

AMERICAN AIRLINES, INC. AND CONSOLIDATED SUBSIDIARY

FINANCIAL STATEMENTS

DIRECTORS' MEETING OCTOBER 16, 1946

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AMERICAN AIRLINES, INC. AND CONSOLIDATED SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

Page 1

AT AUGUST 31, 1946, JULY 31, 1946 AND AUGUST 31, 1945

	<u>ASSETS</u>	<u>Aug. 31, 1946</u>	<u>July 31, 1946</u>	<u>Aug. 31, 1945</u>
CURRENT ASSETS:				
Cash on hand and demand deposits		\$10,687,818.99	\$10,326,648.06	\$10,083,502.21
Marketable Securities, at cost (approximately market):				
U. S. Government		\$42,888,749.88	\$52,658,885.90	\$12,032,452.50
Canadian Government		226,250.00	226,250.00	136,350.00
		<u>\$47,114,999.88</u>	<u>\$52,885,135.90</u>	<u>\$12,168,802.50</u>
Accounts Receivable:				
U. S. Government				
For services performed at cost under war contracts		\$ 1,178,793.43	\$ 1,179,329.78	\$ 3,388,768.39
Less: Advance payments and partial payments		544,330.65	544,330.65	172,854.19
		<u>\$ 634,462.78</u>	<u>\$ 634,999.13</u>	<u>\$ 3,215,914.20</u>
For the transportation of air mail		971,404.54	927,930.38	1,883,575.92
For air travel, etc.		858,042.57	832,558.35	2,081,804.01
Air travel plan subscribers		2,922,119.41	2,881,805.11	1,051,473.54
Other airline companies and agents- traffic and express balances		4,505,752.70	4,362,446.42	1,700,012.59
Other trade accounts		3,047,466.25	2,626,290.24	597,752.03
Indebtedness of employees		154,944.44	170,290.61	89,460.01
		<u>\$17,094,192.69</u>	<u>\$12,396,320.24</u>	<u>\$10,619,992.30</u>
Less: Reserve for doubtful accounts receivable		127,893.83	128,065.38	136,824.20
		<u>\$12,966,298.86</u>	<u>\$12,268,254.86</u>	<u>\$10,483,168.10</u>
Inventories- materials and supplies, at the lower of cost or market		\$ 1,574,945.49	\$ 1,472,700.00	\$ 1,095,521.69
Total Current Assets		<u>\$68,344,063.22</u>	<u>\$76,952,738.82</u>	<u>\$33,830,994.50</u>
ADVANCE IN SPECIAL CONTRACT ADVANCE PAYMENT ACCOUNT		\$ -	\$ -	\$ 56,140.90
INVESTMENT AND SPECIAL FUNDS:				
Investment in American Overseas Airlines, Inc., at cost		\$ 9,480,000.00	\$ 3,000,000.00	\$ 3,000,000.00
Investment in wholly-owned subsidiary not consolidated, at cost		600,000.00	600,000.00	501,000.00
Cash deposits in connection with the acquisition of airplanes & engines		10,448,354.46	10,160,435.91	275,000.00
Miscellaneous investments in connection with operations, at cost		176,942.74	177,192.74	118,209.08
Other special deposits		185,618.31	185,645.66	108,946.51
		<u>\$20,890,915.51</u>	<u>\$14,123,274.31</u>	<u>\$ 4,003,155.59</u>
FLIGHT EQUIPMENT, AT COST		\$11,212,674.58	\$9,364,809.18	\$11,000,830.01
Less: Reserve for obsolescence and depreciation		9,866,559.59	9,382,582.28	7,257,821.52
		<u>\$31,346,074.99</u>	<u>\$29,982,226.90</u>	<u>\$ 3,743,008.49</u>
LAND, BUILDINGS AND OTHER EQUIPMENT, AT COST		\$11,396,904.68	\$10,548,857.86	\$ 6,122,712.70
Less: Reserve for depreciation		3,435,088.18	3,342,908.89	2,863,885.93
		<u>\$ 7,961,816.50</u>	<u>\$ 7,205,948.97</u>	<u>\$ 3,258,826.77</u>
NON-OPERATING PROPERTY AND EQUIPMENT, AT ESTIMATED REALIZABLE VALUE		\$ -	\$ -	\$ 21,320.00
LONG TERM OPERATING PROPERTY PREPAYMENTS, LESS AMORTIZATION		\$ 900,613.51	\$ 709,073.37	\$ 614,749.11
DEFERRED CHARGES:				
Prepaid rents, insurance and other expenses		\$ 427,432.20	\$ 339,831.31	\$ 286,819.07
Unamortized Debenture discount and expense		612,211.53	615,445.63	-
Other deferred charges		533,280.79	460,712.10	111,289.01
Expenses on sale of Preferred stock		104,283.70	104,234.35	-
		<u>\$ 1,677,208.22</u>	<u>\$ 1,520,223.39</u>	<u>\$ 398,108.08</u>
		<u>\$131,120,691.95</u>	<u>\$130,493,485.76</u>	<u>\$ 45,926,303.44</u>

9/30/46

Explanatory Notes are attached hereto

AMERICAN AIRLINES, INC. AND CONSOLIDATED SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

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AT AUGUST 31, 1946, JULY 31, 1946 AND AUGUST 31, 1945

	<u>Aug. 31, 1946</u>	<u>July 31, 1946</u>	<u>Aug. 31, 1945</u>
LIABILITIES, CAPITAL STOCK AND SURPLUS			
CURRENT LIABILITIES:			
Accounts payable	\$ 7,619,446.72	\$ 6,494,567.21	\$ 2,396,567.68
Accrued interest	300,000.00	200,000.00	-
Other airline companies- traffic balances payable	5,655,755.63	6,336,745.38	2,051,976.03
Air travel plan subscribers deposits	5,093,175.00	5,027,750.00	3,915,634.65
Accrued salaries and wages	898,904.15	718,443.37	580,272.43
Provision for federal income taxes (less-federal income tax credit resulting from loss for period)	1,709,669.57	1,609,669.57	5,542,317.97
Other accrued taxes	212,540.79	222,222.44	317,663.99
Other accrued liabilities	955,151.29	1,154,626.49	1,170,736.61
Total Current Liabilities	<u>\$22,444,641.15</u>	<u>\$21,764,024.46</u>	<u>\$15,975,169.36</u>
LIABILITY FOR ADVANCE ON GOVERNMENT CONTRACT OPERATIONS	\$ -	\$ -	\$ 56,140.90
UNEARNED TRANSPORTATION REVENUE	\$ 721,408.09	\$ 656,262.01	\$ 318,184.18
RESERVE FOR TRANSITION TO PEACETIME OPERATIONS	\$ 1,888,447.06	\$ 1,897,561.58	\$ 2,750,000.00
3% SINKING FUND DEBENTURES- DUE JUNE 1, 1966	<u>\$40,000,000.00</u>	<u>\$40,000,000.00</u>	<u>\$ -</u>
CAPITAL STOCK:			
Preferred stock, par value \$100. per share			
Authorized- 600,000 shares			
Issued and outstanding- 400,000 shares of 3½% cumulative convertible preferred stock	<u>\$40,000,000.00</u>	<u>\$40,000,000.00</u>	<u>\$ -</u>
Common stock, par value \$1.00 per share			
Authorized- 12,000,000 shares			
Issued and outstanding- 6,452,835.85 shares \$1.00 par value at 8/31/46 and 7/31/46 and 1,290,567.69 shares \$5.00 par value at 8/31/45	<u>\$ 6,452,835.85</u>	<u>\$ 6,452,835.85</u>	<u>\$ 6,452,838.45</u>
250,000 shares reserved for exercise of option expiring 6/1/50 at \$11.70 per share			
1,904,762 shares reserved for conversion of 3½% convertible preferred stock (at \$21.00 per share)			
Employees Stock, par value \$1.00 per share			
Authorized- 500,000 shares			
Issued and outstanding- none	\$ -	\$ -	\$ -
SURPLUS:			
Paid-in surplus	<u>\$ 6,267,434.05</u>	<u>\$ 6,267,434.05</u>	<u>\$ 6,267,434.05</u>
Earned surplus			
Balance at December 31, 1945 and December 31, 1944	\$13,422,302.87	\$13,422,302.87	\$10,376,858.16
Net profit or loss for the eight months ended 8/31/46, seven months ended 7/31/46 and the eight months ended 8/31/45	227,065.32	33,064.94	3,737,196.79
	<u>\$13,645,368.19</u>	<u>\$13,455,367.81</u>	<u>\$14,110,054.95</u>
Less: Dividends paid or declared	299,444.44	-	-
Less: Redemption premium on 695 shares of prior preferred stock redeemed on January 15, 1945	-	-	3,518.45
Total earned surplus	<u>\$13,345,927.75</u>	<u>\$13,455,367.81</u>	<u>\$14,106,536.50</u>
Total surplus	<u>\$19,613,357.80</u>	<u>\$19,722,801.86</u>	<u>\$20,373,970.55</u>
	<u>\$131,120,691.95</u>	<u>\$130,493,485.76</u>	<u>\$ 45,926,303.44</u>

9/30/46

Explanatory Notes are attached hereto

AMERICAN AIRLINES, INC. AND CONSOLIDATED SUBSIDIARY
COMPARATIVE STATEMENT OF PROFIT AND LOSS
FOR THE MONTHS OF AUGUST 1946, JULY 1946 AND AUGUST 1945
AND FOR THE EIGHT MONTHS ENDED AUGUST 31, 1946 AND AUGUST 31, 1945

	August 1946	Cents Per Rev. Mile	July 1946	Cents Per Rev. Mile	August 1945	Cents Per Rev. Mile	8 Mos. Ended Aug. 31, 1946	Cents Per Rev. Mile	8 Mos. Ended Aug. 31, 1945	Cents Per Rev. Mile
OPERATING REVENUES										
Passenger	\$5,780,606.77	100.3	\$5,352,573.52	97.9	\$3,742,116.24	80.9	\$35,998,959.28	90.6	\$23,965,338.39	82.0
Mail	217,221.98	7.7	220,169.74	4.0	527,125.12	12.8	2,043,018.07	5.1	4,297,693.17	14.7
Express	151,653.70	2.6	174,096.02	3.2	195,109.78	4.7	1,088,875.61	2.7	1,926,195.13	6.6
Freight	180,040.37	3.1	141,407.41	2.6	67,295.64	1.5	872,039.18	2.2	516,707.15	1.8
Excess baggage	60,848.61	1.1	60,441.21	1.1	50,338.37	1.2	417,941.36	1.1	447,475.49	1.5
Charter and special- passenger	1,178.80	-	1,110.00	-	-	-	6,405.85	-	8,928.15	-
Charter and special- freight	87,351.95	1.5	109,172.21	2.0	35,320.18	.8	287,197.05	.7	78,315.82	.3
Incidental revenue	35,666.55	.6	19,103.55	.3	11,015.35	.3	182,426.52	.5	92,341.11	.3
Total Operating Revenue	\$6,510,568.73	112.9	\$6,078,043.66	111.1	\$4,224,320.68	102.2	\$40,896,862.92	102.9	\$31,332,994.41	107.2
OPERATING EXPENSES										
Flying operations	\$1,262,620.61	21.9	\$1,212,292.89	22.2	\$ 855,071.70	20.7	\$ 8,567,246.70	21.6	\$ 5,985,481.20	20.5
Flight equipment maintenance- direct	674,435.99	11.7	655,402.94	12.0	334,482.83	8.1	4,201,447.01	10.6	2,245,888.76	7.7
Depreciation- flight equipment	493,996.34	8.5	768,565.36	6.7	120,788.65	2.9	2,277,831.81	5.7	786,583.55	2.7
Total Flying Expenses	\$2,431,052.94	42.1	\$2,276,261.19	40.9	\$1,310,303.18	31.7	\$15,046,525.52	37.9	\$ 9,017,953.51	30.9
Ground operations	\$1,244,919.68	21.6	\$1,122,932.19	20.5	\$ 613,381.03	14.9	\$ 7,689,643.20	19.3	\$ 4,252,662.52	14.6
Ground equipment maintenance- direct	87,893.15	1.4	67,440.21	1.2	33,552.22	.8	488,906.89	1.3	288,576.80	1.0
Equipment maintenance- indirect	618,663.59	10.7	618,898.34	11.3	278,332.23	6.7	3,666,071.37	9.2	1,901,538.60	6.5
Passenger service	481,766.82	8.4	417,359.69	7.6	304,249.43	7.4	3,307,583.44	8.3	2,071,268.87	7.1
Traffic and sales	625,928.70	10.9	583,118.67	10.7	359,298.31	8.7	4,584,597.82	11.5	2,639,179.37	9.0
Advertising	85,387.56	1.5	102,617.35	1.9	58,461.62	1.4	899,558.09	2.3	718,921.68	2.5
Publicity	74,788.13	1.3	47,958.86	.9	30,664.87	.7	407,455.69	1.0	263,212.32	.9
General and administrative	393,005.79	6.8	526,825.44	9.6	334,715.63	8.1	3,561,179.95	9.0	2,558,467.14	8.7
Depreciation- property and ground equipment	85,956.68	1.5	64,581.41	1.2	41,425.12	1.0	532,129.73	1.3	333,768.21	1.1
Total Ground Expenses	\$3,694,310.10	64.1	\$3,551,732.16	64.9	\$2,054,080.46	49.7	\$25,137,126.18	63.2	\$15,027,595.51	51.4
Total Operating Expenses	\$6,125,363.04	106.2	\$5,787,993.35	105.8	\$3,364,383.64	81.4	\$40,183,651.70	101.1	\$24,045,549.02	82.3
Net operating income	\$ 385,205.69	6.7	\$ 290,050.31	5.3	\$ 859,937.04	20.8	\$ 713,211.22	1.8	\$ 7,287,445.39	25.0
Non-operating income	46,032.55	.8	65,847.62	1.2	14,876.13	.4	226,231.00	.6	123,833.74	.4
Gross Income	\$ 431,238.24	7.5	\$ 355,897.93	6.5	\$ 874,813.17	21.2	\$ 939,442.22	2.4	\$ 7,411,279.13	25.4
Deductions from gross income										
Portion of estimated expenses of transition to peacetime operations representing amount equivalent to Federal income tax credit resulting therefrom	\$ 5,586.33	.1	\$ 9,602.28	.2	\$ -	-	\$ 528,211.92	1.3	\$ -	-
Interest on bank loans and long term debt	100,000.00	1.7	100,000.00	1.8	-	-	372,291.67	1.0	-	-
Interest deferred	25,529.18	.4	25,959.91	.5	-	-	105,647.51	.3	-	-
Other	61,180.71	1.1	57,442.45	1.1	45,674.17	1.1	761,516.82	.9	338,082.34	1.2
Total Deductions from Gross Income	\$ 141,237.86	2.5	\$ 143,004.82	2.6	\$ 45,674.17	1.1	\$ 1,156,376.90	2.9	\$ 338,082.34	1.2
Net income before Federal income taxes	\$ 290,000.38	5.0	\$ 214,813.11	3.9	\$ 829,139.00	20.1	\$ 216,934.68	.5	\$ 7,073,196.79	24.2
Provision for Federal income taxes					400,000.00	9.7			3,340,000.00	11.4
Federal income tax credit resulting from loss for the period	100,000.00	1.7	60,000.00	1.1	-	-	440,000.00	1.1	-	-
NET PROFIT CARRIED TO SURPLUS	\$ 190,000.38	3.3	\$ 154,813.11	2.8	\$ 429,139.00	10.4	\$ 223,065.32	.6	\$ 3,733,196.79	12.8
REVENUE MILES FLOWN	5,766,499		5,469,494		4,705,072		39,741,991		30,443,221	
REVENUE PASSENGER MILES FLOWN	128,555,324		115,198,618		73,627,316		782,010,137		499,711,355	
REVENUE PASSENGERS CARRIED	266,273		225,478		125,073		1,486,933		815,640	

Cents per revenue mile flown are reported on airport to airport distances. August 1946 and the eight months ended August 31, 1946 are actual, while August 1945 and the eight months ended August 31, 1945 have been converted to an airport to airport basis by reducing the course miles flown by 4%

9/30/46

Explanatory Notes are Attached Hereto

COMPARATIVE STATEMENT OF PROFIT AND LOSS ON ROUTE F.A.M. 26

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

FOR THE MONTHS OF AUGUST 1946, JULY 1946 AND AUGUST 1945

AND THE EIGHT MONTHS ENDED AUGUST 31, 1946 AND AUGUST 31, 1945

			August 1946	July 1946	August 1945	Eight Months Ended August 31, 1946	Eight Months Ended August 31, 1945
OPERATING REVENUES							
Passenger			\$ 130,810.89	\$ 120,552.73	\$ 148,881.56	\$ 1,217,881.47	\$ 1,196,832.27
Mail							
U. S. Government			1,716.85	1,493.65	2,501.96	10,987.61	16,517.56
Foreign			2,734.93	2,498.93	-	16,895.31	-
Freight and Express			24,705.74	37,641.61	19,367.17	215,163.84	155,135.29
Excess Baggage			2,977.12	1,771.54	4,252.58	28,691.41	29,335.69
Incidental Revenue			14,597.70	13,514.44	7,306.67	118,570.26	60,211.92
		Division of Expenses					
		Expense Incurred		Direct Charges			
		In Mexico		Supervision and Allocation of			
				Joint Operations			
Total Operating Revenue			\$ 177,543.23	\$ 177,472.90	\$ 182,309.94	\$ 1,608,189.90	\$ 1,458,032.73
OPERATING EXPENSES							
Flying Operations	\$ 10,362.91	\$ 30,842.41	\$ 41,205.32	\$ 41,147.57	\$ 41,613.35	\$ 353,612.63	\$ 320,879.97
Flight Equip. Maint. - Direct	652.16	14,561.85	15,214.01	18,546.46	15,144.07	142,069.22	108,979.94
Depreciation-Flight Equipment	-	5,610.39	5,610.39	5,640.24	5,217.35	50,396.65	37,329.04
Total Flying Expenses	\$ 11,015.07	\$ 51,014.65	\$ 62,029.72	\$ 65,334.27	\$ 61,974.77	\$ 546,078.50	\$ 467,188.95
Ground Operations	19,738.45	14,677.59	34,416.04	45,600.19	23,967.55	267,057.72	190,942.42
Ground Equip. Maint.-Direct	4,595.25	491.11	5,086.36	4,173.03	3,724.36	32,699.93	28,626.33
Equip. Maint. - Indirect	4,360.62	4,666.82	9,027.44	10,241.68	5,797.06	83,131.36	44,663.78
Passenger Service	6,945.40	7,261.74	14,207.14	14,089.75	18,206.25	145,429.55	135,880.20
Traffic and Sales	13,211.90	1,685.20	14,897.10	15,102.77	17,009.18	159,557.46	127,732.60
Advertising and Publicity	6,389.44	-	6,389.44	6,780.00	5,891.88	47,610.49	50,588.63
General and Administrative	11,387.77	4,045.15	15,432.92	19,366.88	11,761.96	161,971.36	89,350.17
Depreciation - Ground Equipment	14,749.94	761.47	15,511.41	9,790.46	14,671.27	124,322.22	123,044.73
Total Operating Expenses	\$ 92,393.84	\$ 84,603.73	\$ 176,997.57	\$ 190,479.03	\$ 163,004.28	\$ 1,567,858.59	\$ 1,258,017.81
Net Operating Income			545.66	13,006.13	19,305.66	40,331.31	200,014.92
Profit - Equipment Sale			-	-	-	2,994.90	-
			\$ 545.66	\$ 13,006.13	\$ 19,305.66	\$ 43,326.21	\$ 200,014.92
Deductions from Income	1,852.91		1,852.91	1,527.15	632.39	13,491.68	7,524.91
Net Income before Fed. Inc. Tax			\$ 1,307.25	\$ 14,533.28	\$ 18,673.27	\$ 29,834.53	\$ 192,490.01
Pro-rate share of Fed. Inc. Tax			-	-	9,116.00	-	90,848.00
NET PROFIT OR LOSS			\$ 1,307.25	\$ 14,533.28	\$ 9,557.27	\$ 29,834.53	\$ 101,642.01
REVENUE MILES FLOWN							
			198,902	204,135	199,068	1,625,820	1,532,381
REVENUE PASSENGER MILES FLOWN							
			3,058,893	2,984,411	3,485,536	26,254,484	23,962,194
REVENUE PASSENGERS CARRIED							
			3,683	3,669	4,075	30,817	27,721

AMERICAN AIRLINES, INC.

Statement of capital expenditures which have been authorized by the management since the last meeting of the Board of Directors on August 21, 1946 and which are herewith submitted for approval by the Directors.

<u>Executive Authorization Number</u>	<u>Description</u>	<u>Amount Authorized</u>
C1646-1	Additional alterations for Training Center-Ardmore	13,114.80
C1737-1	Additional ground station communication equipment for Nashville - Tulsa Airway-Harrison, Ark.	4,858.00
C1768-1	Additional cost of 110 Sky Cradles for DC-4 Fleet	1,100.00
C1809-	14 Magnetos for DC-3 Fleet	3,360.00
C1810	Install wiring and floodlights in additional spaces Dallas Airport	1,187.50
C1811	Stake truck for warehouse use - NYMA	1,892.42
C1812	Small truck for Line Maintenance - NYMA	1,350.00
C1813	5 Automotive units as replacement and additional equipment - Los Angeles	10,400.00
C1814	Steel matting and fence to provide additional run-up area for aircraft - NYMA	34,702.50
C1815	60 Reservation tables and 30 space control tables - System	8,931.90
C1816	Additional alterations to A.A. Building - Tulsa	65,337.00
C1817	45 Electric fans for A.A. Building - Tulsa	1,698.75
C1818	Install blower units in DC-4 fleet to increase efficiency of cabin heater system	5,208.00
C1819	Alterations to provide additional shop and stock-room space - Oklahoma City Airport	4,500.00
C1820	Reproduction equipment for Publications Dept. - NYP	17,450.00
C1821	Truck for mail services between airport and city - Tulsa	2,050.00
C1822	Furniture for executive offices - NYP	1,088.60
C1823	Furniture and office equipment for Treasury Dept. - New York, Tulsa and Ft. Worth	5,144.88
C1824	Furniture and office equipment for Purchasing Dept. - New York	1,677.00
C1825	Ramp house for passenger and cargo operations on Municipal Airport - Los Angeles	17,362.40
C1826	Provide parking lot for employee use on Municipal Airport - Los Angeles	3,844.60
C1827	Alterations and equipment for new airport-Cincinnati	25,020.00
C1828	Belt conveyor for baggage in Temporary Terminal Bldg. Chicago	1,350.00
C1829	Alterations to improve facilities in airport Terminal St. Louis	2,500.00
C1830	Station wagon to cover alternate airport operation - Washington	1,535.85
C1831	20 Heaters on trailers for ground service to DC-4 Fleet - System	10,100.00
C1832	Installation cost of additional automatic telephone service to offices in New York	1,050.00

<u>Executive Authorization Number</u>	<u>Description</u>	<u>Amount Authorized</u>
C1833	110 Very high frequency ground station receivers as replacements and additional requirements - System	\$ 30,525.00
C1834	Install radio equipment in 3-BT13 aircraft - Ardmore	4,566.72
C1835	Test unit for automatic direction finders - NYMA	3,679.62
C1836	Small truck for communications line maintenance - NYMA	1,350.00
C1837	Tractor for cabin service - El Paso	1,844.00
C1838	Alterations to provide additional facilities in Sales Office - Phoenix	8,173.00
C1839	Alterations, Air Conditioning and other equipment for new Sales Office - Newark	10,418.00
C1840	Alterations and equipment for new Sales Office - Little Rock	2,200.00
C1841	Alterations and equipment for new Sales Office - New Haven	6,724.02
C1842	Furniture and office equipment for Regional Sales Office - NY	1,072.35
C1843	Alterations and equipment to increase facilities in Sales Office - Dallas	26,405.81
C1844	Alterations and equipment for new Sales Office - Houston	5,408.48
C1845	Alterations and equipment for new Sales Office - Oklahoma City	9,104.50
C1846	Alterations to provide additional facilities for Reservations Office - Los Angeles	15,500.00
C1847	Addition to Televisor board for Reservations Control Boston	4,300.00
335	Authorizations each for an amount less than \$1,000.00 for the purchase of furniture, shops and miscellaneous equipment.	52,043.90
		<u>\$431,129.00</u>

AMERICAN AIRLINES DE MEXICO, S.A.

10	Trucks as replacements in System	17,119.92
2	Power Plants to provide increased capacity for operations - Actopan	8,576.00
	Motorcycle for mail service airport to city - Mexico City	815.00
	Furniture and equipment for airport office - Mexico City	417.50
3	Typewriters for communications and ticket offices - Mexico City Airport	341.00
5	Authorization each for an amount less than \$100.00 for the purchase of furniture, shop and miscellaneous equipment.	207.80

\$ 27,477.22

AMERICAN AIRLINES, INC. AND CONSOLIDATED SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 1946

- NOTE 1: The accompanying financial statements include in consolidation the Company's wholly owned subsidiary, American Airlines de Mexico, S.A. The accounts of the following subsidiaries are not included in consolidation: American Overseas Airlines, Inc., (51.4% owned), Sky Chefs, Inc., (100% owned).
- NOTE 2: No provision has been made for Federal excess profits tax for 1945 and prior years as the Company is believed to be exempt therefrom although its liability for Federal taxes on income is subject to the Internal Revenue Bureau's review of the tax returns filed or to be filed for the years 1942 through 1945.
- NOTE 3: On September 17, 1945 the Company entered into an agreement with a representative of holders of certain shares of the common stock of Mid-Continent Airlines, Inc., subject to the approval of the Civil Aeronautics Board, to issue one share of its common stock of a par value of \$5.00 per share in exchange for each four shares of common stock of Mid-Continent Airlines, Inc. and to extend the same offer to other stock holders of Mid-Continent Airlines, Inc. Subsequently the par value of American Airlines, Inc. common stock was changed from \$5.00 per share to \$1.00 per share, thereby changing the exchange ratio from 1 share to 5 shares of American Airlines, Inc. for 4 shares of Mid-Continent Airlines, Inc. Under date of September 27, 1946 the Civil Aeronautics Board denied the application of American Airlines, Inc. to acquire the common stock of Mid-Continent Airlines, Inc.
- NOTE 4: The Company is presently negotiating for the purchase of, or has commitments for flight equipment and major items of other equipment and facilities estimated at approximately \$69,000,000 of which it is estimated approximately \$14,000,000 will be expended during the balance of the year 1946.
- The Company has guaranteed a bank loan in the amount of \$10,000,000 obtained on March 7, 1946 by American Overseas Airlines, Inc. On August 23, 1946 American Overseas Airlines, Inc. reduced said bank loan by payment of \$5,000,000 and extended the balance of the loan for a period of 6 months.
- The Company has also guaranteed the performance by American Overseas Airlines, Inc. of the latter's obligation under a purchase contract for the purchase of eight Boeing airplanes at a total basic price of approximately \$10,600,000.00.
- NOTE 5: There was excluded from operating expenses for the month of August and the eight months ended August 31, 1946 the estimated cost (amounting to \$14,700.85 and \$1,389,764.86 for the respective periods) resulting from delays in reassigning personnel from military contract to commercial operations and from retraining of personnel returning from military service. 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 amounts of \$5,586.33 and \$528,211.92 for the respective periods) and the balance (in the amount of \$9,114.52 and \$861,552.94 for the respective periods) was charged to the reserve for transition to peacetime operations.
- NOTE 6: Since early in 1942 services have been performed by the Company for the U. S. Government under war contracts at cost thereof and the Company has waived all

profits thereon to December 31, 1945. The cost and expenses applicable to the Company's performance of such contracts are not included in the accompanying profit and loss statements, but have been charged directly to the U. S. Government. Part of the services under these contracts had been terminated at December 31, 1945 and the remainder were terminated as of July 31, 1946. Renegotiation proceedings pursuant to the War Contracts Renegotiation Act have been concluded for 1944 and prior years, no refunds being required thereunder. The Company believes that such proceedings for the years 1945 and 1946 will likewise result in no refund being required.

NOTE 7: Dividend on the 3½% convertible preferred stock amounting to \$350,000 was paid to the disbursing agent on 8/30/46 and therefore, does not appear in the current liabilities section of the attached statement.