - Nashville, Tennessee

9. Organization changes

10. Dallas accident

11. Legislative and regulatory developments

Summary of the Minutes of a Regular Meeting
of the Board of Directors of American Airlines, Inc.
held November 16, 1949

There were present at the meeting Directors Ames, Benedict, Butler, Carter, Cheston, Conroy, Evans, Farley, Fisher, Queeny and Smith.

1. The minutes of the previous meeting held October 19, 1949 were approved.
2. The Treasurer presented and explained financial statements of the corporation and of American Overseas Airlines, Inc.
3. A report was submitted showing that management had approved since the Directors Meeting held October 19, 1949, capital expenditures totaling \$127,641 for the corporation and \$143 for American Airlines de Mexico, S. A.
4. The directors authorized expenditure of \$227,492 for capital improvements to the sixth and seventh floors of the building at 100 Park Avenue, New York.
5. The Corporation Trust Company was appointed statutory agent to represent the corporation in Delaware and certain states where the company is qualified to do business.
6. Mr. Leland E. Glasgow was elected an Assistant Treasurer of the corporation and adjustments were made in the salaries of certain officers of the corporation.
7. It was the consensus of the directors that no regular meeting be held in December.

AMERICAN AIRLINES, INC. AND CONSOLIDATED SUBSIDIARY

FINANCIAL STATEMENTS

DECEMBER 31, 1949

INDEX

	<u>Page Number</u>
<u>American Airlines, Inc.</u>	
Consolidated Balance Sheets	1
Comparative Statement of Profit and Loss	2
Comparative Statement of Profit and Loss on Route FAM 26	3
Statement of capital expenditures which have been authorized by management since the last meeting of the Board of Directors on November 16, 1949	4
Passenger, Mail, Express and Airfreight Statistics	5
<u>American Overseas Airlines, Inc.</u>	
Consolidated Balance Sheets	6
Comparative Statement of Profit and Loss	7

UNAUDITED - PRELIMINARY
AMERICAN AIRLINES, INC. AND CONSOLIDATED SUBSIDIARY

Page 1

CONSOLIDATED BALANCE SHEETS

AT DECEMBER 31, 1949 AND DECEMBER 31, 1948

ASSETS

	Dec. 31, 1949	Dec. 31, 1948
CURRENT ASSETS:		
Cash	\$ 9,724,000	\$ 12,386,177
U. S. Government securities (short term) at cost	20,183,000	3,166,307
Accounts receivable (less reserve: 1949- \$138,000 1948- \$164,643)	12,968,000	12,112,405
Inventories of materials and supplies, at the lower of cost or market	1,085,000	1,662,924
Total Current Assets	\$ 43,962,000	\$ 29,327,813
INVESTMENTS AND SPECIAL FUNDS, AT COST:		
Investment in and advances to subsidiaries not consolidated:		
American Overseas Airlines, Inc.	\$ 11,669,000	\$ 13,169,783
Other	1,491,000	1,536,000
Special deposits	302,000	385,046
Miscellaneous investments	545,000	625,941
	\$ 14,009,000	\$ 15,716,770
FLIGHT EQUIPMENT, AT COST	\$ 69,685,000	\$ 81,880,544
Less: Reserve for obsolescence and depreciation	19,570,000	24,615,418
	\$ 50,114,000	\$ 57,265,126
LAND, BUILDINGS AND OTHER EQUIPMENT, AT COST	\$ 19,721,000	\$ 19,894,270
Less: Reserve for depreciation	8,081,000	6,920,057
	\$ 11,640,000	\$ 12,974,213
DEFERRED CHARGES:		
Unamortized debenture discount and expense	\$ 493,000	\$ 541,138
Prepaid rents, insurance, etc.	1,304,000	1,301,101
	\$ 1,798,000	\$ 1,842,239
	\$121,525,000	\$117,126,161

UNAUDITED - PRELIMINARY
AMERICAN AIRLINES, INC. AND CONSOLIDATED SUBSIDIARY

Page 2

LIABILITIES, CAPITAL STOCK AND SURPLUS

	Dec. 31, 1949	Dec. 31, 1948
CURRENT LIABILITIES:		
Accounts payable	\$ 12,805,000	\$ 11,638,216
Accrued salaries and wages	1,030,000	647,865
Accrued Federal income taxes less \$1,400,000 Tax Anticipation Notes	494,000	-
Other accrued liabilities	1,277,000	1,370,264
Air travel plan subscribers' deposits	5,035,000	4,978,450
Total Current Liabilities	\$ 20,642,000	\$ 18,634,795
UNEARNED TRANSPORTATION REVENUE	\$ 1,370,000	\$ 1,291,966
3% SINKING FUND DEBENTURES, DUE JUNE 1, 1966	\$40,000,000	
Less Debentures repurchased and held in Treasury	3,331,000	\$ 36,669,000
	\$ 36,669,000	\$ 40,000,000
CAPITAL STOCK:		
Preferred stock, par value \$100 per share:		
Authorized	600,000	
Issued & outstanding (3½% cumulative convertible)	400,000	\$ 40,000,000
Common stock, par value \$1 per share:		
Authorized	12,000,000	
Issued & outstanding	6,452,835	6,452,000
Reserved:		
For conversion of 3½% cumulative convertible preferred stock at \$21 per share	1,904,762	
For exercise of option expiring June 1, 1950 at \$11.70 per share	250,000	
Employees stock, par value \$1 per share:		
Authorized	500,000	
Issued & outstanding	None	
	\$ 46,452,000	\$ 46,452,835
SURPLUS:		
Paid-in	\$ 6,159,000	\$ 6,159,653
Earned:		
Balance at beginning of year	\$ 4,586,000	\$ 8,880,582
Portion of DC-6 grounding costs reimbursable to date	633,000	-
Net profit - year to date	6,410,000	2,893,670
	\$ 11,630,000	\$ 5,986,911
Less: Dividends paid - Preferred stock	1,400,000	1,400,000
Total Earned Surplus	\$ 10,230,000	\$ 4,586,911
Total Surplus	\$ 16,390,000	\$ 10,746,565
	\$121,525,000	\$117,126,161

COMPARATIVE STATEMENT OF PROFIT AND LOSS

FOR THE MONTHS OF DECEMBER 1949, NOVEMBER 1949 AND DECEMBER 1948

AND THE YEARS ENDED DECEMBER 31, 1949 AND DECEMBER 31, 1948

	Cents Per Rev. Ton Mile		Cents Per Rev. Ton Mile		Cents Per Rev. Ton Mile		Year Ended Dec. 31, 1949	Cents Per Rev. Ton Mile	Year Ended Dec. 31, 1948*	Cents Per Rev. Ton Mile
	Dec. 1949		Nov. 1949		Dec. 1948*					
OPERATING REVENUE:										
Passenger	\$6,159,000	58.7	\$6,764,673	57.5	\$6,668,138	59.0	\$88,073,000	58.5	\$ 76,643,832	59.1
Mail	628,000	56.6	449,910	61.7	644,710	54.8	5,555,000	61.3	4,769,376	58.0
Express	237,000	34.5	169,636	30.7	258,802	44.9	1,823,000	32.2	1,880,628	34.0
Freight	677,000	18.7	607,047	19.3	517,024	18.8	6,183,000	18.7	4,609,965	19.9
Excess baggage	71,000	56.6	73,736	60.0	76,185	56.0	1,040,000	56.1	874,652	51.9
Charter and special- Passenger	5,000	-	17,206	44.4	15,794	78.3	145,000	44.4	218,108	42.8
Charter and special- Freight	-	-	-	-	1,393	-	7,000	-	13,155	-
Incidental revenue	7,000	-	41,693	-	11,240	-	271,000	-	276,248	-
Total Operating Revenue	\$7,787,000	48.5	\$8,123,904	49.7	\$8,193,291	51.3	\$103,102,000	51.4	\$ 89,285,968	52.9
OPERATING EXPENSES:										
Flying operations	\$2,196,000	13.7	\$2,428,451**	14.9	\$2,157,488	13.5	\$ 24,779,000	12.4	\$ 22,015,268	13.0
Flight equipment maintenance- direct	1,009,000	6.3	1,060,835	6.5	912,610	5.7	11,747,000	5.9	10,054,580	6.0
Depreciation- flight equipment	768,000	4.7	742,995	4.5	748,107	4.7	8,588,000	4.2	10,271,622	6.1
Total Flying Expenses	\$3,974,000	24.7	\$4,232,283	25.9	\$3,818,206	23.9	\$ 45,115,000	22.5	\$ 42,341,470	25.1
Ground operations	\$1,354,000	8.4	\$1,204,260	7.4	\$1,415,335	8.8	\$ 14,920,000	7.4	\$ 15,256,744	9.0
Ground and indirect maintenance	673,000	4.2	628,906	3.8	443,849	2.8	7,594,000	3.8	7,467,813	4.4
Passenger service	397,000	2.5	534,109	3.3	634,219	4.0	5,987,000	3.0	6,074,486	3.6
Traffic and sales	853,000	5.3	767,968	4.7	735,706	4.6	9,451,000	4.7	8,414,259	5.0
Advertising and publicity	306,000	1.9	268,903	1.6	514,836	3.2	2,518,000	1.3	3,339,905	2.0
Social security taxes, retirement benefit plan, etc.	144,000	.9	155,382	.9	68,060	.4	1,914,000	1.0	1,904,334	1.2
General and administrative	296,000	1.9	356,687	2.2	490,848	3.1	4,399,000	2.2	4,476,576	2.6
Depreciation- ground property and equipment	53,000	.3	156,299	1.0	75,018	.5	1,795,000	.8	1,865,428	1.1
Total Ground Expenses	\$4,079,000	25.4	\$4,072,517	24.9	\$4,377,875	27.4	\$ 48,581,000	24.2	\$ 48,799,550	28.9
Total Operating Expenses	\$8,053,000	50.1	\$8,304,800	50.8	\$8,196,081	51.3	\$ 93,696,000	46.7	\$ 91,141,021	54.0
Net Operating Income or Loss	\$ 266,000	1.6	\$ 180,896	1.1	\$ 2,791	-	\$ 9,406,000	4.7	\$ 1,855,052	1.1
Income deductions (net)										
Interest expense	\$ 83,000	.5	\$ 100,000	.6	\$ 98,752	.6	\$ 1,209,000	.6	\$ 1,091,740	.6
Profit on debentures	261,000	1.6	-	-	-	-	261,000	.1	-	-
Other - net	17,000	.1	20,067	.1	12,109	.1	307,000	.1	53,122	-
Total Income Deductions (net)	\$ 195,000	1.2	\$ 79,932	.5	\$ 86,643	.5	\$ 1,255,000	.6	\$ 1,038,618	.6
Net Income before Federal taxes	\$ 71,000	.4	\$ 260,828	1.6	\$ 89,434	.5	\$ 8,150,000	4.1	\$ 2,893,670	1.7
Provision for Federal Income taxes	140,000	.8	60,000	.4	-	-	1,740,000	.3	-	-
NET PROFIT OR LOSS CARRIED TO SURPLUS	\$ 68,000	.4	\$ 200,828	1.2	\$ 89,434	.5	\$ 6,410,000	3.8	\$ 2,893,670	1.7
OPERATING EXPENSES PER AVAILABLE TON MILE	29.1		29.2		30.9		27.8		28.8	
REVENUE TON MILES FLOWN	16,070,119		16,351,888		15,975,998		200,471,102		168,847,567	
PERCENT WEIGHT LOAD FACTOR	58.1		57.4		60.1		59.4		53.1	
REVENUE PASSENGERS CARRIED	209,886		252,887		220,056		3,264,760		2,816,781	
REVENUE PASSENGER MILES FLOWN	107,289,124		120,983,465		116,137,050		1,569,460,673		1,437,869,883	
PERCENT PASSENGER LOAD FACTOR	55.4		59.6		63.1		64.6		60.4	
PERCENT OPERATING FACTOR	96.3		99.4		94.7		98.2		96.6	

* 1948 figures are restated to a basis comparable to 1949

** Includes \$435,000 resulting from the Dallas incident

COMPARATIVE STATEMENT OF PROFIT AND LOSS ON ROUTE FAM 26

FORT WORTH-DALLAS/MEXICO CITY-EL PASO/MEXICO CITY

FOR THE MONTHS OF NOVEMBER 1949, OCTOBER 1949 AND NOVEMBER 1948

AND THE ELEVEN MONTHS ENDED NOVEMBER 30, 1949 AND NOVEMBER 30, 1948

			Nov. 1949	Oct. 1949	Nov. 1948	Eleven Months Ended Nov. 30, 1949	Eleven Months Ended Nov. 30, 1948
OPERATING REVENUES:							
Passenger			\$229,902	\$251,823	\$238,919	\$3,017,375	\$2,596,539
Mail- U. S. Government			7,740	6,186	5,283	85,064	51,659
Mail- Foreign			5,565	5,981	3,653	72,343	51,032
Freight			19,182	19,153	23,597	204,410	264,625
Excess baggage			3,635	4,074	3,951	46,973	48,613
Charter and special- passenger			-	-	-	5,090	-
Freight- Mexican handling & valuation charges			3,317	2,436	2,217	26,558	66,183
Incidental income- Freight pick-up & delivery- net			671	398	1,482	8,350	3,368
Incidental income- Other			9,056	5,909	10,094	75,659	119,058
Total Operating Revenues			\$277,728	\$295,166	\$286,239	\$3,525,124	\$3,194,344
OPERATING EXPENSES							
Flying expenses	\$ 8,095	\$100,436	\$108,531	\$ 92,243	\$ 93,328	\$1,019,125	\$ 949,802
Flight equipment maintenance- direct	-	35,799	35,799	37,963	34,928	395,772	386,204
Depreciation- flight equipment	-	26,704	26,704	27,046	37,866	310,284	402,426
Total Flying Expenses	\$ 8,095	\$162,939	\$171,035	\$157,253	\$166,123	\$1,725,182	\$1,738,432
Ground operations	\$20,580	\$ 14,314	\$ 34,894	\$ 35,742	\$ 35,598	\$ 428,081	\$ 465,390
Ground and indirect maintenance	10,864	4,164	15,028	13,813	12,219	131,379	181,419
Passenger service	4,576	15,587	20,163	19,349	23,693	287,927	290,177
Traffic and sales	7,969	21,366	29,336	27,884	25,758	358,612	285,704
Advertising and publicity	4,738	-	4,738	3,836	6,495	54,748	55,139
General and administrative	15,832	8,417	24,250	21,336	22,439	247,651	264,689
Depreciation- ground property & equipment	9,583	1,139	10,722	9,975	10,386	114,367	118,465
Total Ground Expenses	\$74,145	\$ 64,989	\$139,134	\$131,938	\$136,591	\$1,622,768	\$1,660,987
Total Operating Expenses	\$82,240	\$227,929	\$310,170	\$289,191	\$302,714	\$3,347,950	\$3,399,419
Net operating income or loss			\$ 32,442	\$ 5,974	\$ 16,474	\$ 177,174	\$ 205,075
Profit on sale of equipment			-	86	-	1,171	6,231
			\$ 32,442	\$ 6,061	\$ 16,474	\$ 178,345	\$ 198,843
Deductions from Income:							
Foreign exchange Profit or Loss			\$ 37	\$ 437	\$ 10,119	\$ 29,432	\$ 24,940
Other deductions			183	298	412	202	14,175
Total Deductions			\$ 221	\$ 138	\$ 10,531	\$ 29,230	\$ 39,116
NET PROFIT OR LOSS BEFORE TAXES			\$ 32,220	\$ 6,199	\$ 5,942	\$ 149,115	\$ 237,960
OPERATING EXPENSES PER AVAILABLE TON MILE							
REVENUE TON MILES FLOWN			27.1	23.7	25.0	26.0	26.4
PERCENT WEIGHT LOAD FACTOR			621,167	715,564	563,641	7,793,062	6,265,955
REVENUE PASSENGERS CARRIED			54.3	58.8	46.6	60.5	48.6
REVENUE PASSENGER MILES FLOWN			6,317	6,945	5,654	79,417	60,182
PERCENT PASSENGER LOAD FACTOR			4,628,000	5,069,000	4,015,000	60,229,000	45,213,000
PERCENT OPERATING FACTOR			53.6	54.0	48.1	62.3	54.0
			100.0	100.0	87.8	99.9	89.8

AMERICAN AIRLINES, INC.

Page 4

Statement of capital expenditures which have been authorized by management since the last meeting of the Board of Directors on November 16, 1949 and which are herewith reported to the Directors.

<u>Description</u>	<u>Amount Authorized</u>
Installation of overspeed relay on all type 595 Hobart ground power generators	\$ 2,509
1 Two ton Chevrolet truck - Boston	3,400
Modernization of DC-6 and Convair maintenance training mock-ups	2,817
1 Model HL20 Hebard heavy duty tractor- Buffalo	4,500
1 Model 666 Hobart 600 amp generator - Washington	3,195
Installation of metal support - forward edge of seat cushions on remaining 52 Convairs	5,108
Installation of double windows in cabin of all Convairs	9,572
Four wheel drive truck with ice blade, reversible snow plow and other equipment - New York	9,774
Bookkeeping machine, calculator and filing equipment- Airfreight office, Newark	4,511
Installation of public address system on 4 high density DC-4's - Aircoach Service	3,940
Additional costs - 1 DC-6 elevator assy.	4,415
Modification of 20 Maintenance training mock-ups for Convair stratos pressurization training at Maintenance Bases	8,058
Construction and material costs - new CTO & Reservations at San Francisco	23,718
<u>140</u> Authorizations less than \$2,500	49,176
Cancellation of 10 hydraulic pumps	6,500
Cancels installation of footrests on Convairs	22,129
Cancels installation of public address system on Convairs	33,750
Cancels improvement test of cockpit heat and ventilation in Convairs	1,684
Cancels 13 #744 Curtiss propeller blades - DC-6	26,157
	<u>\$ 44,473</u>

AMERICAN AIRLINES DE MEXICO, S.A.

13 Authorizations less than \$2,500	<u>\$ 3,367</u>
-------------------------------------	-----------------

Passenger, Mail, Express and Airfreight Statistics

For the months of December 1949, November 1949 and December 1948
and the Years ended December 31, 1949 and December 31, 1948

	<u>Dec. 1949</u>	<u>Nov. 1949</u>	<u>Dec. 1948</u>	<u>Year Ended Dec. 31, 1949</u>	<u>Year Ended Dec. 31, 1948</u>
Revenue miles flown					
DC-3	-	-	449,370	471,461	13,803,048
DC-4 psgr. serv.	-	-	-	-	14,528,153
DC-6	2,664,122	2,661,250	2,533,097	32,555,682	21,429,685
Convair	1,678,909	1,791,211	893,861	21,007,590	4,623,829
DC-4 AC	25,795	-	-	25,795	-
DC-4 AF	402,373	364,937	764,493	4,218,290	3,518,001
Total rev. miles	4,771,199	4,817,398	4,640,821	58,278,818	57,902,716
Total miles flown	4,833,710	4,899,248	4,784,145	59,378,307	59,858,461
Rev. psgrs. carried	209,886	252,887	220,056	3,264,760	2,816,781
Rev. psgr. miles					
DC-3	-	-	5,078,971	4,539,031	157,548,981
DC-4 psgr. serv.	79,186	130,547	9,677,713	1,072,140	432,207,011
DC-6	74,106,198	80,788,017	82,583,624	1,088,727,105	666,290,038
Convair	32,462,489	40,064,901	18,796,742	474,481,146	96,996,734
DC-4 AC	641,251	-	-	641,251	-
Total	107,289,124	120,983,465	116,137,050	1,569,460,673	1,353,042,764
Seat miles operated					
DC-3	-	-	8,781,528	9,276,023	270,669,018
DC-4 psgr. serv.	241,799	270,287	17,542,054	1,866,019	720,326,936
DC-6	132,017,979	134,925,102	128,603,489	1,645,323,822	1,095,591,740
Convair	59,888,225	67,908,720	28,995,338	771,329,827	155,291,110
DC-4 AC	1,614,950	-	-	1,614,950	-
Total	193,762,953	203,104,109	183,922,409	2,429,410,641	2,241,878,804
Psgr. load factor					
DC-3	-	-	57.8	48.9	58.2
DC-4 psgr. serv.	32.7	48.3	55.2	57.4	60.0
DC-6	56.1	59.6	64.2	66.2	60.8
Convair	54.2	59.0	64.8	61.5	62.5
DC-4 AC	39.7	-	-	39.7	-
System	55.4	59.6	63.1	64.6	60.4
Ton miles flown- mail	1,111,161	729,508	1,175,760	9,057,965	8,210,043
Ton miles flown- express	688,044	552,417	577,020	5,581,082	5,529,695
Ton miles flown- freight	3,632,855	3,143,526	2,752,419	32,981,422	23,204,517
Payload avg. rev. load carried per mile (lbs)	6,736	6,783	7,392	6,885	6,151
Weight load factor	58.1	57.4	60.1	59.4	53.1
Operating factor	96.3	99.4	94.7	98.2	96.6

UNAUDITED - PRELIMINARY
AMERICAN OVERSEAS AIRLINES, INC. AND SUBSIDIARY COMPANY

Page 6

CONSOLIDATED BALANCE SHEET

AT DECEMBER 31, 1949 AND DECEMBER 31, 1948

ASSETS

	Dec. 31, 1949	Dec. 31, 1948*
CURRENT ASSETS:		
Cash	\$ 3,152,000	\$ 3,573,423
U. S. Government securities	1,996,000	5,000,000
Accounts receivable	3,008,000	6,506,623
Inventories of materials and supplies	297,000	246,376
Total Current Assets	\$ 8,453,000	\$11,326,422
 INVESTMENTS AND SPECIAL FUNDS:		
Equipment purchase advances	\$ 347,000	\$ 2,774,221
Miscellaneous investments and deposits	62,000	65,167
	<u>\$ 409,000</u>	<u>\$ 2,839,388</u>
 FLIGHT EQUIPMENT, AT COST	\$23,403,000	\$12,518,467
Less: Reserve for obsolescence and depreciation	<u>5,412,000</u>	<u>3,770,620</u>
	\$17,991,000	\$ 8,747,846
 BUILDINGS AND OTHER EQUIPMENT, AT COST	\$ 1,603,000	\$ 1,467,004
Less: Reserve for depreciation	<u>544,000</u>	<u>467,559</u>
	\$ 1,059,000	\$ 999,445
 DEFERRED CHARGES:		
Prepaid rents, insurance, etc.	\$ 1,225,000	\$ 472,163
	<u>\$29,137,000</u>	<u>\$28,385,267</u>

LIABILITIES, CAPITAL STOCK AND SURPLUS

	Dec. 31, 1949	Dec. 31, 1948*
CURRENT LIABILITIES:		
Notes payable - banks	\$ 700,000	\$ 300,000
Accounts payable	687,000	1,045,003
Accrued salaries and wages	183,000	19,558
Accrued Federal income tax	1,087,000	1,156,795
Other accrued liabilities	708,000	1,248,982
Total Current Liabilities	\$ 3,365,000	\$ 3,770,339
 UNEARNED TRANSPORTATION REVENUE	\$ 1,429,000	\$ 1,616,637
 RESERVE FOR FOREIGN EXCHANGE CONVERSION	\$ 134,000	\$ 310,000
 RESERVE FOR AIRCRAFT AND ENGINE OVERHAUL	\$ 750,000	\$ 402,380
 LONG TERM DEBT:		
Banks	\$ 7,000,000	\$ 3,000,000
Less: installments due within one year included in current liabilities above	<u>700,000</u>	<u>300,000</u>
	\$ 6,300,000	\$ 2,700,000
Subordinated notes due October 30, 1954	<u>-</u>	<u>2,000,000</u>
	\$ 6,300,000	\$ 4,700,000
 CAPITAL STOCK AND SURPLUS:		
Capital stock \$1 par value per share		
Authorized - 3,000,000 shares		
Issued and outstanding - 1,749,825 shares	\$ 1,750,000	\$ 1,749,825
 Paid-in surplus	\$14,882,000	\$14,881,855
 Earned surplus		
Balance at beginning of year (adjusted to reflect additional mail pay awarded for prior years)	\$ 954,000	\$ 392,306
Net profit - year to date	<u>427,000</u>	<u>561,922</u>
Total Earned Surplus	\$ 527,000	\$ 954,229
Total Capital Stock and Surplus	\$17,159,000	\$17,585,909
	<u>\$29,137,000</u>	<u>\$28,385,267</u>

* 1948 figures are restated to a basis comparable to 1949

1/16/50

UNAUDITED - PRELIMINARY
AMERICAN OVERSEAS AIRLINES, INC. AND SUBSIDIARY COMPANY
COMPARATIVE STATEMENTS OF CONSOLIDATED PROFIT AND LOSS
FOR THE MONTHS OF DECEMBER 1949 AND DECEMBER 1948
AND THE YEARS ENDED DECEMBER 31, 1949 AND DECEMBER 31, 1948

Page 7

	December 1949			December 1948 *			Year Ended Dec. 31, 1949			Year Ended Dec. 31, 1948 *		
	Amount	Cents Per Revenue Plane Mile	Cents Per Available Ton Mile	Amount	Cents Per Revenue Plane Mile	Cents Per Available Ton Mile	Amount	Cents Per Revenue Plane Mile	Cents Per Available Ton Mile	Amount	Cents Per Revenue Plane Mile	Cents Per Available Ton Mile
OPERATING REVENUES:												
Passenger	\$ 911,000	191.3	30.1	\$1,278,870	182.8	40.9	\$15,480,000	200.3	38.9	\$15,412,943	192.6	40.5
U. S. Mail	342,000	71.8	11.3	314,583	45.0	10.1	4,187,000	54.2	10.5	3,775,000	47.2	9.9
Mail - Foreign	156,000	32.7	5.2	250,586	35.8	8.0	1,397,000	18.1	3.5	904,751	11.3	2.4
Express and freight	154,000	32.3	5.1	160,940	23.0	5.2	1,812,000	23.4	4.5	1,546,461	19.3	4.1
Excess baggage	22,000	4.6	.7	35,831	5.1	1.2	219,000	2.8	.6	292,136	3.7	.8
Charter and special	11,000	2.3	.4	263,021	37.6	8.4	265,000	3.4	.7	1,282,671	16.0	3.4
Incidental revenue	11,000	2.3	.4	-	-	-	97,000	1.3	.2	160,703	2.0	.4
Total Operating Revenues	\$1,607,000	337.3	53.2	\$2,303,834	329.3	73.8	\$23,457,000	303.5	58.9	\$23,374,668	292.1	61.5
OPERATING EXPENSES:												
Flying operations	\$ 623,000	130.8	20.7	\$ 624,409	89.2	20.0	\$ 6,956,000	90.0	17.5	\$ 6,027,467	75.3	15.9
Flight equipment maintenance- direct	370,000	77.7	12.2	211,069	30.2	6.8	2,774,000	35.9	7.0	2,852,404	35.6	7.5
Depreciation- flight equipment	291,000	61.1	9.6	213,255	30.5	6.8	2,289,000	29.6	5.7	1,608,171	20.1	4.2
Total Flying Expenses	\$1,284,000	269.6	42.5	\$1,048,733	149.9	33.6	\$12,019,000	155.5	30.2	\$10,488,043	131.0	27.6
Ground operations	\$ 244,000	51.2	8.1	\$ 287,955	41.2	9.2	\$ 2,741,000	35.5	6.9	\$ 2,852,868	35.6	7.5
Ground and indirect maintenance	197,000	41.4	6.5	236,619	33.8	7.6	1,690,000	21.9	4.2	1,588,070	19.8	4.2
Passenger service	57,000	12.0	1.9	117,752	16.8	3.8	1,260,000	16.3	3.2	1,213,498	15.2	3.2
Sales	195,000	40.9	6.5	253,363	36.3	8.1	2,461,000	31.8	6.2	2,336,320	29.2	6.1
Advertising and publicity	55,000	11.5	1.7	73,231	10.5	2.3	1,188,000	15.4	3.0	876,946	11.0	2.3
Social security taxes, Retirement benefit plan, etc.	12,000	2.5	.4	94,233	13.5	3.0	202,000	2.6	.5	173,082	2.2	.5
General and administrative	117,000	24.6	3.9	159,816	22.8	5.1	1,868,000	24.2	4.7	1,880,826	23.5	5.0
Depreciation- ground property and equipment	32,000	6.7	1.1	41,426	5.9	1.3	258,000	3.2	.6	243,705	3.0	.6
Total Ground Expenses	\$ 909,000	190.8	30.1	\$1,075,932	153.8	34.5	\$11,668,000	150.9	29.3	\$11,165,318	139.5	29.4
Total Operating Expenses	\$2,193,000	460.4	72.6	\$2,124,665	303.7	68.1	\$23,687,000	306.4	59.5	\$21,653,362	270.5	57.0
Net Operating Income (Loss)	\$ 586,000	123.0	19.4	\$ 179,168	25.6	5.7	\$ 230,000	2.9	.6	\$ 1,721,306	21.5	4.5
Income Deductions (net)												
Extension and development	\$ -	-	-	\$ 32,597	4.7	1.0	\$ -	-	-	\$ 391,168	4.9	1.0
Interest expense	31,000	6.5	1.0	20,366	2.9	.7	184,000	2.4	.5	236,333	3.0	.6
Interest capitalized	2,000	.4	.1	7,629	1.1	.2	133,000	1.7	.3	172,216	2.2	.5
Other - net	63,000	13.2	2.1	355,164	50.7	11.4	146,000	1.9	.3	483,613	6.0	1.3
Total Income Deductions (net)	\$ 30,000	6.3	1.0	\$ 359,766	51.4	11.5	\$ 197,000	2.6	.5	\$ 938,898	11.7	2.4
Net Income (Loss) before Federal Income taxes	\$ 616,000	129.3	20.4	\$ 180,597	25.8	5.8	\$ 427,000	5.5	1.1	\$ 782,408	9.8	2.1
Provision for Federal Income taxes	57,000	12.0	1.9	220,485	31.5	7.1	-	-	-	220,485	2.8	.6
NET PROFIT (LOSS) TRANSFERRED TO SURPLUS	\$ 559,000	117.3	18.5	\$ 401,083	57.3	12.9	\$ 427,000	5.5	1.1	\$ 561,922	7.0	1.5
REVENUE MILES FLOWN	476,340			699,634			7,729,974			8,003,247		
REVENUE TON MILES FLOWN	1,885,298			2,151,411			25,162,951			23,253,022		
PERCENT WEIGHT LOAD FACTOR	62.4			68.9			63.1			61.1		
REVENUE PASSENGERS CARRIED	8,263			6,332			95,303			75,620		
REVENUE PASSENGER MILES FLOWN	11,842,000			13,798,000			180,861,000			172,604,000		
PERCENT LOAD FACTOR	56.3			63.9			60.3			61.7		
AVAILABLE TON MILES	3,021,408			3,123,078			39,846,502			38,011,285		

* 1948 figures are restated to a basis comparable to 1949



ANNUAL
REPORT

AMERICAN OVERSEAS AIRLINES, INC.

YEAR ENDED
DECEMBER 31
1948



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

AMERICAN OVERSEAS AIRLINES, INC.

DIRECTORS

T. W. Bowers
R. E. S. Deichler
H. M. Gillespie
H. R. Harris
J. A. Jackson
C. W. Jacob
O. M. Mosier
C. R. Smith

OFFICERS

PRESIDENT

C. R. Smith

VICE-PRESIDENT & GENERAL MANAGER

H. R. Harris

VICE-PRESIDENT & COMPTROLLER

W. J. Hogan

VICE-PRESIDENTS

R. E. S. Deichler
L. G. Fritz
C. W. Jacob
W. Littlewood
O. M. Mosier
R. W. D. Smith, Jr.

ASSISTANT

VICE-PRESIDENTS

J. G. Flynn, Jr.
W. H. Miller

SECRETARY- TREASURER

G. Titsworth

ASSISTANT SECRETARY & ASSISTANT TREASURER

K. Murdoch

ASSISTANT TREASURER

C. A. Jervis

ASSISTANT SECRETARY

M. L. Cardman

OFFICES:

General Offices : 100 East 42nd Street, New York 17, New York
Corporate Office . . 129 South State St., 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 Debevoise, Plimpton & McLean,
New York 5, N. Y.

REPORT TO THE STOCKHOLDERS

March 18, 1949

Operations

The year 1948 marked the fourth year of American Overseas commercial operations. In all respects the year was the best experienced to date. The Company transported a total of 75,620 revenue passengers, an increase of 26.6% over 1947. Air mail ton miles and air express ton miles increased 8.5% and 40.9% respectively over 1947.

The operating performance record continued excellent. The dependability of the Company's operations was attested to by the completion of 95.7% of the miles scheduled. In 1948, revenue miles flown exceeded 8,000,000, an increase of 8.6% over 1947.

Operations in 1948 were highlighted by the Company's participation in the Frankfurt-Berlin airlift. The Berlin blockade was instituted late in June 1948, and as of February 23, 1949, the Company had transported more than 19,000 passengers, 4,200 tons of cargo and 265 tons of German internal mail between Frankfurt and Berlin. In the same period, 130 charter flights were operated between the United States and Germany for the Military authorities.

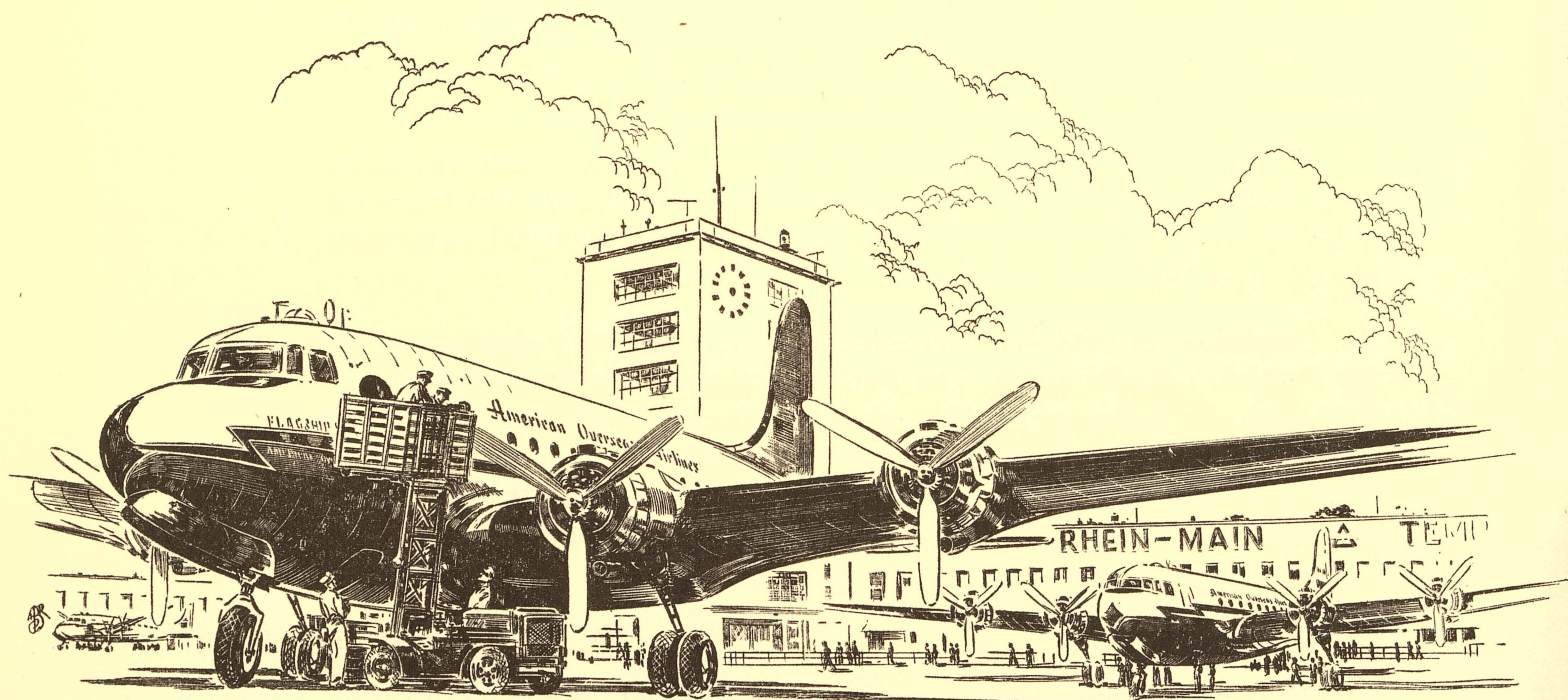
Services and Equipment

The Company now provides service to all countries for which it is certified with the exception of Poland and Russia, for which points permission to operate has not yet been secured.

The Company had 17 aircraft in revenue operation at the end of 1948; seven Lockheed Constellations, nine Douglas DC-4's, and one Douglas DC-3. Of the nine DC-4's, four are leased to us.

The first of eight Boeing Stratocruisers is expected to be delivered in April with the remaining seven to be received prior to October 31, 1949. It is presently anticipated that the first Stratocruiser will be placed in revenue service on or about August 15, 1949.

**Operations in 1948 were highlighted by the
Company's participation in the Frankfurt-Berlin airlift**



FLAGSHIPS LOADING AT FRANKFURT

The contract for the operation of Keflavik Airport, Iceland was terminated during the year. The Iceland Airport Corporation, one of our subsidiary companies organized to operate the airport, was sold to the Lockheed Aircraft Company.

Earnings

Operations for the year resulted in a profit of \$990,877 after provision for Federal Income Tax, compared with a loss of \$1,773,200 for 1947. The figures for both years are based on temporary rates of compensation for carrying U. S. mail and are subject to revision upon determination by the Civil Aeronautics Board of permanent rates.

The principal factors accounting for improved results in 1948 are increased revenues resulting from an increase in the temporary mail compensation, higher passenger fares, revenues resulting from participation in the Berlin airlift, charter operations for the U. S. Government between Germany and the U. S. and lower expenses largely attributable to the integration of certain functions of the Company with similar functions of American Airlines, Inc. Revenues per mile flown increased 7.3%, from \$2.74 in 1947 to \$2.94 in 1948.

The Company flew more miles and provided more service in 1948 and at the same time reduced total operating expenses. The reduction in expense was largely brought about by consolidation of ground activities of the Company in the United States with those of American Airlines, Inc. Total operating expenses were \$2.71 per mile in 1948 as compared with \$2.97 in 1947, a reduction of 8.8%.

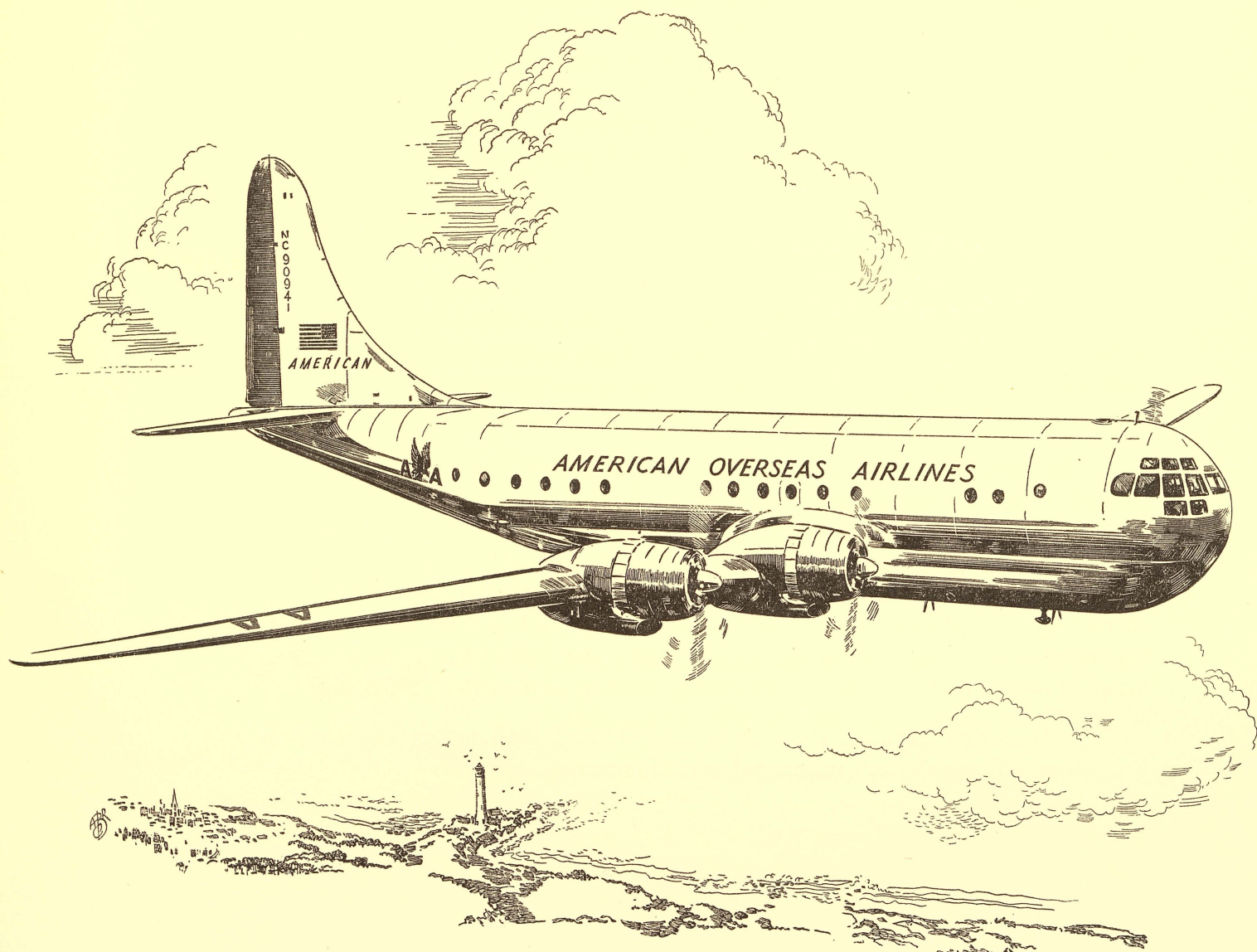
Comparative financial statements for 1947 and 1948 certified by Arthur Andersen & Company are submitted with this report.

Mail Rate Proceedings

The Civil Aeronautics Board during the year concluded the case for the determination of compensation to be paid the Company for the carriage of U. S. mail for the year 1945 by awarding the Company \$173,691 more than the amount already received. The increased compensation, together with the re-statement of the amortization of the Company's extension and development expenses to the same basis used by the Board for the determination of the rate, results in a profit for 1945 rather than the loss previously reported.

Luxurious, new addition

to the Flagship Fleet



THE BOEING "STRATOCRUISER"

For the period after January 1, 1946 temporary rates of compensation remain in effect. The temporary rate was revised effective January 1, 1948, increasing the return per U. S. mail ton mile from the equivalent of \$1.50 in 1947 to \$2.38 in 1948.

Proceedings are still pending for the determination of final rates to be paid the Company after January 1, 1946. The Company has presented its case, holding that it is entitled to final rates of compensation for the transportation of U. S. mail which are substantially in excess of the temporary rates under which it has been operating since January 1, 1946. The Civil Aeronautics Board has indicated publicly that it expects to resolve these cases in the near future.

Capital

There were no changes in the capital structure of the Company during 1948. American Airlines, Inc. is the owner of approximately 62% of the outstanding shares, American Export Lines, Inc. owns approximately 20%, and the remainder, approximately 18%, is owned by other shareholders.

The loan agreement made with a group of twelve banks, which we discussed in our Annual Report of last year, has been modified: 1. By extension of the credit expiration date from April 30, 1949 to October 29, 1949; 2. By reduction in the total amount from \$12,000,000 to \$10,000,000. Delayed delivery of the Boeing aircraft is responsible for the change in expiration date. A review of cash requirements indicates that not more than \$10,000,000 will be required and the total of the loan commitment has been reduced to that amount. No additional funds were drawn down from the loan during the year. \$3,000,000, borrowed in 1947, is still outstanding.

The Company also has outstanding \$2,000,000 in notes maturing October 30, 1954. This amount, borrowed in 1947 against a maximum credit as amended of \$4,000,000 from American Airlines, Inc. and American Export Lines, Inc., is subordinate to loans under the credit agreement. Under certain conditions additional borrowings may be made from such companies.

Organization

At February 28, 1949, there were 1,287 employees on the Company payroll, 480 in the United States and 807 overseas. The total of 1,287 compares with 1,722 on December 31, 1947. The reduction in the number of employees

is largely the result of the aforementioned integration of certain functions of the Company with similar functions of American Airlines, Inc.

Mr. J. E. Slater, one of the organizers of the Company, resigned as Director and Chairman of the Board. Mr. T. W. Bowers, a Director of American Export Lines, Inc., was elected to replace him as Director. Mr. R. S. Damon resigned as Director and Vice-President. Mr. O. M. Mosier, Vice-President of American Airlines, Inc., was elected a Director replacing Mr. Damon. Mr. G. Titsworth was elected Secretary-Treasurer vice Mr. H. D. Starr, resigned.

Further integration of services with American Airlines was accomplished during the year and as a result thereof the following were elected officers of American Overseas, all of them holding comparable positions of responsibility with American Airlines, Inc.: Messrs. W. J. Hogan, L. G. Fritz, O. M. Mosier, R. W. D. Smith, Jr. and W. H. Miller.

Outlook

Earnings of the Company are largely dependent on the adequacy of rates of compensation for carrying U. S. mail. To date final mail rates have been established only for 1945 and the Company is awaiting determination of rates for 1946, 1947 and 1948. It is anticipated that such rates, when established, should have the effect of increasing the earnings already reported for 1946 and 1948 and of reducing the loss reported in 1947. The governmental policy of determining mail rates retroactively is decidedly unsatisfactory and the Company is urging the Civil Aeronautics Board to prescribe a realistic permanent mail rate, effective January 1, 1949, that will afford incentive and a more adequate basis for planning and conducting the business.

Operating losses during the first quarter of 1949, based on temporary mail rates, were not as great as in the comparable period of 1948. The immediate outlook continues favorable and profitable operation during the spring and summer is anticipated.

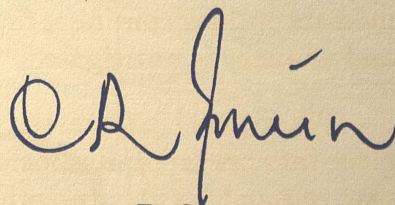
After many unforeseen delays in delivery, the Company this year will place into operation its Boeing Stratocruisers. In addition to American Overseas, one and possibly two other competing carriers will operate Stratocruisers across the North Atlantic this year. It is inevitable that the introduction of new and advanced type aircraft brings with it new problems. These problems will be many and varied. The Stratocruiser, with a 50% greater seating capacity than the Constellation, will be a more expensive aircraft to operate.

Intensive sales and a greater traffic volume will be required to produce satisfactory load factors and operating results. It is problematical whether these new aircraft can be operated profitably without still further increased mail pay.

Contract With Pan American Airways, Inc.

As you were informed by letter under date of January 10, 1949, the Company on December 13, 1948 entered into an agreement with Pan American Airways, Inc. whereby all its assets would be transferred to Pan American in consideration of the assumption of all its liabilities and the issuance of stock of Pan American in accordance with an accounting formula based essentially upon the book value of the shares of this Company and the shares of Pan American as of December 31, 1948. The contract is conditioned upon the approval of the transaction by the Civil Aeronautics Board and the approval by you of the sale of assets and subsequent dissolution contemplated. The submission of the transaction to you for your approval is not planned to be undertaken until the Civil Aeronautics Board has acted and the matter is, therefore, not contemplated to be considered at the annual meeting on May 10th. You will be separately notified of the special meeting of stockholders that will be required if, after the Civil Aeronautics Board has acted, it is intended to proceed with the contract. Present information indicates that the Civil Aeronautics Board will set a hearing on this proposed transaction for the middle of May, and American Export Lines, Inc., as a substantial holder of stock in the Company, has intervened in the proceeding and indicated that it still opposes the transaction and believes the price to be obtained for the net assets inadequate. In addition there have been a number of other interveners in opposition, one of them being a group of the Company's employees of whom some are also stockholders.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "C. R. Smith". The signature is fluid and cursive, with a large initial "C" and a long, sweeping underline.

C. R. SMITH
President



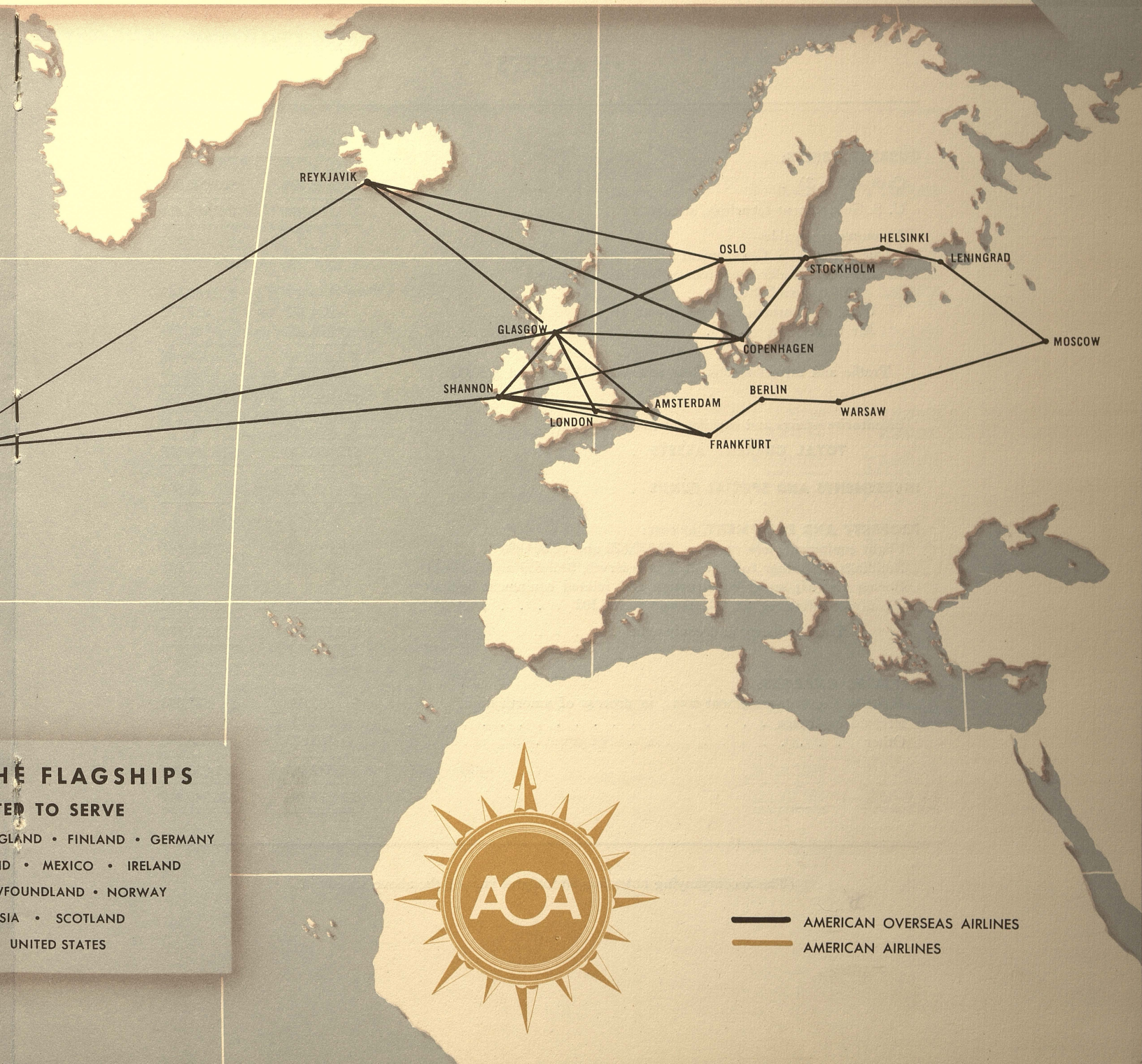
AMERICAN C



ROUTE OF THE CERTIFICATE

CANADA • DENMARK • ENGLAND
GREENLAND • ICELAND
NETHERLANDS • NEW ZEALAND
POLAND • RUSSIA
SWEDEN • SWITZERLAND

OVERSEAS AIRLINES



**AMERICAN OVERSEAS
AND SUBSIDIARY
CONSOLIDATED**

DECEMBER 31, 1948

ASSETS

	1948	1947
CURRENT ASSETS:		
Cash (Note 2)	\$ 3,573,424	\$ 3,094,802
U. S. Government securities, at cost	\$ 5,000,000	\$ 2,996,411
Accounts receivable—		
Due from U. S. Government for—		
Services under cost-plus-a-fixed-fee contracts, less reserves, \$100,000 and \$165,000	\$ 549,151	\$ 2,698,842
U. S. and foreign air mail (Note 1)	934,373	817,072
Air travel, etc.	719,436	191,749
	\$ 2,202,960	\$ 3,707,663
Traffic and miscellaneous, less reserves, \$100,000 and \$150,000	1,885,380	1,730,676
	\$ 4,088,340	\$ 5,438,339
Inventories—parts and supplies, at cost	\$ 246,376	\$ 1,331,123
TOTAL CURRENT ASSETS	\$12,908,140	\$12,860,675
INVESTMENTS AND SPECIAL FUNDS	\$ 65,167	\$ 45,507
PROPERTY AND EQUIPMENT, at cost:		
Flight equipment, less reserves, \$3,770,620 and \$2,604,890	\$ 6,885,680	\$ 7,318,141
Buildings and other equipment, less reserves, \$467,559 and \$536,642	912,123	1,537,931
Boeing aircraft under construction and related equipment, including contract advances, \$2,774,222 and \$2,957,102	4,723,711	2,957,102
Total property and equipment	\$12,521,514	11,813,174
DEFERRED CHARGES:		
Extension and development costs, in process of amortization	\$ 807,630	\$ 872,093
Prepaid insurance	233,200	291,413
Other	301,633	666,555
	\$ 1,342,463	\$ 1,830,061
	\$26,837,284	\$26,549,417

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

AIRLINES, INC.
COMPANY
BALANCE SHEETS
AND DECEMBER 31, 1947

LIABILITIES

	1948	1947
CURRENT LIABILITIES:		
Traffic and trade accounts payable	\$ 891,215	\$ 1,687,415
Taxes payable—		
Federal income	293,000	—
Other	70,147	68,762
Other current and accrued liabilities	1,352,182	2,204,577
TOTAL CURRENT LIABILITIES	<u>\$ 2,606,544</u>	<u>\$ 3,960,754</u>
UNEARNED TRANSPORTATION REVENUE, ETC.	<u>\$ 1,616,638</u>	<u>\$ 1,715,553</u>
LONG-TERM DEBT (Note 3):		
Notes payable to banks, 3%	\$ 3,000,000	\$ 3,000,000
Subordinated notes payable, 3¾%, due October 30, 1954	2,000,000	2,000,000
	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>
RESERVES:		
Aircraft and engine overhaul	\$ 402,381	\$ 732,831
Possible decline in value of foreign currency (Note 2)	199,642	—
	<u>\$ 602,023</u>	<u>\$ 732,831</u>
CAPITAL STOCK AND SURPLUS:		
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 years)	14,881,855	14,881,855
Earned surplus (<i>deficit</i> at December 31, 1947) (Note 1)	380,399	1,491,401
Total capital stock and surplus	<u>\$17,012,079</u>	<u>\$15,140,279</u>
	<u>\$26,837,284</u>	<u>\$26,549,417</u>

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

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

STATEMENTS OF CONSOLIDATED PROFIT AND LOSS

FOR THE YEARS ENDED DECEMBER 31, 1948 AND 1947

	1948	1947
OPERATING REVENUE:		
Commercial operations—		
Passenger	\$15,412,944	\$15,017,154
United States air mail (Note 1)	3,937,790	2,327,625
Foreign air mail	904,752	788,118
Express, freight and excess baggage	1,838,597	1,437,887
Other (including charter revenue in 1948, \$1,282,421)	1,343,375	390,066
	<u>\$23,437,458</u>	<u>\$19,960,850</u>
Fixed fees under cost-plus-a-fixed-fee contracts	100,000	235,170
Total operating revenue	<u>\$23,537,458</u>	<u>\$20,196,020</u>
OPERATING EXPENSES:		
Flying expense—		
Flying operations	\$ 6,027,467	\$ 5,366,868
Flight equipment maintenance—direct	2,852,405	2,800,794
Depreciation—flight equipment	1,608,172	1,654,347
Total flying expense	<u>\$10,488,044</u>	<u>\$ 9,822,009</u>
Ground expense—		
Ground operations	\$ 2,852,868	\$ 2,706,188
Ground and indirect maintenance	1,588,071	2,318,965
Passenger service	1,213,498	1,451,012
Traffic and sales	2,336,321	2,118,152
Advertising and publicity	876,946	812,409
General and administrative	2,053,910	2,459,441
Depreciation—property and ground equipment	243,705	222,912
Total ground expense	<u>\$11,165,319</u>	<u>\$12,089,079</u>
Total operating expense	<u>\$21,653,363</u>	<u>\$21,911,088</u>
Gross profit or <i>loss</i> from operations	<u>\$ 1,884,095</u>	<u>\$ 1,715,068</u>
OTHER DEDUCTIONS:		
Amortization of extension and development costs	\$ 193,798	\$ 195,052
Interest expense (net)	33,165	57,659
Provision for possible decline in value of foreign currency	199,642	—
Other (including \$159,275 net losses on sale of equipment and supplies in 1948)	173,613	57,409
	<u>\$ 600,218</u>	<u>\$ 310,120</u>
Net profit or <i>loss</i> before Federal income taxes	<u>\$ 1,283,877</u>	<u>\$ 2,025,188</u>
PROVISION FOR FEDERAL INCOME TAXES	293,000	—
CREDIT ARISING FROM 1947 LOSS CARRY-BACK	—	251,988
Net profit or <i>loss</i>	<u>\$ 990,877</u>	<u>\$ 1,773,200</u>

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

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

**STATEMENT OF CONSOLIDATED
EARNED SURPLUS**

FOR THE YEAR ENDED DECEMBER 31, 1948

Balance, January 1, 1948, per previous report		\$1,491,401
Add:		
Final 1945 mail pay	\$173,691	
Restatement of—		
Amortization of extension and development costs for 1945 to 3% of nonmail revenue in accordance with final mail award	129,336	
Depreciation on Constellations to commence at date of entry in regular service	366,767	
Reserve for overhaul of Constellation aircraft, \$135,978, provision for foreign based employees taxes abroad, \$59,162, and mis- cellaneous	211,129	880,923
Balance, January 1, 1948, as restated		\$ 610,478
Net profit for the year ended December 31, 1948		990,877
Balance, December 31, 1948 (Note 1)		\$ 380,399

(The accompanying notes are an integral part of the above statement)

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

NOTES TO FINANCIAL STATEMENTS

(1) U. S. mail compensation:

The Company has operated under temporary mail rates for U. S. air mail for the years 1946, 1947 and 1948. Cases pending before the Civil Aeronautics Board are expected to result in substantial additional final U. S. mail revenue for such years.

(2) Cash in foreign currencies:

Cash includes \$1,110,000 in foreign currencies at December 31, 1948 and \$555,000 of such foreign currencies are in blocked currencies for which a reserve of \$199,642 has been provided for possible decline in value.

(3) Long-term debt:

A credit agreement with twelve banks to provide \$12,000,000 for capital equipment purchases has been extended, in the revised amount of \$10,000,000, to October 29, 1949 or 90 days after the delivery of the last Boeing aircraft, whichever is earlier. Current obligations of \$3,000,000 under this agreement are due in 20 quarterly installments beginning 90 days after the expiration of the credit agreement.

In connection therewith American Airlines, Inc. and American Export Lines, Inc. are obligated to lend, in the ratio of 3 to 1 respectively, and American Overseas Airlines, Inc. to borrow additional amounts up to \$2,000,000 and equal to 50% of any such bank loans in excess of \$6,000,000 when and as such bank loans are made, but subordinate thereto. Under certain conditions additional borrowings may be made from such companies in the same ratio.

(4) Commitments for capital expenditures:

Commitments for expenditures amounted to approximately \$13,300,000 at December 31, 1948, principally for Boeing flight equipment which is expected to be delivered in 1949 and 1950.

AUDITORS' CERTIFICATE

*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, 1948 and the related statements of profit and loss and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except that we were unable to secure direct confirmation of certain accounts receivable from Government agencies, with respect to which we were able to satisfy ourselves by other means.

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 sheet and statements of profit and loss and surplus present fairly the financial position of American Overseas Airlines, Inc. and subsidiary company as of December 31, 1948 and the results of their operations for the year then ended, and were prepared 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 28, 1949.

COMPARATIVE STATISTICS OF PROGRESS

YEARS 1945-1948

	1948	1947 ¹	1946 ¹	1945 ¹
Operating Revenues:				
Passenger	\$ 15,412,944	\$ 15,017,154	\$ 11,004,093	\$ 1,928,545
Mail	4,842,542	3,115,743	3,398,956	2,018,908
Express, Freight and Other	3,181,972	1,827,953	1,430,600	153,826
Military Contract Fees	100,000	235,170	86,384	66,375
Total	23,537,458	20,196,020	15,920,033	4,167,654
Expenses and Federal Income Taxes ²	22,546,581	21,805,754	15,087,082	4,081,139
Net Profit or Loss Carried to Surplus	990,877	1,609,734	832,951	86,515
Earnings Per Share	0.57	0.92	0.48	0.12
Current Assets	12,908,140	13,042,049	15,579,112	4,424,481
Current Liabilities	2,606,544	3,901,595	9,331,718	3,091,952
Net Working Capital	10,301,596	9,140,454	6,247,394	1,332,529
Aircraft, Ground and Other Equipment (depreciated value)	12,521,514	12,188,248	11,872,266	1,408,085
Total Assets	26,837,284	27,235,201	29,047,121	7,540,060
Paid-In Surplus	14,881,855	14,881,855	14,881,855	3,362,781
Earned Surplus	380,399	610,478	999,257	166,306
Total Surplus	15,262,254	14,271,378	15,881,112	3,529,087
Common Stock Outstanding	1,749,825	1,749,825	1,749,825	699,930
Net Worth	17,012,079	16,021,203	17,630,937	4,229,017
Airplanes in Scheduled Service (at end of year)	17	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	\$2.545	\$2.728	\$3.198	\$3.982
Provision for Depreciation and Obsolescence	\$.231	\$.256	\$.154	\$.149
Interest	\$.004	\$.005	\$.018	\$.043
Total	\$2.780	\$2.989	\$3.370	\$4.174
Revenue Miles Flown	8,003,247	7,367,357	4,306,366	946,232
Passengers per Revenue Mile Flown in Passenger Service	23.3	23.1	26.3	15.0
Passenger Seat Miles Flown	279,778,000	248,309,000	140,926,000	18,164,000
Revenue Passenger Miles	172,604,000	168,496,000	112,198,000	14,215,000
Passenger Load Factor ,	61.7	67.9	79.6	78.3
Air Mail Ton-Miles	1,959,332	1,806,509	1,165,526	611,227
Air-Express-Freight Ton-Miles	2,714,269	1,926,553	1,134,102	70,198
Average Revenue Load per Plane, per Mile (Pounds):				
Passenger and Excess Baggage	5,009 ³	5,014 ³	5,749 ³	3,365
Mail	529 ³	492 ³	546 ³	1,292
Express-Freight	733 ³	525 ³	531 ³	148
Total	6,271 ³	6,031 ³	6,826 ³	4,805

Note: Revenues for 1946, 1947 and 1948 include U. S. Mail compensation based on temporary rates.

¹ Figures for 1945, 1946, 1947 have been restated to give effect to the surplus adjustments contained in Statement of Consolidated Earned Surplus in this report.

² Includes net of Other Income and Deductions.

³ Excludes charter flight mileages.

