1-1-1977

Accounting practices 1977 : Airline industry, illustrative items of current interest from annual reports to the SEC

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ACCOUNTING PRACTICES 1977
Airline Industry

Illustrative Items of Current Interest From Annual Reports to the SEC

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INTRODUCTION

This survey of the 1976 10K reports of investor-owned air carriers is designed to assist our professional personnel in finding examples of accounting practices and disclosure techniques used by the airlines. It provides information on the airline industry similar to that for all industries published by the American Institute of Certified Public Accountants in Accounting Trends and Techniques and in our two-volume reference guide to illustrative items of current interest from published annual reports.

The illustrations shown herein do not necessarily represent authoritative support for the underlying accounting procedures or reporting practices, and their status must be considered in view of recent pronouncements and interpretations of the Financial Accounting Standards Board, the Securities and Exchange Commission, the American Institute of Certified Public Accountants, and the Civil Aeronautics Board which could affect the manner in which certain items are reflected or disclosed.

Although this survey is intended principally for internal reference purposes by personnel of Haskins & Sells, it may be made available to persons outside the Firm having an interest in reporting practices of the airline industry.

HASKINS & SELLS

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AIRLINES SELECTED FOR SURVEY

This survey includes both domestic and international U.S. airlines. The airlines selected are the major trunk carriers. Pan American World Airways was also included even though it has no domestic routes. The survey results reflect the accounting and reporting practices found in the 1976 10K's of the following air carriers:

American Airlines
Braniff Airways
Continental Airlines
Delta Air Lines
Eastern Air Lines
National Airlines
Northwest Airlines
Pan American World Airways
Trans World Airlines
United Airlines
Western Air Lines

* * * * *

REPORTING PERIODS

Nine of the airlines report on a calendar-year basis and two on a June 30 fiscal-year basis.

* * * * *

OTHER GENERAL INFORMATION

Note References - All of the airlines surveyed included specific note references within the financial statements, and a general reference to the notes to the financial statements on each page of the statements.

Presentation of Dollar Amounts - Nine airlines presented the financial statements in thousands of dollars while two presented the actual dollar amounts.

Summary of Operations - Nine of the airlines surveyed presented five-year summaries while two presented ten-year summaries.

Subsequent Events - Only one airline disclosed the occurrence of a subsequent event. See the footnote disclosure made by Delta Air Lines at Miscellaneous Footnote Disclosures on page 1-29.

Where Shares are Traded - All of the surveyed airlines are listed on the New York Stock Exchange while seven and four, respectively, are also listed on the Pacific and Midwest stock exchanges.

(See following pages.)

TABLE 1-1

AIRLINE INDUSTRY STATISTICS

(000 OMITTED EXCEPT RANK AND EPS DATA)

	American Airlines	Braniff Airways	Continental Airlines	Delta Air Lines	Eastern Air Lines	National Airlines	Northwest Airlines	Pan American World Airways	Trans World Airlines	United Airlines	Western Air Lines
Revenues:											
1976	$2,007,883	$674,583	$551,464	$1,528,942	$1,825,475	$334,369	$ 963,808	$1,661,832	$2,970,453	$2,929,637	$605,205
Rank	3	8	10	6	4	11	7	5	1	2	9
1975	1,710,005	594,960	515,397	1,377,030	1,624,394	345,294	800,562	1,605,729	2,640,125	2,409,870	518,973
Rank	3	8	10	6	4	11	7	5	1	2	9
Total Assets:											
1976	$1,715,229	$553,668	$678,609	$1,467,494	$1,300,668	$512,158	$1,151,562	$1,457,671	$1,894,626	$2,865,217	$431,133
Rank	3	9	8	4	6	10	7	5	2	1	11
1975	1,618,369	517,097	728,855	1,380,110	1,289,852	547,623	1,215,146	1,442,166	1,929,450	2,722,457	420,093
Rank	3	10	8	5	6	9	7	4	2	1	11
Net Income:											
1976	$ 56,315	$ 27,017	$ 9,209	$ 70,207	$ 45,239	$ 5,029	$ 51,737	$ 94,593	$ 36,833	$ 19,042	$ 14,965
Rank	3	7	10	2	5	11	4	1	6	8	9
1975	$ (22,410)	$ 16,981	$ (9,719)	$ 51,880	$ (88,714)	$ 11,349	$ 43,396	$ (46,075)	$ (86,279)	$ (4,207)	$ 12,320
Rank	8	3	7	1	11	5	2	9	10	6	4
Primary Net Income per Share:											
1976 Primary:	$ 1.97	$ *-	$ .64	$ 3.53	$ 1.76	$ .59	$ 2.39	$ (.20)	$ 2.51	$ .75	$ 1.10
Extraordinary; cumulative effect	-	-	-	-	.56	-	-	2.44	-	-	-
Net income	$ 1.97	$ -	$ .64	$ 3.53	$ 2.32	$ .59	$ 2.39	$ 2.24	$ 2.51	$ .75	$ 1.10
Fully diluted:	$ 1.90	-	-	-	-	-	-	.17	2.44	-	.98
Extraordinary; cumulative effect	-	-	-	-	-	-	-	1.26	-	-	-
Net income	$ 1.90	$ -	$ -	$ -	$ -	$ -	$ -	$ 1.43	$ 2.44	$ -	$ .98
1975 Primary:	$ (.79)	$ -	$ (.68)	$ 2.61	$ (2.86)	$ 1.33	$ 2.01	$ (1.11)	$ (6.68)	$ (.20)	$ .34
Extraordinary; cumulative effect	-	-	-	-	+(1.84)	-	-	-	-	-	+.47
Net income	$ (.79)	$ -	$ (.68)	$ 2.61	$ (4.70)	$ 1.33	$ 2.01	$ (1.11)	$ (6.68)	$ (.20)	$ .81
Fully diluted:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$	$ -	$ .33
Extraordinary; cumulative effect	-	-	-	-	-	-	-	-	-	-	+.41
Net income	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (6.68)	$ -	$ .74

* - A wholly-owned corporation.
\+ - Cumulative effect.

TABLE 1-2

AIRLINE INDUSTRY RATIOS

		American Airlines	Braniff Airways	Continental Airlines	Delta Air Lines	Eastern Air Lines	National Airlines	Northwest Airlines	Pan American World Airways	Trans World Airlines	United Airlines	Western Air Lines
Solvency: Current (1) ratio	1976	1.39	1.11	.75	.87	.88	1.43	.80	1.39	1.24	1.57	.90
	1975	1.21	1.16	.87	.87	.81	1.12	.93	1.02	1.13	1.62	1.02
Operational efficiency: Receivable (2) turnover	1976	6.35	11.59	9.16	13.06	12.70	5.84	13.02	6.77	9.99	9.76	12.42
Days of re-(3) ceivable	1976	57	31	40	28	29	63	28	54	37	37	29
Accumulated deprecia-tion to (4) property	1976	.54	.27	.26	.36	.42	.33	.37	.47	.50	.51	.48
Capitalization: Times interest (5) earned	1976	4.43	2.96	1.45	4.16	2.03	1.22	8.00	2.83	1.96	1.42	3.48
	1975	(.21)	2.29	.53	3.14	(.06)	1.99	3.92	(.03)	(.54)	.95	2.28
Common stock-holder equity to total (6) assets	1976	.20	.11	.12	.10	.24	.05	.12	.17	.13	.17	.10
	1975	.21	.10	.11	.10	.23	.05	.13	.17	.12	.16	.13
Debt (7) equity	1976	1.20	4.19	4.09	2.51	1.79	5.42	.81	2.95	3.80	2.02	2.65
	1975	1.31	4.07	4.92	2.79	2.27	6.53	1.63	3.28	4.17	2.19	2.04
Profitability: Common stock (8) yield	1976	$ *	$ .02	$ *	$ .01	$ *	$ .03	$ .02	$ *	$ *	$ .02	$ .04
	Rank		4		6		2	5			3	1
Return on investment (9)	1976	$ .16	$ .48	$ .12	$ .50	$ .14	$ .20	$ .34	$ .38	$ .15	$ .04	$ .36
	Rank	7	2	10	1	9	6	5	3	8	11	4
	1975	$ (.07)	$ .30	$ (.12)	$ .37	$ (.31)	$ .43	$ .29	$ (.19)	$ (.37)	$ (.01)	$ .23
	Rank	7	3	8	2	10	1	4	9	11	6	5

* No dividends paid.

(1) Current Assets/Current Liabilities.
(2) Revenues/Average Net Receivables.
(3) 365/(2).
(4) Accumulated Depreciation/Property, Flight Equipment only.
(5) Income Before Tax and Interest Expense/Interest Expense.
(6) Common Stockholders Equity/Total Assets.
(7) Long-term Debt/Common Stockholders Equity.
(8) Dividends per Share/Market Value Per Share.
(9) Net Income Available to Common Stockholders Equity/Common Stockholders Equity.

FOOTNOTE DISCLOSURES

Table 1-3 summarizes the nature of information frequently disclosed in financial statements and the number of survey companies disclosing such information.

Table 1-3

Types of Disclosure	No.	Types of Disclosure	No.
Accounting policies	11	Capital stock	6
Long-term debt	11	Earnings per share	5
Lease Commitments	11	Mutual aid	5
Contingencies	11	Supplementary income statement information	5
Income taxes	10	Capitalized interest	3
Replacement cost	9	Compensation plans	3
Stock options	8	Subsidiary sale	3
Quarterly results	7	Acquisition commitments	3
Pension plans	7		
Accounting changes	7		

* Footnotes found in two or fewer reports are listed in Table 1-23.

Examples of some of the above footnote disclosures follow:

ACCOUNTING POLICIES - AMERICAN AIRLINES

1. SUMMARY OF ACCOUNTING POLICIES

A. BASIS OF CONSOLIDATION - The accompanying consolidated financial statements include the accounts of American's wholly-owned subsidiary, American Airlines de Mexico, S.A. The investment in Flagship International, Inc. (Flagship) a wholly-owned subsidiary primarily engaged in providing hotel and catering services, is carried in the financial statements at cost plus equity in undistributed net earnings.

B. INVENTORIES - Spare parts, materials and supplies relating to flight equipment are carried at average cost and expensed when used in operations. With respect to the spare parts expected to be on hand at the date the aircraft are retired from service, American provides allowances for obsolescence of such parts over the estimated useful life of the related aircraft and engines.

C. EQUIPMENT AND PROPERTY - Provision for depreciation of operating equipment and property is computed by the straight-line method applied to each unit of property, except that spare assemblies are depreciated on a group basis. The estimated useful lives and residual values used for the principal asset classifications are as follows:

	Estimated Useful Life	Residual Value
Boeing 747 and DC-10 aircraft and engines	14 years	15%
Boeing 707 aircraft and engines:		
Acquired 1959 to 1961	*	$100,000
Acquired 1963 to 1968	15 years	$100,000
Boeing 727 aircraft and engines	16 years	10%
Major rotable parts, avionics and assemblies	Life of equipment to which applicable	None to 15%
Improvements to leased flight equipment	Term of lease	None
Buildings and improvements (principally on leased land)	10 to 20 years or term of lease whichever is shorter	None
Ground and other equipment	4 to 10 years	None

*Common retirement date of December 31, 1977.

Expenditures that increase values or extend useful lives are capitalized; maintenance and repairs are charged to expense. Upon the retirement or disposal of property and equipment, other than spare assemblies, the cost and related allowance for depreciation are removed from the accounts. Gains or losses from such disposals are included in income, except that gains on aircraft sales are deferred until the proceeds are realized. Proceeds from the disposition of spare assemblies are credited and the related costs are charged to the allowances for depreciation.

D. PASSENGER REVENUE - Passenger ticket sales are initially recorded as a current liability. Revenue derived from the sales is recognized at the time transportation is provided.

E. RETIREMENT BENEFIT PLANS - American has in effect various retirement benefit plans, most of which are contributory, in which substantially all employees are eligible to participate. American's policy is to fund accrued pension costs.

F. INTEREST CAPITALIZED - Interest attributed to funds used to finance the acquisition of new aircraft and construction of major ground facilities is capitalized as an additional cost of the related assets. Capitalization of interest ceases when the related assets are placed in service.

G. FEDERAL INCOME TAX - Provision is made for Federal income taxes that are currently payable or refundable and amounts that are deferred to future periods. The deferred amounts result from the fact that, under the applicable tax statutes and regulations, some items of income and expense are not recognized in the same years for tax reporting purposes as for financial statement purposes. The principal timing difference results from the use of accelerated depreciation for tax reporting purposes and the straight-line method for financial statement purposes. American follows the "flow-through" method in recognizing benefit of investment tax credits.

H. EARNINGS (LOSS) PER SHARE - Primary earnings (loss) per share of common stock are based on the average number of shares of common stock outstanding during the year (1976 - 28,574,000; 1975 - 28,549,000). The inclusion of common stock equivalents (stock options) would not have a dilutive effect on primary earnings per share.

Fully diluted earnings per share were determined on the basis of the average number of shares of common stock and common stock equivalents outstanding and assumes the conversion of the subordinated convertible debentures, if such conversion would have a dilutive effect, into common stock. Net earnings applicable to common stock were increased to reflect the elimination of interest and debt expense (less tax effect) related to the convertible debentures. The number of shares used in this calculation for the year ended December 31, 1976, was 32,485,000. Fully diluted earnings per share are not applicable to 1975 since the effect would be anti-dilutive.

ACCOUNTING POLICIES - WESTERN AIR LINES

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

Property and Equipment: Property and equipment, exclusive of residual values, are depreciated over estimated useful lives by the straight-line method. Maintenance and repairs are expensed as incurred. (See Note 2.) Major renewals and betterments are charged to property and equipment accounts.

Preoperating Costs: Significant costs, such as those for traffic promotion and personnel training, related to the inauguration of service over major new routes and to the introduction of new types of aircraft are deferred and amortized over five years.

Interest Capitalized: Interest related to deposits on aircraft purchase contracts is capitalized and amortized over the useful lives of the aircraft.

Investment Credits: Investment credits generated by acquisition of assets are amortized to income on a straight-line basis over the useful lives of the related assets. Amortization for financial statement purposes may exceed accumulated amounts utilized on Western's tax returns to the extent of available deferred Federal taxes on income on the accompanying balance sheets.

Obsolescence of Expendable Parts: An allowance for obsolescence of flight equipment expendable parts is accrued over the useful lives of the related aircraft types.

Advance Ticket Sales: Passenger ticket sales are recorded as a current liability until billed by other carriers for transportation provided by them or until recognized as revenues for services provided by Western. At December 31, 1976, $12,343 (1975 - $11,476) was estimated to be payable to other carriers and $17,220 (1975 - $16,070) was estimated to be related to transportation to be provided by Western.

SUMMARY OF DISCLOSURES:

The nature of information disclosed in summaries of accounting policies and the number of survey companies disclosing such information follows:

Table 1-5

Passenger revenue	10
Capitalized interest	9
Inventory	8
Foreign currency transactions	7
Pension plans	7

Table 1-5

Property and equipment	7
Income taxes	6
Principles of consolidation	6
Depreciation	5
Maintenance and repairs	3
Investment tax credit	3
Deferred charges	3
Earnings per share	3

LEASE COMMITMENTS - TRANS WORLD AIRLINES

LEASES AND RELATED GUARANTEES:

Total rental expense, net of sublease revenue of immaterial amounts, included in the determination of 1976 and 1975 operating results is as follows:

	1976	1975
	(Amounts in Thousands)	
Basic rents:		
Non-capitalized financing leases...	$ 89,908	$ 85,396
Other	40,650	41,073
Contingent rents	36,868	35,989
Total	$167,426	$162,458

Minimum rental commitments, net of sublease revenue of immaterial amounts, for all non-cancellable leases in effect at December 31, 1976 are as follows:

	(Amounts in Thousands)				
		Non-capitalized Financing Leases			
Period	Total	Aircraft Equipment	Buildings and Facilities	Other Equipment	Operating Leases
1977	$ 118,959	$ 63,904	$ 18,949	$ 6,589	$ 29,517
1978	115,877	63,904	19,017	5,936	27,020
1979	113,147	63,904	19,292	5,038	24,913
1980	109,602	63,904	19,566	2,786	23,346
1981	108,161	63,904	19,721	2,287	22,249
1982-86	418,337	216,981	99,420	4,560	97,376
1987-91	196,694	42,173	91,588	706	62,227
1992-96	124,419	-	77,619	53	46,747
Remainder	139,567	-	111,739	821	27,007
Total	$1,444,763	$578,674	$476,911	$28,776	$360,402

Present values of minimum lease commitments, net of sublease revenue of immaterial amounts, for all non-capitalized financing leases in effect at December 31, 1976 and 1975 are as follows:

	1976	1975
	(Amounts in Thousands)	
Aircraft Equipment	$425,088	$459,509
Buildings and Facilities	208,051	200,168
Other Equipment	23,269	25,229
Total	$656,408	$684,906

The effect of net income (loss) if all leases identified as non-capitalized financing leases were capitalized is as follows:

	1976	1975
	(Amounts in Thousands)	
Expense increase (decrease):		
Amortization	$ 52,438	$ 51,975
Interest	46,682	49,742
Lease rental	(90,024)	(88,498)
Increase in expense	9,096	13,219
Less income tax effect	2,849	3,402
Additional charge to income - net	$ 6,247	$ 9,817

Interest rates used in the computation of present values ranged from 4.25% to 14.13% with a weighted average of 7.58% at December 31, 1976 and ranged from 4.25% to 14.60% with a weighted average of 7.16% at December 31, 1975.

Amounts reported for 1975 in each of the above tables have been restated to conform with the reclassification, adopted in 1976, of certain leases of buildings and facilities from the classification of non-capitalized financing leases to the classification of operating leases.

Sixty-two aircraft were leased at December 31, 1976 (with aggregate annual rentals approximating $63,600,000) for which the remaining lease periods range from six to fourteen years with options to purchase and rights of first refusal to purchase or re-lease most of such aircraft essentially on the basis of market value upon termination of the leases. The lessors' cost of forty-seven aircraft was financed in part by loans from others and, for twelve aircraft, in part by the sale to the public of Guaranteed Loan Certificates. The loans to lessors from others are evidenced by notes payable in instalments over the term of the leases from rental proceeds under the leases. The Guaranteed Loan Certificates are to be redeemed through a Sinking Fund accumulated from the lease rentals. TWA has guaranteed the payment of substantially all of the notes and all of the Guaranteed Loan Certificates, even though scheduled rental payments will exceed the principal and interest payments thereon.

Building and facility leases are primarily for airport terminals, support facilities and hotels. At December 31, 1976, thirty-seven hotels were operated under lease agreements which generally provide for a contingent rental based on a percentage of gross operating profit and, in some instances, for a fixed basic rent. Initial terms of the hotel leases generally are not less than twenty years exclusive of options to renew. Leases of other equipment primarily consist of flight simulators and computer systems.

SUMMARY OF DISCLOSURES:

Companies reporting items relating to APB Opinion No. 31 and ASR 147 (Disclosure of Lease Commitments by Lessee):

Table 1-6

Disclosed	11
Not disclosed	-
Statement that leases are either not material or not significant	-
Total	11

Total rent expense entering into determination of net income:

Table 1-7

Disclosed	11
Not disclosed	-
Disclosure that lease rentals are less than 1% of operating revenues	-
Total	11

Rental from subleases:

Table 1-8

Disclosed	2
Not disclosed	9
Total	11

Landing fees:

Table 1-9

Disclosed	3
Not disclosed	8

Minimum rental commitments under all non-cancellable leases as of the date of the latest balance sheet for each of the five succeeding years, each of the next five-year periods and the remainder as a single amount:

Table 1-10

Disclosed in the categories indicated above	11
Disclosed but not in specific categories mentioned above	-
Not disclosed	-
Total	11

Basis for calculating rental payments if dependent upon factors other than lapse of time:

Table 1-11

Disclosed	-
Not disclosed	11
Total	11

Existence and terms of renewal or purchase options, escalation clauses, etc.:

Table 1-12

Disclosed	7
Not disclosed	4
Statement to the effect that they are not significant	-
Total	11

Nature and amount of guarantees or obligations assumed:

Table 1-13

Disclosed	8
Not disclosed	3
Total	11

Restriction on paying debt, additional leasing, etc.:

Table 1-14

Disclosed	1
Not disclosed	10
Total	11

Any other information necessary to assess the effect of lease commitments on future operations:

Table 1-15

Disclosed	1
Not disclosed	10
Total	11

Present value of lease commitments by major category at balance sheet date:

Table 1-16

Disclosed	9
Not disclosed	2
Total	11

Rate used in computation of present value:

Table 1-17

Disclosed	9
Not disclosed	2
Total	11

Present value of all sub-rentals which will reduce rental expense:

Table 1-18

Disclosed	-
Not disclosed	11
Total	11

Impact on net income of capitalizing all non-capitalized financing leases:

Table 1-19

Disclosed	8
Not disclosed	1
Statement that the impact was either not material or not significant	1
Statement that the impact on net income was less than 3% of average net income for the two most recent years	1
Total	11

Amount of amortization and interest cost for all non-capitalized financing leases:

Table 1-12

Disclosed	7
Not disclosed	4
Total	11

CONTINGENCIES - BRANIFF AIRWAYS

CONTINGENCIES

In connection with the sale of certain of its assets, the Company has agreed, under certain circumstances, to repurchase such assets. At December 31, 1976, the contingent repurchase prices aggregated $25,255,000. The Company estimates that the current market values of such assets are in excess of any contingent repurchase prices and that no losses would occur in the event of such repurchase.

At December 31, 1976, the Company was contingently liable with respect to certain accounts in Latin America, approximating $1,657,000, which had been sold to banks with recourse.

Federal income tax returns of the Company and consolidated returns in which it was included from December 1, 1965 through December 31, 1971 have been examined by the Internal Revenue Service. Proposed adjustments through that date could result in additional tax payments of approximately $3,325,000 exclusive of interest. This amount reflects the utilization of approximately $2,170,000 of unapplied investment tax credits and a reduction of $729,000 in the Company's claim of investment tax credits recoverable from the former parent as discussed in Note 6. A substantial portion of the total assessments, if ultimately paid, would result in future tax benefits or reduced deferred income taxes provided in prior years. In addition, the Internal Revenue Service, as a result of its investigations into the competitive practices program referred to hereinafter, is claiming a civil fraud penalty of approximately $596,000 with respect to the tax return filed for 1971. The Company has protested the proposed adjustments for years prior to 1970, intends to deny liability for 1970 and 1971 and intends to vigorously oppose the asserted civil fraud penalty. In the opinion of management, the ultimate payments of prior year income taxes will not materially exceed the aggregate of the amount provided for prior year liabilities, the amount of future tax benefits and the amount related to deferred taxes provided in prior years.

In addition to the above matters, reference is made to Item 5 - Legal Proceedings for discussion of pending litigation and related matters.

Although the ultimate effect of the matters discussed and referred to in this note on the financial statements is not presently determinable, it is the opinion of management that such effect will not be material.

See Item 1, "Business - Fares and Rates" for possible retroactive adjustments of mail rates.

INCOME TAXES - DELTA AIR LINES

INCOME TAXES

The provision for income taxes in 1976 and 1975 consisted of:

	1976	1975
	(In Thousands)	
Currently payable (refundable)	$ 8,769	$(12,371)
Deferred income taxes	36,849	48,069
Investment tax credits	8,331	3,626
Income taxes provided	53,949	39,324
Less - Amortization of investment tax credits	(14,613)	(11,359)
	$39,336	$ 27,965

Total income taxes provided were 49.25% of 1976 and 1975 book income before income taxes, representing taxes provided at the 48.0% Federal statutory rate plus net state income taxes. As of June 30, 1976, approximately $34,000,000 of unutilized investment tax credits of which $22,500,000 expires in fiscal year 1982 and $11,500,000 in fiscal year 1983, are available to reduce future Federal income taxes payable.

The provision for deferred income taxes resulted from the tax effect of the following timing differences:

	1976	1975
	(In Thousands)	
Depreciation and other property items	$34,069	$42,598
Unrealized gain on foreign currency translation (Note 2)	5,992	2,785
Other, net	(3,212)	2,686
	$36,849	$48,069

The Internal Revenue Service has completed an examination of the Company's income tax returns for fiscal years 1966 through 1972, and on September 25, 1975, issued a statutory notice of deficiency proposing additional income taxes of $25,681,000.

The Company is contesting the proposed deficiency and believes that it has substantial defenses to most of the issues involved. The applicable law, however, is unsettled and the ultimate outcome of the matter is therefore uncertain. In the opinion of management, adequate provisions have been made for the alleged tax deficiency plus related interest, and the outcome of this matter will not have a material adverse effect on the Company's financial condition.

SUMMARY OF DISCLOSURES:

All reports surveyed included Federal income taxes on their income statement. The following table summarizes the method of income tax disclosure:

Table 1-21

Current and deferred on the income statement	1
Income taxes shown as one number on the income statement with footnote disclosure of the components	10
Total	11

The following table summarizes the method used to disclose the amount of the investment tax credit utilized:

Table 1-22

Disclosed in a footnote	11
Shown on the income statement	-
Not disclosed	-
Total	11

The method of accounting for the investment tax credit used by the airlines surveyed is summarized as follows:

Table 1-23

Deferred method	3
Flow-through method	8
Total	11

REPLACEMENT COST - UNITED AIRLINES

Supplemental Replacement Cost Information (Unaudited)

Inflation, particularly in recent years, has caused progressively greater outlays for the companies' operating expenses and productive capacity. For many operating expenses such as labor, fuel, operating supplies, expendable parts, etc., UAL's financial statements generally reflect current prices. However, the companies' investments in productive capacity (principally aircraft, spare engines and major spare parts, airline ground equipment and facilities, and hotels) are substantial, and such investments and the related depreciation expense are based on historical cost. Hence, UAL's financial statements do not reflect the higher current replacement costs for most of its productive capacity. Moreover, the Civil Aeronautics Board, which regulates fares that may be charged by United, UAL's largest subsidiary, makes no allowance for higher replacement costs in determining airline fares and rates.

Management has made estimates of year-end 1976 estimated replacement cost of most of the productive capacity of UAL's subsidiaries and the approximate effect which replacement cost might have on depreciation expense for the year. Such data, which have not been audited by independent public accountants, are presented below, following condensed descriptions of the significant methodologies used and several cautions as to the general subjectiveness and impreciseness of the calculations and as to certain conclusions that should not be drawn.

Methodology for Determination of Replacement Costs--Airline

Replacement costs for aircraft and related support equipment and for ground equipment and facilities were determined using guidelines developed by the airline industry under the auspices of the Air Transport Association.

The primary unit of productive capacity for an airline is the passenger seat. United has estimated the replacement cost for its current passenger aircraft fleet, both owned and leased, by multiplying the total number of passenger seats (using maximum seating configurations provided by manufacturers of aircraft) by the cost per seat, at December 31, 1976, for new aircraft. Replacement costs for freighters were determined in a similar manner, using available cubic feet as the unit of productive capacity.

Replacement costs of spare engines and support equipment have been estimated based on the historical ratio of the cost of such parts to the total cost of related fleets. For purposes of calculating the replacement cost of owned and leased ground equipment, indexes published by governmental and private organizations were applied to the historical cost of the assets.

Replacement cost data for terminals, hangars and other facilities located at airports and leased from airport authorities or other governmental units have not been determined, inasmuch as Statement of Financial Accounting Standards No. 13 classifies such leases as operating leases.

Methodology for Determination of Replacement Costs--Hotels

Hotels, including those operated under non-capitalized financing leases, were grouped based on a detailed evaluation of architectural characteristics, physical configuration and other construction peculiarities. From the groups, certain hotels were selected as models for which original building construction costs were determined on a per-room basis. Original construction costs include construction materials, labor, architectural fees and interest and taxes incurred during construction. Model building costs were adjusted for inflation by multiplying the per-room building construction costs by construction indexes reflecting the amount of inflation since the respective completion dates of the buildings. The replacement costs of hotel buildings were then estimated using model per-room replacement costs adjusted for differences in construction indexes relating to their respective geographic locations.

The source for construction indexes was the "F. W. Dodge Building Cost Calculator and Valuation Guide," which is believed to provide indexes that are reasonably representative of changes in construction costs by geographic region.

Each hotel was analyzed to determine the number of rooms, square feet of public space (lobby, banquet rooms, meeting rooms, etc.), general configuration and food and beverage seating. Taking these factors into consideration, replacement costs of furniture, fixtures and equipment were estimated based on late 1976 vendor prices.

Methodology for Determination of Depreciation Expense and Accumulated Depreciation

Replacement cost depreciation expense was calculated on the straight-line method using historical depreciation rates for existing property and equipment applied to the average estimated replacement cost of productive capacity. Replacement cost accumulated depreciation was determined in a similar manner, i.e., by applying to replacement cost the same percentage relationship that actual accumulated depreciation bears to total historical cost.

General and Cautionary Comments

The selected replacement cost data presented in the following section are based on the hypothetical assumption that UAL would replace its entire productive capacity at December 31, 1976, without regard to the availability of funds to do so, or to whether such action would be desirable, practical or even physically possible. In addition, the assumptions on which the data are based would require management decisions at December 31, 1976 that ordinarily would not be addressed at that time, or all at one time.

The selected replacement cost data do not reflect any operating expense savings which might result from the replacement of existing assets with assets of improved technology. If the companies' productive capacity were to be replaced in the manner assumed in the calculation of replacement cost of existing productive capacity, many operating expenses other than depreciation (e.g., fuel costs, labor costs, repairs and maintenance and other indirect costs) might change as well. Since, in the opinion of management, such expected expense changes cannot be quantified with any precision, their potential effect on operating cost efficiencies is not determinable. Furthermore, any reduction could be offset by increased interest expense on additional borrowings to finance replacements; but such expense is also not determinable, because the interest rates on that debt and the amount of capital requirements that would be financed by equity offerings are unknown. In addition, income tax effects, including investment tax credits, would inure to these cost changes, to increased depreciation and to capacity replacement.

It should be noted that operating expenses for the year 1976 included $90,452,000 of rental expense on those non-capitalized financing leases for which replacement cost data are presented. In the selected replacement cost data below, the underlying assets for such leases are included in capacity replacement costs (with discounted lease amounts in the comparable historical costs), and amortization thereof is included in the related depreciation figures.

The selected replacement cost data standing alone do not recognize customary relationships between changes in operating expenses and changes in operating revenues. With respect to the airline in particular, and the airline industry in general, competitive and/or regulatory conditions over the years have prevented the timely recoupment, through passenger fare and freight rate increases, of rising costs due to inflation. Hopefully, changes in circumstances in the future will help achieve more timely modification of fares and rates.

In view of the preceding explanatory material, a number of cautionary comments must be made as to the nature of the selected replacement cost data which follow, even though management believes that they have been prepared on a reasonable basis:

1. The information should not be interpreted as having considered all of the effects of inflation (or changes in other economic factors). Other inflationary effects experienced in times of inflation, such as holding gains by a borrower and losses from holding cash, receivables and other monetary assets, are not presented.

2. The information should not be interpreted as an indication that UAL's subsidiaries actually have present plans (except as otherwise described in another footnote herein) to replace the subject assets, or that actual replacement would or could take place in the form and manner, or at the costs, assumed in developing these estimates or that funds to do so would be available. Decisions to replace productive capacity are made by UAL over extended periods, after considering economic, competitive and regulatory conditions existing at the time. In addition, if costs to replace the companies' productive capacity continue to rise, the actual costs of replacement in the future will probably increase significantly from the amounts reported below, which are based on approximate costs at December 31, 1976.

3. Estimated capacity replacement costs should not be deemed to represent current value amounts that could be obtained upon sale.

4. The difference between capacity replacement costs (net of accumulated depreciation) and the related historical costs should not be construed as representing additional book value for UAL's shareholders. Instead, it is an indication of the need for capital funds to replace existing capacity, such funds to be provided by earnings based on an adequate airline fare structure, the issuance of additional debt and/or the sale of additional equity securities.

5. In view of the many assumptions and subjective judgments involved, the data are subject to numerous estimation variations and other inherent imprecisions and are therefore of limited usefulness in their association with UAL taken by itself or, because of different factual circumstances, in any comparison with similar data of competing or other reporting companies.

6. Because of the many qualifications heretofore stated, the data should not be used in any manner in an attempt to determine so-called "true income."

Selected Replacement Cost Data

Subject to the aforementioned limitations, the selected replacement cost data are presented below:

	Estimated Replacement Cost Data	Reported Historical Cost Amounts (see Reconciliation Table)
	(In Thousands)	
Operating property and equipment - as of December 31, 1976:		
Flight equipment	$5,549,366	$2,961,419
Airline ground equipment and facilities	934,219	603,840
Hotels	504,259	314,200
Gross	6,987,844	3,879,459
Less - Accumulated depreciation	3,437,986	1,898,231
Net	$3,549,858	$1,981,228
Depreciation expense - for the year ended December 31, 1976:		
Airline	$ 405,229	$ 230,735
Hotels	18,997	12,099
	$ 424,226	$ 242,834

The amounts shown above as "Reported Historical Cost Amounts" differ from amounts shown in the consolidated financial statements of UAL. The differences are reconciled as follows:

	Operating Property and Equipment		
	Gross	Accumulated Depreciation	Depreciation Expense
		(In Thousands)	
Totals as shown in accompanying consolidated financial statements	$3,188,912	$1,556,996	$204,562
Present value of future rentals for non-capitalized financing leases, as determined at inception of the leases, and amortization thereof.......	809,686	348,467	49,634
Less - Properties for which replacement cost data have not been provided:			
Advances on flight equipment purchase contracts	(17,426)	-	-
Land and construction in progress, at cost	(73,162)	-	-
Other	(28,551)	(7,232)	(5,137)
Less - Amortization not related to properties	-	-	(6,225)
Reported historical cost amounts for which replacement cost data are provided, as in table above	$3,879,459	$1,898,231	$242,834

See additional replacement cost disclosure at the comparison of stockholders' annual reports and 10-K annual report.

STOCK OPTIONS - PAN AMERICAN WORLD AIRWAYS

STOCK OPTION AND EMPLOYEE PURCHASE PLANS

Incentive Stock Option Plans. On May 4, 1967, May 9, 1972 and May 8, 1973 incentive stock option plans were approved by the shareholders of the Company. Under the terms of the Plans, options granted under the 1967 and 1972 Plans are exercisable over a period of up to five years, except in the case of certain employees whose retirement dates would occur sooner; options granted under the 1973 Plan are exercisable over a period of up to ten years. Information with respect to options granted in 1976 is shown below. No options were granted in 1975.

	Option Prices (Market Prices At Dates Granted)	Shares	Aggregate
1973 Plan:			
April 6, 1976.......	$6.3125	429,500	$2,711,219
May 3, 1976.........	5.3125	7,500	39,844
June 1, 1976........	5.3125	30,000	159,375
July 6, 1976........	5.9375	5,000	29,688
September 7, 1976...	5.5625	12,000	66,750
December 7, 1976....	4.875	24,500	119,438

Options granted in prior years were cancelled as follows:

	Number of Shares		
	1967 Plan	1972 Plan	1973 Plan
1975	121,400	21,000	15,500
1976	61,000	30,000	-

No options were exercised in 1975. During 1976, options to purchase 125 shares were exercised under the 1972 Plan. Options which became exercisable during the period January 1, 1975 to December 31, 1976 were as follows:

	Number of Shares	Option Price Per Share	Option Price Total	Market Price Per Share	Market Price Total
1967 Plan:					
Options which became exercisable during:					
1975	37,500	$14.25 to $18.8125	$ 561,750	$4.00 to $5.375(a)	$ 196,062
1976	22,250	15.25	339,313	7.00(a)	155,750
1972 Plan:					
Options which became exercisable during:					
1975	74,500	2.0625 to 16.75	694,133	3.625 to 5.25(a)	311,297
1976	66,969	2.0625 to 16.75	616,986	4.875 to 7.00(a)	374,892
1973 Plan:					
Options which became exercisable during:					
1975	27,375	2.75 to 8.25	186,656	2.25 to 4.625(a)	113,453
1976	27,375	2.75 to 8.25	186,656	4.625 to 7.00(a)	149,109
Shares under option at December 31, 1976:					
1967 Plan	89.000(c)	15.25	1,357,250	15.35(b)	1,357,250
1972 Plan	267,875	2.0625 to 16.75	2,467,938	2.0625 to 16.75(b)	2,467,938
1973 Plan	618,000	2.75 to 8.25	3,872,938	2.75 to 8.25(b)	3,872,938
Shares under option which are exercisable at December 31, 1976:					
1967 Plan	89,000(c)	15.25	1,357,250	15.25(b)	1,357,250
1972 Plan	210,313	2.0625 to 16.75	2,047,315	2.0625 to 16.75(b)	2,047,315
1973 Plan	82,125	2.75 to 8.25	559,969	2.75 to 8.25(b)	559,969

(a) At the dates options became exercisable.
(b) At the dates options were granted.
(c) Options terminated February 14, 1977.

At December 31, 1976 there were 114,000 shares of the Company's capital stock reserved for future grants. The Company makes no charges to income in connection with the Plans.

Employees Stock Purchase Plan. Pursuant to the final offering under the 1971 Employees Stock Purchase Plan, 1,055,812 shares were issued during 1975 predominantly at $2.60 per share.

QUARTERLY RESULTS - CONTINENTAL AIRLINES

Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for 1976 is as follows:

	Three months ended March 31	June 30 (Unaudited)	September 30	December 31
Total operating revenues........	$130,882,000	$145,605,000	$162,705,000	$112,272,000
Operating income..	$ 2,284,000	$ 14,852,000	$ 21,659,000	$ 3,103,000
Non-operating expense.........	$ (8,171,000)	$ (7,463,000)	$ (7,101,000)	$ (5,724,000)
Net earnings (loss)..........	$ (3,335,000)*	$ 4,371,000*	$ 10,215,000	$ (2,042,000)†
Net earnings (loss) per share:				
Primary.........	$ (.23)	$ .30	$ .70	$ (.14)
Fully diluted...	$ (.23)	$ .28	$ .63	$ (.14)

* Management's estimate of the annual effective tax rate was revised at June 30, 1976 from that used at March 31, 1976. The effect of this revision in the estimate was a decrease in second quarter 1976 net earnings of $727,000, or $.05 per share (primary) and $.04 per share (fully diluted).

† In the fourth quarter 1976, the Company added $1,368,000, net of income taxes, to the provision for doubtful receivables to fully reserve an interline account receivable from a foreign carrier, the total amount of which, in the opinion of the Company, is uncollectible.

During the fourth quarter of 1975, the Company recorded the following adjustments, net of income taxes, which increased (decreased) the net loss as follows: revaluation of 720B aircraft, $1,560,000; reduction in reserves of wholly-owned subsidiary as a result of the termination of operations in 1975, $(358,000); and aggregate effect of other adjustments, $639,000.

PENSION AIRLINES - NATIONAL AIRLINES

EMPLOYEES' RETIREMENT PLANS:

The Company had retirement plans in effect at June 30, 1976 available to all eligible employees. Two plans provide for compulsory contributions and the other plans permit voluntary contributions. Generally, the plans provide a life income after retirement. The normal retirement age is 60 years for pilots and 65 years for other employees with provisions made for early retirement. All employee contributions and current cost to the Company are deposited with a trustee. The normal cost of these plans was $9,448 in 1976 and $6,866 in 1975.

Accrued pension cost is funded on a current basis. As a result of a sharp decline in the market value of securities in recent years and increased benefits, the actuarial computed value of vested benefits exceeded the market value of the plans' net assets by $22,332 at June 30, 1976.

The Company has an Officers' Incentive and Deferred Compensation Plan which provides for the crediting to an incentive pool a certain percentage of the aggregate annual officer salaries when National has achieved at least a 4% return on capital as defined in the plan. No amounts were credited to the incentive pool in fiscal 1976 or 1975.

SUMMARY OF DISCLOSURE:

The following table summarizes some of the footnotes that appeared two or fewer times in the reports surveyed.

Table 1-24 - Miscellaneous Notes

Stockholders' equity	Disposition of property
Repurchase of common stock	Foreign operations
Accounting restatement	International route agreement
Retained earnings	Reclassifications
Parent company financial statements	Inventories
Investment in non-transport subsidiaries	Route and acquisition costs
Wage and salary freeze program	Flight equipment
Proposed acquisitions	Cash and short-term investments

EXAMPLES OF SOME OF THE ABOVE FOOTNOTE DISCLOSURES FOLLOW:

EASTERN AIR LINES

Investments in Non-Transport Subsidiaries

In October 1975 the Company concluded that its investment in the Dorado subsidiaries was impaired and reduced the investment to estimated realizable value resulting in a $16.8 million charge to earnings.

During the second quarter of 1976, the Company sold Dorado Beach Hotel Corp., the owner of the Dorado Beach and Cerromar Beach Hotels, for approximately the realizable value established in October 1975. The Company has retained its investment in Dorado Beach Estates, Inc., and Dorado Beach Development, Inc., whose assets consist primarily of undeveloped real estate located in the Dorado area of Puerto Rico.

NORTHWEST AIRLINES

Stockholders' Equity	Shares 1976	Shares 1975
Cumulative Preferred Stock $25 par value:		
Authorized..........................	1,000,000	1,000,000
Issued December 31..................	None	None

Common Stock options for officers and employees at prices which were not less than 100% of market at date of grant are as follows:

	Shares	Price Per Share
Outstanding December 31, 1974.....	36,700	$20.06
Granted..........................	45,300	19.13
Lapsed...........................	(1,000)	20.06
Outstanding December 31, 1975.....	81,000	19.13/20.06
Exercised........................	(1,900)	19.13/20.06
Outstanding December 31, 1976.....	79,100	19.13/20.06
Options exercisable:		
At December 31, 1975..........	35,700	20.06
At December 31, 1976..........	56,450	19.13/20.06

Shares available for future stock options and other plans were 329,136 at December 31, 1976 and 1975, of which 69,000 were available for additional grants under the 1973 Stock Option Plan.

TRANS WORLD AIRLINES

DISPOSITION OF PROPERTY:

During 1975, TWA contracted to sell to an agency of the Government of Iran twelve Boeing 747 aircraft, three of which were purchased for immediate resale and subsequent modifications by TWA, and to provide spare engines and parts under a related provisioning contract. The sales value of the various contracts aggregated $233,000,000 (sales commissions of approximately $20,000,000 and modification and other costs of approximately $8,000,000 were associated with the provisioning contract and the sale of nine aircraft previously owned and operated by TWA, and modification costs of approximately $4,300,000 were incurred in 1976 related to the three aircraft purchased for resale). At December 31, 1975, all aircraft had been delivered and the provisioning contract was substantially completed; accordingly, a loss of $15,700,000 was recorded in 1975 related to the nine aircraft and the provisioning contract. The profit attributable to the three aircraft purchased for immediate resale resulted entirely from the modifications performed in 1976. The remaining gains and losses on disposition of property in 1976 and 1975 result from several immaterial transactions. Also, see Note 7(f).

UNITED AIRLINES

Retained Earnings

Substantially all of the retained earnings at December 31, 1976 were represented by undistributed earnings of subsidiaries. Of these undistributed earnings, $130,977,000 of United's retained earnings were restricted under certain of its financing agreements as to the payment of cash dividends. The Canadian Anti-Inflation Act substantially restricts dividend payments by Western International's Canadian subsidiaries. These subsidiaries' retained earnings totaled $14,248,000 at December 31, 1976.

Under the terms of the agreements providing for the issuance of its 5% notes and sinking fund debentures, United has agreed that it will not pay cash dividends on its stock if its asset ratio, as defined, would be reduced below 105%. Such asset ratio was 202% as of December 31, 1976.

There are no restrictions on retained earnings arising from the fact that the involuntary liquidation value of the Series A preferred stock is $15,414,000 in excess of its stated value.

DELTA AIR LINES

SUBSEQUENT ACQUISITION AND LIQUIDATION OF STORER LEASING, INC.:

On July 27, 1976, the Company purchased all of the outstanding capital stock of Storer Leasing, Inc., a wholly-owned subsidiary of Storer Broadcasting Company, for cash of $30,350,000 and assumption of existing indebtedness of $3,649,000, payable in monthly instalments through January 1978, with interest at 5-1/2% per annum. The assets of Storer Leasing consisted of 6 Boeing 727-200 and 5 Boeing 727-100 aircraft and 18 spare engines, all of which were previously leased to the Company. On July 30, 1976, Storer Leasing was liquidated and the assets transferred to the Company.

OPINIONS

Unqualified opinions were issued on the financial statements of all the airlines surveyed. Accounting changes were indicated in the opinions in the following manner:

Table 1-25

Opinion paragraph only with concurrence	6
Opinion paragraph and middle paragraph with concurrence	1
Middle paragraph for emphasis, no opinion paragraph mentioned and no concurrence	1
Total	8

Examples of the above opinions follow:

EASTERN AIR LINES

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
Eastern Air Lines, Inc.:

We have examined the financial statements on pages 6 to 23 for the years ended December 31, 1976 and 1975. Our examinations were 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.

As explained in Note D, at the request of the Securities and Exchange Commission, the Company has changed its method of accounting for the cost of vacation benefits.

In our opinion, the financial statements on pages 6 to 23 present fairly the financial position of Eastern Air Lines, Inc. at December 31, 1976 and 1975, the results of its operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, referred to in the preceding paragraph.

PRICE WATERHOUSE & CO.

Sixty Broad Street
New York, N.Y. 10004
February 4, 1977,
except as to Note D, which is as of
April 4, 1977

HASKINS & SELLS

NATIONAL AIRLINES

OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

National Airlines, Incorporated:

We have examined the financial statements and schedules of National Airlines, Incorporated, listed in the accompanying index (Item 10(a)), which you are filing as part of your Annual Report (Form 10-K) to the Securities and Exchange Commission for the fiscal year ended June 30, 1976. 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.

Effective July 1, 1975 the Company revised the depreciation termination dates for its aircraft fleet as described in the Note D to the Financial Statements entitled "Depreciation Change." This change in depreciable lives resulted in a reduction of depreciation expense for fiscal 1976 of $12,288,000 and an increase in net income of $5,326,000 or $.62 per share. In our opinion, this change in depreciable lives is not a change in accounting principle or in the application of an accounting principle, but does affect the comparability of the financial statements.

In our opinion, the accompanying balance sheet and statements of income, changes in financial position, and retained earnings present fairly the financial position of the Company at June 30, 1976 and 1975, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis, and the schedules, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

Miami, Florida
August 16, 1976

WESTERN AIR LINES

ACCOUNTANTS' REPORT

The Board of Directors
Western Air Lines, Inc.:

We have examined the balance sheets of Western Air Lines, Inc. as of December 31, 1976 and 1975 and the related statements of earnings, shareholders' equity, and changes in financial position for the years then ended. Our examinations were 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.

In our opinion, the aforementioned financial statements present fairly the financial position of Western Air Lines, Inc. at December 31, 1976 and 1975, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the period subsequent to the change, with which we concur, made as of January 1, 1975, in the method of accounting for costs of major flight equipment maintenance as described in Note 2. The supporting schedules, in our opinion, present fairly the information set forth therein.

PEAT, MARWICK, MITCHELL & CO.

Los Angeles, California
February 25, 1977

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

As required by Section 13 or 15(d) of the Securities Exchange Act of 1934 each airline filed a Form 10-K, including management's discussion and analysis of the summary of operations. Nine of the airlines used five-year summaries while two used ten-year summaries. Two airlines incorporated by reference the management discussion and analysis from the annual report. Examples of management's discussion and analysis follow:

NORTHWEST AIRLINES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

Operating Revenues

Operating revenues in 1976 increased to $963.8 million compared with $800.6 million in 1975 and $759.0 million in 1974. This revenue change between years reflects increases in traffic along with increases in fares and rates as permitted by the Civil Aeronautics Board in 1976 and 1975. The system passenger-mile yield increased to 7.30¢ in 1976 and compares to 6.94¢ in 1975 and 6.81¢ in 1974. The cargo revenue ton-mile yield in 1976 increased to 25.65¢ and compares with 22.86¢ in 1975 and 23.99¢ in 1974.

Operating Expenses

Operating expenses increased to $860.9 million in 1976 and compares with $750.9 million in 1975 and $681.2 million in 1974. Of this amount, depreciation and amortization expense was $102.7 million in 1976 compared with $98.9 million in 1975 and $96.2 million in 1974. This increased expense reflects the addition of new, more modern aircraft which was partially offset by the disposal of the older, less productive aircraft. Maintenance expense in 1976 amounted to $87.2 million and compares with $77.9 million in 1975 and $71.4 million in 1974. These increases between years reflect increased operations and the inflationary trends in both labor and materials. Significant inflationary increases continued between years in the cost of labor, agency commissions, and aircraft fuel. Operating expense per available ton-mile increased to 21.61¢ in 1976 from 20.61¢ in 1975 and 19.85¢ in 1974.

Interest Expense

Interest on long-term debt, net of capitalized interest, amounted to $14.0 million in 1976 and compares with $16.1 million in 1975 and $19.6 million in 1974. This expense variance between years results from the amount of debt outstanding and from variances in the prime commercial loan rate.

Income Taxes

Income taxes and the effective income tax rate varied in the years 1974 through 1976. The variance in the effective income tax rate is primarily the effect of investment tax credits earned on assets purchased in each of these years and is fully explained in the Consolidated Summary of Operations, Page 6 and in Note L to the Consolidated Financial Statements, Page F-6 of this report.

TRANS WORLD AIRLINES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

The financial results for the Company presented in the summary of consolidated operations are not necessarily indicative of future earnings potential. TWA and the airline industry in general have historically experienced significant variations in year-over-year revenues and expenses, reflecting such factors as: changes in traffic growth caused in part by general economic conditions, intensity of competition among carriers, changes in capacity provided, percentage of capacity used, higher labor and other expenses, cost of new equipment, and government regulation of fare levels. One or more of these factors contributed to losses in TWA's operations during the years 1974 and 1975. In addition to the discussion and data elsewhere in this report, the following comments are offered to show the impact of these factors on the Company's financial performance.

1976 Compared to 1975

The Company's operating revenues in 1976 were $330,400,000 (12.5%) above 1975. TWA's revenues rose $241,300,000 (13.1%), mainly reflecting increases of 6.4% in scheduled passenger traffic and 5.1% in scheduled passenger yield. Canteen posted a revenue improvement of $48,600,000 (9.9%), due principally to price increases, higher volume of business, improved marketing/sales efforts, and new/expanded operations. Hilton experienced a revenue gain of $40,500,000 (13.1%) due to improved occupancy rates, higher volume, price changes, and new/expanded operations.

The Company's operating expenses were up $182,300,000 (6.8%) in 1976 versus 1975. TWA experienced a $104,800,000 (5.5%) rise, reflecting inflationary pressures on salaries, wages and benefits, fuel and oil, and other operating costs. Worldwide inflationary pressures and new/expanded operations contributed to increased operating expenses of $45,500,000 (9.7%) for Canteen and $32,000,000 (11.0%) for Hilton.

The Company's other charges (credits) declined $17,500,000 (29.9%) in 1976 from 1975. TWA posted a $17,000,000 (32.0%) decline resulting from the fact there was a $15,700,000 net capital loss on aircraft sales and related supplies in 1975, while in 1976 there was a $4,700,000 decrease in gains on foreign currency transactions, a $4,500,000 increase in interest income, and a $1,500,000 decrease in all other charges (credits). Canteen's other charges (credits) were $100,000 higher than those in 1975, and Hilton's other charges (credits) declined $500,000 from 1975.

The provision (credit) for income taxes increased by $42,500,000 in 1976 versus 1975. The Company's net results improved by $123,100,000 in 1976 from 1975.

1975 Compared to 1974

The Company's operating revenues in 1975 were $132,800,000 (5.3%) over 1974. TWA's revenues rose $68,800,000 (3.9%), mainly reflecting an increase in international passenger yield and despite a decline in total traffic volume of 1.2% relating to uncertain economic conditions and the suspension of Pacific, Far East, and Frankfurt services. In addition, the CAB's granting of inadequate domestic fare relief to match increased costs resulted in a modest decline in domestic passenger yield. Despite weak economic conditions, Canteen reported a revenue gain of $18,100,000 (3.8%), due mainly to price increases and improved marketing programs. A combination of volume and price changes contributed to Hilton's revenue improvement of $45,900,000 (17.5%).

The Company's operating expenses were up $196,000,000 (7.9%) in 1975 versus 1974. Despite lower traffic volume, TWA experienced a $130,700,000 (7.3%) increase resulting from higher average labor costs and fuel prices plus inflation's impact on other operating costs. Canteen and Hilton reported operating expense increases of $16,000,000 (3.5%) and $49,300,000 (20.3%), respectively, attributable in large measure to worldwide inflationary pressures.

The Company's other charges (credits) climbed $17,500,000 (42.6%) in 1975 over 1974. TWA experienced a $12,900,000 (31.5%) rise due to: a net capital loss of $15,700,000 relating to sales of aircraft and related supplies, a $14,200,000 favorable adjustment concerning the translation of long-term debt payable in foreign currencies, and an $11,400,000 increase relating to other charges (credits). Canteen's 1975 other charges (credits) were $1,700,000 higher than 1974, and Hilton's rose by $2,900,000.

The provision (credit) for income taxes decreased by $18,000,000 in 1975 versus 1974. The Company's net results declined by $62,700,000 in 1975 from 1974.

Note: TWA's revenues and expenses include non-transport related activities.

FORM 10-K VERSUS ANNUAL REPORT DISCLOSURES

This survey is made from the selected airlines Form 10-K annual reports. As such the disclosures indicated herein are more extensive than those appearing in the stockholders' annual reports. A tabulation of the footnote disclosures in the stockholders' annual reports indicated a total of 138 items, whereas the Form 10-K annual reports included a total of 160 items. Eight of the additional items consisted of further disclosures of items which had been disclosed in the stockholders' annual report. The following summarizes those items which had additional disclosures in the Form 10-K annual report.

Table 1-26	1976
Replacement cost	3
Stock options	2
Earnings per share	1
Income taxes	1
Quarterly results	1
Total	8

Examples of the stockholders' annual report disclosures and the additional disclosures made in the Form 10-K annual report are as follows:

EASTERN AIR LINES - REPLACEMENT COST

STOCKHOLDERS' ANNUAL REPORT

NOTE N - ASSET REPLACEMENT COST (UNAUDITED)

The impact of inflation on the Company's production costs over the last five years has been greater than the corresponding change in the general price level. For example, the inflationary impact over the last five years on the Company's two major expenses, fuel and labor costs (approximately 59 per cent of 1976 operating expense) was 174 per cent and 55 per cent respectively, as compared to a 41 per cent increase in the consumer price index. Competitive and regulatory conditions over the years have prevented the Company from fully recognizing the effect on cost changes in its selling price.

Although the cumulative impact of inflation over a number of years has resulted in higher costs for replacement for existing productive capacity, such inflationary increases have been partially offset by technological improvements which often resulted in increased productivity of the new asset addition.

Reference is made to the Company's annual report Form 10-K (copy of which is available on request) for additional quantitative information with respect to the estimated replacement costs of the productive capacity at December 31, 1976, and the related estimated effect of such costs on depreciation expense for the year then ended.

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6. Replacement Cost Information (Unaudited)

In compliance with rules of the Securities and Exchange Commission (SEC), pursuant to Rule 3-17 of Regulation S-X, the Company has calculated certain estimated replacement cost for productive capacity. In Accounting Series Release 190, the SEC cautioned investors and analysts against "simplified use" of replacement cost information. In issuing that warning, the SEC stated:

> ".....(The Commission) intentionally determined not to require the disclosure of the effect on net income of calculating cost of sales and depreciation on a current replacement cost basis, both because there are substantial theoretical problems in determining an

income effect and because it did not believe that users should be encouraged to convert the data into a single revised net income figure. The data are not designed to be a simple road map to the determination of "true income." In addition, investors must understand that due to the subjective judgments and the many different specific factual circumstances involved, the data will not be fully comparable among companies and will be subject to errors of estimation."

The Company believes that the inherent imprecision and general limitation on the usefulness of the replacement cost information referred to above should be kept in mind when analyzing the Company's replacement cost information set forth herein.

The replacement cost information set forth below is based on the hypothetical assumption that the Company would replace its entire productive capacity at December 31, 1976 and, accordingly, should not be interpreted to indicate that the Company actually has present plans to replace existing productive capacity, nor that actual future replacement would take place in the form and manner assumed in developing these estimates. The Company cautions that even if such capacity were replaced in the manner described, the data should not be construed to represent the actual future costs of such replacement or the subsequent costs and expenses to be incurred in the production process.

In the normal course of business, the Company will replace its productive capacity over an extended period of time. Decisions concerning replacement will be made in the light of the economic, regulatory and competitive conditions existing on the dates such determinations are made and could differ substantially from the assumptions on which the data included herein are based.

In addition, the Company expects that many other difficulties, presently unidentified, would be experienced in the replacement of its productive capacity. For example, the technology currently available to the Company and the related environmental factors are undergoing significant change and the effect thereof on the Company's replacement decisions cannot be predicted with any precision. The Company's resultant inability to reflect the costs related to such unidentifiable difficulties is illustrative of the inherent imprecision of the hypothetical information required by Rule 3-17.

Replacement cost information required by Rule 3-17 is as follows:

(Amounts in Millions)

	1976		
	Historical Value	Replacement Value	Difference
Property and Equipment:			
Owned....................	$1,497	$2,556	$1,059
Leased...................	600	969	369
Total..............	2,097	3,525	1,428
Allowance for Depreciation:			
Owned....................	676	1,248	572
Leased...................	201	319	118
Total..............	877	1,567	690
Net Book Value:			
Owned....................	821	1,308	487
Leased...................	399	650	251
Total..............	$1,220	$1,958	$ 738
Depreciation Expense:			
Owned....................	$ 95	$ 153	$ 58
Leased...................	37	59	22
Total..............	$ 132	$ 212	$ 80

The foregoing replacement cost data were calculated utilizing a methodology jointly formulated by the airline industry through the Air Transport Association (ATA) and is outlined below:

1) Expendable parts and supplies are not reflected in replacement cost information since they are not held for sale and the rapid turnover is such that the price on the balance sheet approximates current replacement costs.

2) The replacement cost of flight equipment (both leased and owned) was calculated utilizing the aircraft seat as the primary unit of productive capacity. Standard replacement costs (including capitalized interest) were developed by aircraft seat for both wide and narrow-bodied aircraft. These values were extrapolated

by the actual number of seats in service (productive capacities) at December 31, 1976. While there would be economies (offset by financing costs) from newer, more efficient aircraft, those amounts could not be quantified.

3) The replacement cost of spare engines and rotable spare parts supporting aircraft fleet have been estimated on the basis of the historic ratio of the cost of such spares to the total cost of related fleets.

4) The replacement cost for ground equipment (both leased and owned) was calculated by categorizing the equipment so as to match specific indexes. The replacement value, therefore, is the product of historical cost and the index, except for land which has the same replacement value as its historical value. Replacement value for leased ground property was established using the criteria for financing leases as defined by Financial Accounting Standards Board Statement No. 13 which excludes from its capitalization requirement municipal leases for terminals and airport facilities.

5) Accumulated depreciation applicable to assets whose replacement cost is estimated is treated as being the same percentage relating to total replacement costs as actual accumulated depreciation does to total historic cost. Depreciation expense based on replacement cost of productive capacity has been estimated on a straight-line basis using the same estimates of useful life and salvage value utilized in preparing the historical cost financial statements.

NORTHWEST AIRLINES - INCOME TAXES

STOCKHOLDERS' ANNUAL REPORT

NOTE D - TAXES ON EARNINGS

The provision for taxes on earnings consists of the following:

	Year Ended December 31 1976	1975
Current:		
Provision for the year.............	$20,494,300	$ -0-
Operating loss carryback for tax purposes.........................	-0-	(12,224,500)
Reduction of refund for limitation of investment credits applied in prior years..................	-0-	6,183,700
Investment credit flow-through.....	(9,956,700)	-0-
	10,537,600	(6,040,800)
Deferred:		
Provision..........................	27,881,100	34,622,000
Investment credit:		
Flow-through......................	8,630,700	(17,329,400)
Arising from operating loss carryback......................	-0-	(6,183,700)
	36,511,800	11,108,900
Deferred investment credit being amortized over eight years.......	(522,200)	(1,374,900)
	$46,527,200	$ 3,693,200

Investment credits not applied on tax returns but offset against deferred income taxes at December 31, 1976 will expire $3,002,400 - 1979, $20,177,300 - 1980, $11,685,100 - 1981, $17,328,700 - 1982, and $1,334,100 - 1983.

Exclusive of investment credit, the Company's effective tax rate is 49.2% for 1976 and 47.6% for 1975.

The Company's Federal income tax returns have been examined and settled through 1973.

FORM 10-K - ANNUAL REPORT

NOTE L - INCOME TAXES

Reconcilement of the Company's effective income tax rate to the statutory Federal income tax rate follows:

	Year Ended December 31 1976	1975
Income tax at 48% of pre-tax income	$47,166,800	$22,602,700
Add (deduct):		
Investment credit flow-through	(1,326,000)	(17,329,400)
Amortization of pre-1969 investment tax credits	(522,200)	(1,374,900)
Other	1,208,600	(205,200)
Total tax expense	$46,527,200	$ 3,693,200

Federal, foreign and state and local income taxes consisted of the following:

	1976 Current	1976 Deferred	1975 Current	1975 Deferred
Federal provision (credit)	$ 9,240,600	$33,751,700	$(6,178,800)	$8,091,300
Foreign	587,000		368,000	
State and local (credit)	710,000	2,237,900	(230,000)	1,642,700
Total	$10,537,600	$35,989,600	$(6,040,800)	$9,734,000

The deferred income tax expense, which results from timing differences in recognizing items for financial reporting and income tax purposes, consists of the following (credit):

	1976	1975
Accelerated depreciation	$28,526,000	$31,267,700
Deferred employee benefits	(515,100)	2,008,400
Other	(129,800)	1,345,900
	27,881,100	34,622,000
Investment credit:		
Flow-through	8,630,700	(17,329,400)
Arising from operating loss carryback	-0-	(6,183,700)
	36,511,800	11,108,900
Deferred investment credit being amortized over eight years	(522,200)	(1,374,900)
	$35,989,600	$ 9,734,000

TITLE

The titles used to describe the statement of assets, liabilities and stockholders' equity follow:

Table 2-1

	1976
Balance Sheet	5
Statements of Financial Position	1
Consolidated Balance Sheet	4
Statement of Consolidated Financial Position	1
Total	11

* * * * *

PRINCIPAL CAPTIONS

The following summarizes the principal captions used to describe the asset and liability sides of the statement of assets, liabilities and stockholders' equity:

Table 2-2

Assets	11
Liabilities and Stockholders' (Shareholders') Equity	7
Liabilities	2
Liabilities and Stockholders' Equity	2
Total	11

* * * * *

PROPERTY

The principal captions of the property section of the statement and the subcaptions included under the principal captions, and the number of airlines using such captions, are set forth below:

Table 2-3 Principal Captions

Property and equipment, at cost	4
Property and equipment	3
Operating property and equipment	2
Property	1
Property, plant and equipment	1
Total	11

Table 2-4 Subcaptions

Flight equipment	11
Ground property and equipment	3
*Advances for new equipment	7
Land, buildings and other equipment	2
Other property and equipment	1

*It should be noted that 3 airlines presented advances for new equipment in Investments and Advances or as a line item.

The following tables summarize the method of valuing property indicated by each airline and the terms used to describe depreciation deducted from property:

Table 2-5

At cost	9
No disclosure	2
Total	11

Table 2-6

Accumulated	6
Reserve	2
Allowance	3
Total	11

Examples of the property section (000 omitted) of the balance sheet are as follows:

CONTINENTAL AIRLINES	1976	1975
Property and equipment, at cost:		
Flight equipment	$632,361	$664,465
Other property and equipment	147,101	145,515
	779,462	809,980
Less accumulated depreciation and amortization	227,243	220,541
Net property and equipment	$552,219	$589,439

DELTA AIR LINES

PROPERTY AND EQUIPMENT

	Flight Equipment	Other		
Cost -				
1976	$1,658,359	$239,108	$1,897,467	
1975	1,482,767	228,313		$1,711,080
Accumulated depreciation -				
1976	592,092	116,023	708,115	
1975	487,014	99,542		586,556
			1,189,352	1,124,524
Advance payments for new equipment..................................			41,302	47,950
			1,230,654	1,172,474

TRANS WORLD AIRLINES

PROPERTY:		
Flight equipment.............................	$1,609,985	$1,577,244
Merchandising equipment......................	135,464	113,620
Land, buildings and improvements............	223,176	208,849
Other property and equipment................	183,798	184,673
Prepayments on flight equipment.............	5,368	23,900
Total property - at cost...	2,157,791	2,108,286
Less accumulated depreciation................	1,025,303	911,240
Property - net.............	1,132,488	1,197,046

INVESTMENTS

The principal captions used by airlines to designate the investment section of the statement are as follows:

Table 2-7

*Investments and advances.........................	2
Investments and other assets.....................	2
No investment caption............................	7
Total............................	11

*Of the airlines surveyed in 1976 indicating Investments and Advances, only one distinguished investments at equity from those at cost.

Of the airlines indicating investments and other assets, one indicated investments at cost, while the other did not distinguish the valuation method. Of the seven airlines with no investment caption, one indicated investment in subsidiaries at equity under other assets.

Of the five airlines indicating investments in subsidiaries on the statement, four airlines gave no reason in the notes for not consolidating the subsidiaries.

Examples of the investment section (000 omitted) of the balance sheet are as follows:

AMERICAN AIRLINES	1976	1975
INVESTMENTS AND OTHER ASSETS		
Investment in and advances to Flagship International, Inc.	$ 61,523	$ 65,441
Non-current receivables, less allowances and deferred income (1976 - $12,392; 1975 - $15,355)	28,704	41,012
Route acquisition costs	43,700	43,700
Other assets and deferred charges	9,501	9,243
Total investments and other assets	$143,428	$159,396

EASTERN AIR LINES		
Investment and Advances	$ 12,856	$ 19,120

PAN AMERICAN WORLD AIRWAYS		
INVESTMENTS AND ADVANCES:		
Investments in:		
Unconsolidated subsidiaries and associated companies on the equity basis	$ 82,479	$ 85,077
Associated companies, at cost; approximate underlying equity: 1975 - $6,975; 1976 - $5,123	4,129	6,044
Advances to associated companies and long-term receivables, less reserve (1975 and 1976 - $585)	26,276	16,234
Advance on aircraft purchase contract		16,392
	$112,884	$123,747

CASH

Captions used to designate cash are shown below:

Table 2-8

Cash	8
Cash and short-term investments	2
Cash on hand and demand deposits	1
Total	11

In addition to the above captions, eight airlines in 1976 presented at least one additional cash-related caption. These captions are:

Table 2-9

Short-term investments	2
Temporary cash investments	2
Certificates of deposit	1
Commercial paper at cost	1
Temporary investments	1
U. S. Government and other securities	1
Short-term cash investments	1
Total	9

Of the eight airlines giving additional cash-related captions, the following information was given as to the method of valuation:

Table 2-10

Cost which approximates market	4
Cost	2
Cost not in excess of market	1
No method disclosed	1
Total	8

Examples of the cash section (000 omitted) of the balance sheet are as follows:

EASTERN AIR LINES	1976	1975
Cash	$41,971	$45,930
Short-term investments, at cost, which approximates market	93,186	45,074

NATIONAL AIRLINES		
Cash on hand and demand deposits	$38,929	$18,431

WESTERN AIR LINES		
Cash	$11,476	$10,546
Certificates of deposit	7,748	16,878
Commercial paper at cost and accured interest (which approximate market)	25,911	9,960
Total	45,135	37,384

RECEIVABLES

Captions used to designate receivables and the related provision for doubtful accounts are as follows:

Table 2-11

Accounts receivable	5
Receivables	4
Receivables, principally traffic	2
Total	11

Table 2-12

Net of allowance for doubtful accounts	3
Less allowances for uncollectible accounts	1
Less allowance for uncollectible accounts	2
After allowance for uncollectible accounts	1
Less reserve	2
Less allowance	1
Net	1
Total	11

Examples of the receivable section (000 omitted) of the balance sheet are as follows:

	1976	1975
CONTINENTAL AIRLINES		
Receivables, principally traffic, less allowance for doubtful receivables ($2,428 in 1976 and $248 in 1975)	$ 53,168	$ 67,303
NORTHWEST AIRLINES		
Accounts receivable, less allowance of $1,200 (1975 - $1,100)	$ 75,517	$ 72,492
UNITED AIRLINES		
Receivables, less allowance for doubtful accounts (Schedule XII) (10K)	$ 324,378	$ 276,091

INVENTORIES

Captions used to designate inventories (2 with multiple captions) and the related provision for obsolescence are as follows:

Table 2-13

Inventory of spare parts and supplies	1
Inventory of spare parts, materials and supplies	1
Spare parts and supplies	1
Spare parts	1
Flight equipment expendable parts	2
Flight equipment spare parts	1
Maintenance and operating supplies	3
Inventories	1
Airline inventories	1
Materials and supplies	1
Total	13

Table 2-14

Allowance for obsolescence	5
Obsolescence allowance	1
Reserve	1
Obsolescence reserve	1
Valuation reserve	1
Allowance for depreciation	1
No caption	1
Total	11

All airlines value expendable parts, materials and supplies at average cost. Only one airline values merchandise and supplies relating to vending, food and hotel services at the lower of average cost or market. Disclosure on the face of the statement was made by six airlines while the others disclosed the valuation methods in the notes.

Examples of the inventory section (000 omitted) of the balance sheet are as follows:

NORTHWEST AIRLINES	1976	1975
Flight equipment spare parts at average cost, less allowance for depreciation of $13,248 (1975 - $11,224)	$23,765	$24,040
Maintenance and operating supplies at average cost	6,933	6,732

PAN AMERICAN WORLD AIRWAYS		
Spare parts, at average cost, less obsolescence reserve (1976 - $22,371; 1975 - $21,824)	$ 37,863	$29,458
Materials and supplies, at average cost	22,171	21,048

TRANS WORLD AIRLINES

Airline inventories, less allowance for obsolescence (1976 - $25,281; 1975 - $25,381)	$ 79,190	$ 79,873
Merchandise and supply inventories	40,261	34,541

UNITED AIRLINES

Flight equipment expendable parts, less obsolescence allowance (1976, $19,688; 1975, $17,481) (Schedule XII) (10K)	$124,329	$112,008
Maintenance and operating supplies	27,167	29,192

PREPAID ITEMS OR OTHER CURRENT ASSETS

Various captions used to designate prepaid items or other current assets follows:

Table 2-15

Prepaid expenses and other current assets	3
Prepaid expenses	3
Prepaid expenses, etc	1
Prepaid insurance, rent, etc	1
Other current assets	1
Other	2
Total	11

Examples of captions used to designate prepaid items or other current assets (000 omitted) follow:

BRANIFF AIRWAYS	1976	1975
Other current assets	$ 5,848	$ 5,822
EASTERN AIR LINES		
Prepaid expenses and other current assets	$ 12,211	$ 12,481
NATIONAL AIRLINES		
Prepaid insurance, rent, etc	$ 1,368	$ 630

DEFERRED CHARGES AND OTHER NON-CURRENT ASSETS

Various captions used by airlines under deferred charges and other non-current assets are as follows:

Table 2-16

Deferred charges	3
Deferred charges and other assets	2
Other assets	5
Total	10

Examples of the deferred charge or other asset sections (000 omitted) of the balance sheet are as follows:

BRANIFF AIRWAYS	1976	1975
OTHER ASSETS:		
Long-term prepayments	$ 13,731	$ 12,703
Investments in subsidiaries - at equity	3,316	5,076
Deferred charges	4,634	5,197
Other (principally long-term receivables)	3,388	3,863
Total other assets	25,069	26,839
DELTA AIR LINES		
OTHER ASSETS:		
Nonoperating property and equipment	$ 1,238	$ 2,643
Long-term receivables and prepayment, etc	5,149	6,769
	6,387	9,412
EASTERN AIR LINES		
DEFERRED CHARGES, net of amortization (Note A):		
Preoperating costs	$ 7,210	$ 10,316
Route acquisition and development costs	5,470	8,178
Other	12,151	13,033
	24,831	31,527
PAN AMERICAN WORLD AIRWAYS		
DEFERRED CHARGES AND OTHER ASSETS:		
B-747 aircraft introductory costs	$ 2,682	$ 5,445
Unamortized debt expense and other assets	23,310	20,240
	25,992	25,685

MISCELLANEOUS LINE ITEMS - ASSETS

Line items not previously categorized (000 omitted) are noted as follows:

BRANIFF AIRWAYS	1976	1975
EQUIPMENT PURCHASE DEPOSITS	$17,349	$9,973
NONOPERATING PROPERTY AND EQUIPMENT - at cost less accumulated depreciation: 1976, $4,068; 1975, $3,920	1,811	2,143
PAN AMERICAN WORLD AIRWAYS		
AIRCRAFT HELD FOR RESALE AND LONG-TERM RECEIVABLES FROM SALES OF AIRCRAFT, less valuation reserve (1976 - $419; 1975 - $1,293)	$10,032	$3,203

CURRENT LIABILITIES

Short-term Notes Payable and Current Portion Due

The following summarizes the different captions used by the airline industry to describe notes payable:

Table 2-17

Current maturities of long-term debt	5
Notes payable	2
Current installations on long-term debt	1
Long-term debt maturing in one year	1
Current portion of debt	1
Notes payable and current maturities of long-term debt	1
Short-term notes payable	1
Notes payable - bank loans	1

Examples of the notes payable section of the balance sheet are at Page 2 - 12.

Accounts Payable

The captions used to describe accounts payable are as follows:

Table 2-18

Accounts payable - general	1
Accounts payable	7
Accounts payable and accrued liabilities	3
Total	11

Examples of the accounts payable section of the balance sheet are at Page 2 - 12.

Accrued Liabilities

The following summarizes the types of other current liabities shown by the airline industry:

Table 2-19

Personal compensation
Accrued salaries and wages
Accrued salaries and vacations
Accrued salaries, wages, and vacation pay
Accrued interest and other
Accrued interest
Accrued property and other taxes
Accrued income taxes
Accrued taxes
Income taxes payable
Accrued and deferred income taxes
Accrued liabilities
Other accrued liabilities
Accrued expenses
Accrued expenses - other
Accrued compensation and retirement benefit
Accrued vacation pay
Employee compensation
Collections as agent
Other

Examples of the accrued liability section of the balance sheet are at Page 2 - 12.

Advance Ticket Sales

The following summarizes the captions used to describe the ticket liability accounts:

Table 2-20

Air traffic liability	3
Advance ticket sales	3
Advance ticket sales and customers' deposits	1
Unredeemed ticket liability	1
Unearned transportation revenue	1
Unearned transportation revenue and customers' deposits	1
Unused tickets held by passengers	1
Total	11

Examples of the ticket liability section of the balance sheet are at Page 2 - 12.

Examples of the current liability section (000 omitted) of the balance sheet showing various current liability captions are as follows:

AMERICAN AIRLINES

	1976	1975 (Restated)
CURRENT LIABILITIES:		
Accounts payable	$157,859	$138,880
Accrued salaries and wages	75,035	77,618
Other accrued liabilities	89,934	73,884
Air traffic liability and customers' deposits	157,990	129,499
Current maturities of long-term debt	20,210	22,710
Total current liabilities	501,028	442,591

EASTERN AIR LINES

	1976	1975
CURRENT LIABILITIES:		
Notes payable within one year	$120,012	$108,557
Accounts payable and accrued liabilities	235,248	235,241
Unearned transportation revenue	68,902	53,694
Total current liabilities	424,162	397,492

PAN AMERICAN WORLD AIRWAYS

	1976	1975
CURRENT LIABILITIES:		
Notes payable - bank loans	$ -	$ 30,000
Current maturities of long-term debt	25,875	37,995
Accounts payable	78,203	85,036
Advance ticket sales	47,114	61,536
Accrued salaries, wages, and vacation pay	52,891	62,691
Accrued interest	16,711	14,322
Accrued taxes	16,630	16,239
Accrued expenses - other	74,612	46,725
Other current liabilities	8,425	10,136
Total current liabilities	320,461	364,680

WESTERN AIR LINES

	1976	1975
CURRENT LIABILITIES:		
Accounts payable	$ 28,760	$ 28,857
Salaries, wages, and vacation benefits payable	23,345	19,680
Accrued liabilities	13,912	13,088
Income taxes payable	5,825	679
Advance ticket sales	29,563	27,546
Current portion of debt	27,800	15,750
Total current liabilities	129,205	105,600

LONG-TERM DEBT

The principal captions of the long-term debt section of the statement, the subcaptions included under the principal captions, and the number of airlines using such captions, are set forth below:

Table 2-21 Principal captions

Long-term debt	6
Long-term debt, less current maturities	2
Noncurrent liabilities	1
Long-term debt, excluding current instalments	1
Long-term liabilities	1
Total	11

Table 2-22 Subcaptions

Senior debt	2
Subordinated convertible debentures	1
Long-term debt, less current maturities	1
Other noncurrent liabilities	1
Subordinated debt	1

Examples of the presentation of long-term debt (000 omitted) including the detailed note or schedule follow:

BRANIFF AIRWAYS	1976	1975
LONG-TERM DEBT, LESS CURRENT MATURITIES		
Senior debt	$185,059	$172,261
Subordinated debt	50,206	56,563
Total long-term debt, less current maturities	235,265	228,824

(See following page.)

BRANIFF AIRWAYS (Cont'd.)

LONG-TERM DEBT AND LINES OF CREDIT

SENIOR DEBT:		
Payable to insurance companies with annual sinking fund requirement of $4,250,000:		
5-1/2% notes due July 1, 1985	$ 26,980	$ 29,939
5-1/4% notes due July 1, 1985	11,770	13,061
Payable to banks:		
Term notes due in 1980 and maturing in semiannual instalments of $2,500,000 with interest at 120% of the sum of 1/2% and the best commercial loan rate of each of the participating banks	17,500	22,500
Revolving credit notes	-	75,000
Term notes due in 1983	30,000	30,000
10% senior notes due July 1, 1986 ($15,000,000 due July 1, 1984 and 1985)	50,000	-
9-1/8% senior sinking fund debentures due January 1, 1997 (less unamortized discount of $187,000)	49,813	-
Notes due in 1981 with quarterly instalments aggregating $2,757,600 per year with interest at 1% above the best commercial loan rate of The Chase Manhattan Bank	8,207	13,033
Other	46	53
Total	194,316	183,586
Less current portion	9,257	11,325
Total	$185,059	$172,261
SUBORDINATED DEBT:		
5-3/4% subordinated debentures due in 1986 with annual sinking fund payments of $3,600,000	$ 42,088	$ 45,751
6-1/4% subordinated notes	-	2,320
Notes due in 1981 with quarterly instalments aggregating $2,757,600 per year with interest at 2% above the best commercial loan rate of The Chase Manhattan Bank	10,963	13,031
Total	53,051	61,102
Less current portion	2,845	4,539
Total	$ 50,206	$ 56,563

At December 31, 1976, the revolving credit agreement provided for borrowings of $101,500,000 until the first quarter of 1978; thereafter the maximum amount is reduced in equal quarterly amounts, through the fourth quarter of 1981. Interest is at 3/8 of 1% above the best commercial loan rate through December 1977 and 1/2 of 1% over such loan rate thereafter. The agreement requires a loan commitment fee of 1/2 of 1% per annum on the unused portion. In the first quarter of 1977, the agreement was replaced by a new agreement providing for borrowings of $80,000,000 under terms more favorable than those in the agreement in effect at December 31, 1976.

Under the revolving credit agreement for $101,500,000 as well as a revolving credit agreement for $4,500,000 of Braniff International Corporation ("International"), the Company (together with International and other affiliates) maintains average compensating balances of 20% of the debt outstanding under the commitment and 10% of the unused commitment. Such compensating balances required at December 31, 1976 aggregated approximately $10,990,000 of which approximately $10,150,000 relates to the agreement of the Company and substantially all of which was maintained by the Company.

The term notes due in 1983 are payable in six semiannual instalments of $3,750,000 beginning in 1980 with the balance due in 1983. Notes aggregating $25,000,000 bear interest at rates ranging from 115% in 1976 to 124% in 1980 of the best commercial loan rate; such interest shall be adjusted at maturity to a maximum rate of 8-1/4% provided the notes are then outstanding. The remaining $5,000,000 principal amount of the notes bear interest at the rate of 8-1/2%.

Annual minimum sinking fund requirements of the 9-1/8% senior sinking fund debentures are $1,700,000 beginning January 1, 1983 through January 1, 1986 and $3,900,000 thereafter, with a final payment due January 1, 1997 in the amount of $4,200,000.

A Civil Aeronautics Board order and certain loan and lease agreements provide, among other things, for restrictions relating to the Company's payment of cash dividends to International and for maintenance of certain minimum working capital and asset coverage ratios. Under the most restrictive of these provisions, $108,231,000 of the Company's retained earnings was restricted at December 31, 1976.

The aggregate minimum maturities for the years 1977-1981 of long-term debt outstanding on December 31, 1976 are as follows: 1977-$12,102,000, 1978 - $18,373,000, 1979 - $18,373,000, 1980 - $18,923,000 and 1981 - $15,927,000 excluding sinking fund requirements on the 5-3/4% subordinated debentures of $3,512,000 in 1977 which had been met at December 31, 1976.

DELTA AIR LINES	1976	1975
LONG-TERM DEBT................................	$350,968	$390,437

4. LONG-TERM DEBT:

At June 30, 1976 and 1975, the Company's long-term debt (including current maturities) was as follows:

	1976	1975
	(In Thousands)	
(a) Due banks under 1973 credit agreement which provided for unsecured borrowings up to $300,000,000 on a revolving basis through September 1975, at which time the outstanding balance was converted to a five-year term loan, repayable in quarterly instalments of $11,000,000 beginning December 31, 1975, with the remaining $91,000,000 balance payable on September 30, 1980. The interest rate is equal to the prime rate through September 1975, then 1/4% above the prime rate through September 1978, then 1/2% above the prime rate through September 1980 ($22,000,000 payable in fiscal 1977, as the September 30 and December 31, 1976 instalments were voluntarily prepaid at June 30, 1976)...	$245,000	$260,000
(b) Due banks under 1975 unsecured credit agreement, repayable in quarterly instalments of $1,500,000 beginning December 31, 1975, with the remaining $11,500,000 balance payable on September 30, 1980. The interest rate is equal to 119% of the prime rate through September 1975, then 119% of the prime rate plus 1/4% through September 1978, and then 119% of the prime rate plus 1/2% through September 1980 ($3,000,000 payable in fiscal 1977, as the September 30 and December 31, 1976 instalments were voluntarily prepaid at June 30, 1976)..................	32,500	40,000

(See following page.)

	1976	1975
	(In Thousands)	
(c) Due Lazard Brothers & Co., Limited under 5-1/2%, 6% and 7-1/2% unsecured notes, repayable in pounds sterling in 20 semiannual instalments to 1986 ($6,990,000 payable in fiscal 1977), translated at June 30, exchange rates (Note 2)........................	$ 61,127	$ 70,893
(d) Due Rolls-Royce (1971) Limited, repayable in monthly instalments (including 6-1/2% interest) to January 1984 ($464,000 payable in fiscal 1977)................................	3,421	3,885
(e) Due an insurance company under a 9-3/8% unsecured note, repayable in instalments of $17,500,000 on April 30, 1977 and 1978 ($17,500,000 payable in fiscal 1977)...........................	35,000	35,000
(f) Due insurance companies under 7% unsecured notes, repayable in instalments to December 31, 1979 ($1,500,000 payable in fiscal 1977)........................	5,250	6,750
(g) Convertible Subordinated Debentures, 6-1/2%, maturing August 1, 1986, with annual sinking fund redemptions of $1,100,000 beginning July 31, 1976 ($1,876,000 and $1,100,000 acquired at June 30, 1976 and 1975, respectively, for future sinking fund purposes) - (Note 7)....................	20,124	20,900
Total.........................	402,422	437,428
Less current maturities.................	51,454	46,991
	$350,968	$390,437

At June 30, 1976, an additional $6,500,000 (based on June 30, 1976 currency exchange rates) was available under the 7-1/2% loan agreement with Lazard Brothers & Co., Limited to finance the purchase of engines for the Company's L-1011 aircraft. In the opinion of management, funds provided from operations will sufficiently cover future expenditures for aircraft (see Note 3) and scheduled debt maturities. At

June 30, 1976, the aggregate annual maturities of long-term debt for the next five fiscal years were as follows:

	Amount (In Thousands)
1977	$ 51,454
1978	76,915
1979	60,191
1980	59,441
1981	111,191

In addition to restrictions on cash dividends as indicated on the balance sheet, the Company's credit agreements include requirements for maintenance of working capital (as defined) and limitations on indebtedness, leases and other obligations. In connection with the 1973 bank credit agreement, the Company has informally agreed to maintain on deposit with the lending banks average balances (including normal working balances) equal to 15% of the average daily outstanding borrowings, with the average balances and borrowings being computed over the term of the agreement. While a substantial portion of the cash balances at June 30, 1976 and 1975 is maintained for this purpose, there are no legal restrictions on the Company's use of these funds. No such balance requirements or agreements apply to the 1975 bank credit agreement.

NATIONAL AIRLINES	1976	1975
NONCURRENT LIABILITIES (Note H)	$141,425	$170,203

H. NONCURRENT LIABILITIES:

National's outstanding debt consists of:

	June 30 1976	June 30 1975
Bank revolving credit agreement	$124,000	$148,571
Manufacturers' credit agreements	17,425	21,632
Noncurrent liabilities	141,425	170,203
Current liability portion	3,830	4,304
Total	$145,255	$174,507

Under the September 30, 1971 bank revolving credit agreement, as amended, an aggregate of $185,700 was available. The commitment declines $7,150 per quarter through December 31, 1977. National is required to pay a commitment fee of 1/2 of 1% on the unused credit available. Repayments are to be made in quarterly instalments commencing March 31, 1978 through December 31, 1982 with annual interest at 1/2 of 1% per annum above the prime rate, but not to exceed 8-1/2% total.

Incidental to, but not as part of the revolving credit agreement, National established informal compensating balance arrangements with the participating banks whereby deposits with those banks equal 15% of the outstanding borrowings. These amounts are considered in terms of average collected bank balances maintained over a twelve-month period. The compensating balance arrangements impose no restrictions upon use of the funds.

Maturities of this agreement at June 30, 1976 during the five subsequent fiscal years are as follows: 1977 - None; 1978 - $12,400; 1979 - $24,800; 1980 - $24,800; 1981 - $24,800.

This credit agreement contains, among other provisions, restrictions relating to the payment of cash dividends. At June 30, 1976, under the most restrictive of these provisions, approximately $40,791 of retained earnings could be available for cash dividends.

National also has notes payable and long-term credit arrangements with manufacturers under various credit agreements which had unpaid balances at June 30, 1976 aggregating $21,255. These agreements provide for repayment in instalments to September 1983, with interest rates principally of 6-1/4% per annum. The maturities of these balances at June 30, 1976, during the five subsequent fiscal years are as follows: 1977 - $3,830; 1978 - $3,602; 1979 - $3,421; 1980 - $3,421; 1981 - $3,421.

TRANS WORLD AIRLINES	1976	1975
LONG-TERM LIABILITIES:		
Long-term debt, less current maturities (Note 9)	$907,532	$974,705
Other noncurrent liabilities	23,668	23,750
Total	931,200	998,455

9. LONG-TERM DEBT:

Long-term debt at December 31, 1976 and 1975 is as follows:

	1976	1975
	(In Thousands)	
Senior Notes:		
Series B 6%, due 1976-77	$ 3,400	$ 26,000
Series D 5-1/4%, due 1976-85	80,160	91,997
Series E 5-3/8%, due 1976-85	80,160	91,884
Series F 6-1/2%, due 1976-92	83,596	88,823
Revolving Credit Notes due 1978-81 (a)	182,000	182,000
Notes 5-1/2% to 7-1/2%, due 1976-85 (b)	57,629	85,212
Note 5%, due 1976-78 (c)	34,554	51,398
Note, due 1979-83 (d)	50,000	50,000
Notes 9-1/4%, due 1982-94	15,000	-
Note, due 1976-80 (e)	-	12,000
Notes 10-3/8%, due 1981-92	13,000	13,000
Subordinated income debentures 6-1/2%, due 1976-78 (f)	48,019	67,506
Subordinated debentures 4%, due 1982-92 (f)	100,000	100,000
Subordinated debentures 5%, due 1984-94 (f)	149,988	149,988
Debentures 7-3/4%, due 1987	13,766	14,313
Lease obligation capitalized, due 1976-2002 (g)	12,925	13,076
Sundry Indebtedness (h)	32,609	31,010
Total	956,806	1,068,207
Less current maturities	49,274	93,502
Total	$907,532	$ 974,705

Aggregate annual maturities are as follows:

	(In Thousands)
1977	$ 49,274
1978	95,610
1979	65,928
1980	129,316
1981	135,689
Subsequent	480,989
Total	$956,806

Agreements relating to long-term debt contain certain limitations, one of which precluded the payment of cash dividends in 1975 and 1976 (Note 10).

Compensating balance deposits are maintained with several banks related to certain borrowing arrangements of TWA and its subsidiaries; such deposits vary by bank relative to outstanding borrowings and unused commitments for borrowing. Compensating balance deposits approximating $26,154,000 are included in the consolidated cash balances at December 31, 1976. Average compensating balance deposits approximated $23,596,000 during 1976.

TWA and its institutional lenders are considering a plan for the possible modification of certain provisions of existing TWA loan agreements. Under the proposed terms of the plan being considered, TWA would grant to its senior lenders a mortgage on TWS's fleet of owned aircraft and engines having a net book value of approximately $682,000,000 at December 31, 1976. The mortgage could be terminated or suspended when TWA is able to meet specified financial tests. However, the mortgage would be subject to reinstatement upon TWS's failure to meet other tests prescribed for this purpose. In return for the mortgage, the lenders would modify certain of the specified financial tests and covenants required to TWA. Additionally, under the plan being discussed, the maximum amount that TWA could borrow under its revolving credit agreement would be reduced from $246,000,000 to $200,000,000 until January 1, 1979, and to lesser amounts thereafter until the arrangement expires on July 1, 1981. During 1976, the borrowings under TWA's revolving credit agreement were not repaid when cash was available because of the possibility that such funds could not be reborrowed by TWA when cash was needed due to seasonal fluctuations in cash receipts. The proposed modification would permit TWA to repay amounts borrowed under this agreement and, under present circumstances, to reborrow on a seasonal basis as needed, up to at least $182,000,000.

(a) Subject to the provisions thereof, a revolving credit arrangement with a group of banks and Irving Trust Company, as Agent, permits TWA to borrow amounts of as much as $246,000,000 until January 1, 1978 and lesser amounts thereafter until July 1, 1981. Interest on amounts borrowed ranges from 1/4 to 1/2 of 1% above the agent bank's monthly prime rate. A commitment fee at the annual rate of 1/2 of 1% is paid on the unused portion of the revolving credit (see also preceding paragraph).

(b) The Notes are denominated and payable in pounds sterling.

(c) The Note was issued in 1973 with a stated interest rate of 5% in connection with TWA's acquisition of Canteen Corporation. In accordance with purchase acquisition accounting principles, the note was recorded by TWA at its present value based on an imputed interest rate of 7%.

(d) Interest is payable at the higher of 1% above the Continental Illinois National Bank and Trust Company prime rate or various percents (116% to 124%) of such prime rate for subsequent periods through maturity at November 1, 1983. After the note has been fully paid, interest will be recomputed as if the prime rate had been 7-1/2% at all times during the period of borrowing and any interest paid in excess of the recomputed amount will be refunded.

(e) Interest is payable at rates based on the Continental Illinois National Bank and Trust Company prime rate in effect from time to time during the life of the loan, subject to a maximum cumulative average interest rate of 7-3/4%. The full principal amount of the note was prepaid in 1976.

(f) The Debentures are redeemable at the following premium rates for 1977:

4% subordinated debentures - 2.2% until March 1 and 2.0% thereafter
5% subordinated debentures - 3.0%

Principal amounts of $19,487,000 and $9,576,000 of the 6-1/2% subordinated income debentures were purchased on the open market by TWA, on which gains of $2,470,000 and $3,114,000 were credited to consolidated income in 1976 and 1975, respectively. Purchases and conversions were sufficient to satisfy the 1976 and 1975 sinking fund payment requirements due on such debentures.

TWA had no Available Income, as defined in the income debenture indenture relating to its 6-1/2% subordinated income debentures, for interest payable during 1976 and 1975. Any unpaid interest is cumulative and becomes due or payable from future Available Income or upon maturity of the debentures. At December 31, 1976, unpaid interest amounted to $6,503,000; however, as a result of Available Income earned in 1976, such unpaid interest together with current interest will be paid in 1977.

(g) The long-term lease of an administrative office building was capitalized at the present value of the lease obligation using an interest rate of 7-7/8%.

(h) Sundry indebtedness includes certain notes secured by mortgages on various operating properties of the Canteen Corporation and Hilton International Co. The net book value of the these properties is $25,444,000 at December 31, 1976.

DEFERRED CREDITS

The principal captions of the deferred credit section of the statement, the subcaptions included under the principal captions, and the number of airlines using such captions, are set forth below:

Table 2-23 Principal captions

Deferred credits	7
Deferred credits and other liabilities	1
Deferred credits and other long-term liabilities	1
Other liabilities	1
*Deferred income taxes	1
*Other deferred credits and noncurrent liabilities	1
Total	12

Table 2-24 Subcaptions

Income taxes	1
Deferred Federal taxes on income	1
Deferred Federal income taxes	7
Unamortized investment credits	2
Deferred investment tax credits	1
Other liabilities and deferred credits	1
Other deferred credits	1
Other	7

*It should be noted that one airline chose to report each component of deferred credits as a line item on the statement.

Examples of the deferred credits section (000 omitted) of the balance sheet are as follows:

AMERICAN AIRLINES	1976	1975
OTHER LIABILITIES:		
Deferred Federal income tax	$ 176,194	$ 158,709
Other liabilities and deferred credits	11,678	12,273
Total other liabilities	187,872	170,982

NORTHWEST AIRLINES		
DEFERRED CREDITS AND OTHER LIABILITIES:		
Income taxes	201,791	165,026
Other	7,331	6,568
	209,122	171,594

WESTERN AIR LINES

DEFERRED CREDITS

Deferred Federal taxes on income	$47,007	$42,435
Unamortized investment credits	17,644	18,645
Other	9,757	7,858
	74,408	68,938

EQUITY STRUCTURE

The following table summarizes the capital structure of the airline companies included in the survey:

Table 2-25

Common stock with no preferred stock	7
Common stock with one class of preferred stock	4
Total	11

As shown below, several different captions were used by the airline companies to describe capital surplus and retained earnings:

Table 2-26

Capital surplus	3
Capital in excess of par value	3
Additional paid-in capital	2
Other paid-in capital	1
Paid-in capital	1
Additional capital invested	1
Total	11

Table 2-27

Retained earnings	10
Earnings (Deficit) retained for use in the business	1
Total	11

Examples of the equity structure section (000 omitted) of the balance sheet are as follows:

AMERICAN AIRLINES

	1976	1975
STOCKHOLDERS' EQUITY (Notes 7, 9, 10 and 15):		
Preferred stock - no par value 5,000,000 shares authorized; none issued		
common stock - $1 par value 60,000,000 shares authorized; shares issued and outstanding 1976 - 28,608,000; 1975 - 28,549,000.......	$ 28,608	$ 28,549
Additional paid-in capital......................	317,592	317,117
Retained earnings...............................	263,874	207,559
Total stockholders' equity..........	610,074	553,225

NATIONAL AIRLINES

STOCKHOLDERS' EQUITY:		
Capital shares - authorized 15,000,000 of $.25 par value; issued and outstanding, 8,555,713 in 1976 and 1975.....................	$ 2,139	$ 2,139
Capital surplus.................................	23,932	23,932
Retained earnings, per accompanying statement....	169,128	168,376
	195,199	194,447

UNITED AIRLINES

SHAREHOLDERS' EQUITY (Notes 2, 6, 7 and 8):		
5-1/2% cumulative prior preferred stock, $100 par value; authorized and outstanding 71,702 shares..............................	$ 7,170	$ 7,170
Preferred stock, no par value; authorized 16,000,000 shares; issued 770,686 shares in 1976 and 883,946 shares in 1975 of Series A $.40 cumulative (convertible); involuntary liquidation value, $25 per share, aggregating $19,267,000.................	3,853	4,420
Common stock, $5 par value; authorized 50,000,000 shares; outstanding 24,583,324 shares in 1976 and 24,469,464 shares in 1975......................	122,917	122,347
Additional capital invested......................	339,086	339,075
Retained earnings................................	328,539	324,760
Less - 454,261 shares of Series A $.40 cumulative preferred stock held in treasury....................................	(2,118)	(2,118)
	799,447	795,654

COMMITMENTS AND CONTINGENT LIABILITIES

The following table summarizes the captions used to describe commitments and contingent liabilities:

Table 2-28

Commitments and contingent liabilities...........	6
Commitments and contingencies....................	3
Commitments, long-term leases and contingencies..................................	1
Contingencies....................................	1
Total.............................	11

Examples of the commitments and contingent liabilities footnote disclosure are as follows:

BRANIFF AIRWAYS

NOTE 5 COMMITMENTS

At December 31, 1976, the Company had minimum rental commitments under noncancellable leases as follows (excluding the new headquarters office/recreational complex):

	Flight Equipment	Airport Facilities (In Thousands)	Other Property and Equipment
1977...............	$16,529	$ 10,594	$2,582
1978...............	16,529	10,250	854
1979...............	14,674	10,193	326
1980...............	11,904	10,013	180
1981...............	11,398	9,696	167
1982-1986..........	21,648	44,861	355
1987-1991..........	-	39,408	102
1992-1996..........	-	35,914	36
Remainder..........	-	44,077	-
Total..........	$92,682	$215,006	$4,602

Commitments at December 31, 1976 under leases included in the above tabulation which, during the noncancellable lease period, either cover 75% or more of the economic life of the property or, generally, have terms which assure the lessor a recovery of his investment plus a reasonable return ("financing leases") are as follows (excluding the new headquarters office/recreational complex):

(See following page.)

	Flight Equipment	Airport Facilities (In Thousands)	Other Property and Equipment
1977	$16,529	$ 9,164	$1,191
1978	16,529	8,902	261
1979	14,674	9,211	20
1980	11,904	9,227	20
1981	11,398	9,025	20
1982-1986	21,648	42,545	102
1987-1991	-	38,633	102
1992-1996	-	35,766	36
Remainder	-	44,077	-
Total	$92,682	$206,550	$1,752

With respect to the commitments for certain airport facilities, the terms of the leases extend beyond the time that payments are required for periods ranging from 7 to 14 years. Under the accounting policy described in Note 1 Long-term Prepayments a portion of the rent reflected above will be capitalized and amortized over the final period of the leases during which no cash payments are required.

The present values of financing lease commitments, calculated at rates ranging from 4.0% to 12.0% (weighted average of 6.8% in 1976 and 6.7% in 1975) are as follows:

	Flight Equipment	Airport Facilities (In Thousands)	Other Property and Equipment
December 31, 1976	$71,592	$105,127	$1,289
December 31, 1975	$82,265	$108,911	$4,768

If financing leases, as defined above, had been capitalized, the increase (decrease) in expenses and net income would have been as follows:

	1976 (In Thousands)	1975
Depreciation expense	$ 18,444	$ 18,104
Interest expense	12,918	13,629
Rent expense	(28,784)	(28,590)
Federal income taxes	(619)	(754)
Net income	(1,959)	(2,389)

Depreciation expense has been computed on the straight-line method. Interest expense has been computed on the outstanding balance of the present value of lease liabilities at the rates indicated above. The present value indicated for flight equipment at December 31, 1975 and related amounts for the year then ended included in the table above have been recomputed on a basis consistent with that used in 1976.

Rental expense, excluding landing fees, aggregated $34,847,000 in 1976 and $34,517,000 in 1975.

In August 1976, an agreement was signed for the lease of a new headquarters office-recreational complex at the Dallas/Fort Worth Airport, which is presently scheduled for completion in 1978. Annual rental payments averaging approximately $2,866,000 will be required through the year 2006. Consistent with the procedure previously described for other facilities, this cost will be amortized over the term of the lease which ends in the year 2016 for an annual rental expense of approximately $2,124,000. The initial present value of this lease at an average implied interest rate of 8.2% is $32,355,000.

At December 31, 1976, commitments for the acquisition of additional aircraft and other property and equipment, after deducting deposits previously made, amounted to approximately $62,664,000. In January 1977, the Company contracted for the purchase of six additional aircraft at a cost of approximately $68,245,000.

At December 31, 1975, the date of the latest actuarial determination, the Company's pension plans as amended had unfunded vested benefits, less balance sheet accruals, of approximately $33,254,000 and unfunded prior service costs of approximately $35,719,000. Pension expense approximated $14,596,000 and $11,039,000 in 1976 and 1975, respectively. During 1976 various changes were made to the Company's several pension plans to provide increased benefits and to comply with the provisions of the Employee Retirement Income Security Act of 1974. Changes were also made in interest rate assumptions and the assumed rate of future salary increases for certain plans. The net effect of these changes on pension expense for 1976 was not material.

NOTE 9 CONTINGENCIES

In connection with the sale of certain of its assets, the Company has agreed, under certain circumstances, to repurchase such assets. At December 31, 1976, the contingent repurchase prices aggregated $25,255,000. The Company estimates that the current market values of such assets are in excess of any contingent repurchase prices and that no losses would occur in the event of such repurchase.

At December 31, 1976, the Company was contingently liable with respect to certain accounts in Latin America, approximating $1,657,000, which had been sold to banks with recourse.

Federal income tax returns of the Company and consolidated returns in which it was included from December 1, 1965 through December 31, 1971 have been examined by the Internal Revenue Service. Proposed adjustments through that date could result in additional tax payments of approximately $3,325,000 exclusive of interest. This amount reflects the utilization of approximately $2,170,000 of unapplied investment tax credits and a reduction of $729,000 in the Company's claim of investment tax credits recoverable from the former parent as discussed in Note 6. A substantial portion of the total assessments, if ultimately paid, would result in future tax benefits or reduced deferred income taxes provided in prior years. In addition, the Internal Revenue Service, as a result of its investigations into the competitive practices program referred to hereinafter, is claiming a civil fraud penalty of approximately $596,000 with respect to the tax return filed for 1971. The Company has protested the proposed adjustments for years prior to 1970, intends to deny liability for 1970 and 1971 and intends to vigorously oppose the asserted civil fraud penalty. In the opinion of management, the ultimate payments of prior year income taxes will not materially exceed the aggregate of the amount provided for prior year liabilities, the amount of future tax benefits and the amount related to deferred taxes provided in prior years.

In addition to the above matters, reference is made to Item 5 - Legal Proceedings for discussion of pending litigation and related matters.

Although the ultimate effect of the matters discussed and referred to in this note on the financial statements is not presently determinable, it is the opinion of management that such effect will not be material.

See Item 1, "Business - Fares and Rates" for possible retroactive adjustments of mail rates.

CONTINENTAL AIRLINES

3. COMMITMENTS

The Company leases, or has constructed as leasehold improvements on leased real property, its principal facilities, including airport and terminal facilities, sales offices, overhaul and maintenance bases, training center and general offices. The leases are generally on a long-term net rent basis, whereby the Company pays taxes, maintenance, insurance and certain other operating expenses applicable to the leased premises. Management expects that, in the normal course of business, leases that expire will be renewed or replaced by other leases.

Certain restrictions set forth in the Company's credit agreements limit the amount of the Company's lease commitments for property, equipment or facilities, except for airport facilities.

The Company has fully applied the provisions of Financial Accounting Standards Board Statement No. 13 to all leases, and therefore has made a distinction between "Capital" and "Operating" leases, as defined therein. Substantially all of the Company's leases involve terminal space and other airport facilities owned by a governmental authority, which are classified as operating leases. The value of assets held under capital lease arrangements is immaterial. Thus, no restatement of financial statements for prior years is required as a result of applying FASB Statement No. 13. In prior years, the Company disclosed various information related to such terminal space and other airport facilities leases as "noncapitalized financing leases" as required by the Securities and Exchange Commission.

The following is a schedule by year of future minimum rental payments (reduced by sublease rentals, which are immaterial) required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of December 31, 1976:

Year(s) ending December 31	
1977	$ 8,016,000
1978	7,611,000
1979	7,082,000
1980	6,745,000
1981	6,415,000
1982-1986	30,256,000
1987-1991	29,090,000
1992-1996	21,890,000
Later years	22,503,000
Total minimum payments required	$139,608,000

Total rental expense for all operating leases, net of sublease rentals, was $10,225,000 for 1976 and $9,343,000 for 1975. Contingent rentals, sublease rentals and rental payments under leases with terms of a month or less that were not renewed are not separately disclosed, since they are immaterial.

The above minimum rental payments and total rental expense do not include landing fees, portions of which are frequently applied to debt obligations which finance the construction of airport and terminal facilities. Total landing fees were $10,335,000 for 1976 and $9,538,000 for 1975.

5. CONTINGENT LIABILITIES

On December 31, 1975, various legal actions were pending against the City of Los Angeles and various actions and cross-actions were pending against the user airlines, including the Company, alleging excessive aircraft noise in the vicinity of Los Angeles International Airport. Counsel to the Company in these actions, which counsel also represents most of the other airlines, is of the opinion that the airlines have substantial defenses to the imposition of any liability. The trial court judgment in favor of the airlines on the City's cross-complaint in two of these cases has been upheld on appeal and is now final.

On January 24, 1977, the FAA issued a new regulation requiring the retrofit or replacement of the Company's 727 aircraft that do not meet specific noise standards. This regulation is more restrictive than other FAA noise regulations, as it prohibits certain compensating allowances previously acceptable to the FAA. Retrofit of 727-type aircraft to meet this regulation must be made prior to January 1, 1983. Thirty-two of the Company's 727 aircraft must be modified to meet these new noise standards, and the present cost estimate for such modification is $6,800,000.

The Company is the defendant in a number of lawsuits, including one alleging violations of Federal antitrust laws and various other purported class action suits involving alleged discrimination in employment policies and practices. In the opinion of management, based upon advice of legal counsel, these matters would not have a materially adverse effect on the financial position of the Company.

In connection with the 1974 sale of one of its Boeing 747 aircraft, the Company agreed to indemnify the lender, from which the buyer borrowed the purchase price, in an amount up to 30% of the amount outstanding.

TRANS WORLD AIRLINES

6. LEASES AND RELATED GUARANTEES:

Total rental expense, net of sublease revenue of immaterial amounts, included in the determination of 1976 and 1975 operating results is as follows:

	1976	1975
	(In Thousands)	
Basic rents:		
Non-capitalized financing leases....	$ 89,908	$ 85,396
Other..............................	40,650	41,073
Contingent rents......................	36,868	35,989
Total.............	$167,426	$162,458

Minimum rental commitments, net of sublease revenue of immaterial amounts for all non-cancellable leases in effect at December 31, 1976 are as follows:

	(Amounts in Thousands)				
		Non-capitalized Financing Leases			
Period	Total	Aircraft Equipment	Buildings and Facilities	Other Equipment	Operating Leases
1977...........	$ 118,959	$ 63,904	$ 18,949	$ 6,589	$ 29,517
1978...........	115,877	63,904	19,017	5,936	27,020
1979...........	113,147	63,904	19,292	5,038	24,913
1980...........	109,602	63,904	19,566	2,786	23,346
1981...........	108,161	63,904	19,721	2,287	22,249
1982-86........	418,337	216,981	99,420	4,560	97,376
1987-91........	196,694	42,173	91,588	706	62,227
1992-96........	124,419	-	77,619	53	46,747
Remainder......	139,567	-	111,739	821	27,007
Total......	$1,444,763	$578,674	$476,911	$28,776	$360,402

Present values of minimum lease commitments, net of sublease revenue of immaterial amounts, for all non-capitalized financing leases in effect at December 31, 1976 and 1975 are as follows:

	1976	1975
	(In Thousands)	
Aircraft equipment.....................	$425,088	$459,509
Buildings and facilities...............	208,051	200,168
Other equipment........................	23,269	25,229
Total..................	$656,408	$684,906

The effect of net income (loss) if all leases identified as non-capitalized financing leases were capitalized is as follows:

	1976	1975
	(In Thousands)	
Expense increase (decrease):		
Amortization..........................	$ 52,438	$ 51,975
Interest..............................	46,682	49,742
Lease rental..........................	(90,024)	(88,498)
Increase in expense....................	9,096	13,219
Less income tax effect.................	2,849	3,402
Additional charge to income - net.......	$ 6,247	$ 9,817

Interest rates used in the computation of present values ranged from 4.25% to 14.13% with a weighted average of 7.58% at December 31, 1976 and ranged from 4.25% to 14.60% with a weighted average of 7.16% at December 31, 1975.

Amounts reported for 1975 in each of the above tables have been restated to conform with the reclassification, adopted in 1976, of certain leases of buildings and facilities from the classification of non-capitalized financing leases to the classification of operating leases.

Sixty-two aircraft were leased at December 31, 1976 (with aggregate annual rentals approximating $63,600,000) for which the remaining lease periods range from six to fourteen years with options to purchase and rights of first refusal to purchase or re-lease most of such aircraft essentially on the basis of market value upon termination of the leases. The lessors' cost of forty-seven aircraft was financed in part by loans from others and, for twelve aircraft, in part by the sale to the public of Guaranteed Loan Certificates. The loans to lessors from others are evidenced by notes payable in instalments over the term of the leases from rental proceeds under the leases. The Guaranteed Loan Certificates are to be redeemed through a Sinking Fund accumulated from the lease rentals. TWA has guaranteed the payment of substantially all of the notes and all of the Guaranteed Loan Certificates, even though scheduled rental payments will exceed the principal and interest payments thereon.

Building and facility leases are primarily for airport terminals, support facilities and hotels. At December 31, 1976, thirty-seven hotels were operated under lease agreements which generally provide for a contingent rental based on a percentage of gross operating profit and, in some instances, for a fixed basic rent. Initial terms of the hotel leases generally are not less than twenty years exclusive of options to renew. Leases of other equipment primarily consist of flight simulators and computer systems.

7. AIRCRAFT ACQUISITION COMMITMENTS

Aircraft purchase commitments and prepayments against such commitments were as follows at December 31, 1976:

		(Amounts in Thousands)		
Commitment by Aircraft Type	Quantity of Aircraft	Amount of Prepayment	Balance of Commitment	Approximate Total Price
Boeing 727-200..........	14	$4,418	$175,582	$180,000

(a) The purchase price is subject to adjustment based upon certain conditions, the aggregate effect of which is not determinable until delivery of the aircraft. See (c) below.

(b) An aircraft delivery deferral agreement with delivery dates unspecified was signed March 31, 1976, by TWA and Boeing Aircraft Company with respect to the commitment for fourteen Boeing 727-200 aircraft originally scheduled for delivery in 1976 and 1977. The estimated current cost to TWA of this deferral action amounting to $4,614,00 was charged to non-operating expense in 1975. In addition, the deferral agreement includes the following financial arrangements:

(1) Forfeiture of the prepayment amount of $3,043,000 existing at March 31, 1976, if all fourteen aircraft on order (or equivalent aircraft in dollar value) are not committed to firm delivery dates by March 31, 1978.

(2) Forfeiture of $510,000 in prepayments existing at March 31, 1976, on the option to purchase an additional seventeen aircraft if all such optioned aircraft are not on firm order by March 31, 1978 (see (d) below) and further, if all fourteen aircraft on order (or equivalent aircraft in dollar value) are not committed to firm delivery dates by the same March 31, 1978 date.

(3) Additional advance prepayments against the purchase of the fourteen aircraft on order (or equivalent aircraft in dollar value) in annual amounts of $1,026,000 over an eight-year period from July 1, 1976 to July 1, 1983.

(4) Forfeiture of $293,000 of the advance prepayment amount plus an additional $49,000 penalty for each aircraft (or equivalent aircraft in dollar value) of the original fourteen ordered which is not committed to a firm delivery date by December 31, 1979.

(5) Forfeiture of $29,000 additional penalty on each of three dates for each aircraft (or equivalent aircraft in dollar value) of the original fourteen ordered which is not committed to a firm delivery date by each of the following dates: December 31, 1980, 1981 and 1982.

(6) Another forfeiture of $293,000 of the advance prepayment amount plus an additional $102,000 penalty for each aircraft (or equivalent aircraft in dollar value) of the original fourteen ordered which is not committed to a firm delivery date by December 31, 1983.

(c) During December 1976, TWA began discussions with the Boeing Aircraft Company looking toward the development of a future delivery schedule for the fourteen Boeing 727-200 aircraft described under the aircraft delivery deferral agreement in 1(b) above. As of February 21, 1977, a definitive agreement for delivery of these aircraft had not yet been concluded.

(d) In addition to the above commitments, TWA has options to purchase, subject to cancellation at various future dates, eleven Lockheed L-1011 and seventeen Boeing 727 aircraft. Prepayments on these options aggregated $950,000 at December 31, 1976. Upon cancellation, TWA would forfeit.

11. EMPLOYEE BENEFIT PLANS

TWA and its subsidiaries have several pension plans covering substantially all employees. Amounts charged to income (including amortization of prior service costs) were $37,993,000 and $38,725,000 for 1976 and 1975, respectively. Additionally, trust fund contributions for certain employee groups, pursuant to collective bargaining agreements, were $20,617,000 and $19,252,000 for 1976 and 1975, respectively. The unfunded portion of prior service costs increased from $127,477,000 at December 31, 1975 to $185,493,000 at December 31, 1976 as a result of retroactive benefits granted certain employee groups pursuant to collective bargaining agreements. The actuarially computed value of vested benefits for the defined benefit pension plans exceeded the market value of the assets of such plans by approximately $75,000,000 as of December 31, 1976. An unrealized investment loss arising in 1974, primarily as a result of reduced market value of securities owned by the plans, resulted in an increase in pension costs for 1975 of approximately $6,100,000.

Incentive Compensation Plans provide for awards to management employees in cash and/or common stock of TWA. The total amount which can be provided in any one year cannot exceed certain percentages (ranging from 4% to 7-1/2%) of that part of the income which is in excess of 6-1/2% of capital employed, as defined in the plans. The amounts charged to income were $2,342,000 and $569,000 for 1976 and 1975, respectively. No payments were made to Airline management employees under this plan in 1976 or 1975.

The Deferred Compensation Unit Plan provides for compensation equal to the increase in market value of a share of TWA common stock at unit maturity date over the issue value on the award date for each unit awarded to management participants under the plan. Maturity dates extend from one to five years following the award date. The estimated cost of the plan is accounted for over the period during which the rights of the participants mature. At December 31, 1976, 501,888 units were outstanding. The amounts charged to income were $1,145,000 and $-0-for 1976 and 1975, respectively. No material payments were made to management employees under this plan in 1976 or 1975.

17. CONTINGENCIES

(a) Reference is made to Notes 3 and 7 for contingencies concerning Income Taxes and Aircraft Acquisition Commitments, respectively.

(b) Actions are pending in various courts by landowners and others, including owners of property located in areas adjacent to airports used by TWA, seeking to enjoin certain aircraft operations at such airports or to recover damages from the airport operators or the various air carrier defendants, based, among other things, upon alleged excessive noise resulting from such operations. TWA is a defendant or a cross-defendant in a number of these actions and is a lessee at the airports involved in a number of other actions. The relative rights and liabilities as among the various persons concerned, including the air carriers, are not entirely clear. Even in those cases in which the air carriers are not defendants, any liability of airport operators could result in higher airport costs to air carriers, including TWA, using the airports involved.

(c) A class action was brought against TWA in 1970 by approximately 350 former hostesses alleging their discharge by TWA for pregnancy violated Title VII of the Civil Rights Act of 1964. They seek reinstatement, back pay, and attorneys' fees. TWA believes it has substantial defenses to this action. In October 1976, the trial court granted the plaintiffs' motion for summary judgment on the issue of liability. TWA has appealed such determination. In the event plaintiffs prevail, the amount of monetary recovery will depend on various factors affecting each plaintiff's claim and cannot be predicted. It is, however, the opinion of TWA's General Counsel that, in the aggregate, any such recoveries will not materially affect TWA's financial condition.

Also, the Equal Employment Opportunity Commission brought suits in 1975 and 1976 alleging that TWA violated Title VII of the Civil Rights Act of 1964 by refusing to treat pregnancy and pregnancy related disabilities in the same manner as other temporary disabilities for sick and disability pay purposes, and by requiring flight attendants to go on mandatory maternity leave. Injunctive relief and monetary damages are being sought. A similar suit had been brought by the New York State Human Rights Commission alleging that TWA's policy violates New York law. In 1976 private actions were commenced against TWA on behalf of female employees as a class and by certain females individually alleging the same wrongful conduct and seeking substantially the same relief. The U. S. Supreme Court has ruled that Title VII does not require that pregnancy be treated as a disability. There remains some question, however, respecting the requirements under Title VII to pay sick pay during pregnancy. The New York Court of Appeals has held that the New York Human Rights law requires that pregnancy be treated the same as any other disability. Under Title VII, the New York Human Rights law and other applicable state laws, certain legal issues remain unsettled and the outcome of the cases involving TWA cannot be predicted. It is the opinion of TWA's General Counsel, however, that in the event there are any monetary recoveries by the plaintiffs in these cases, the amount of such recoveries will not materially affect TWA's financial condition.

Class action suits, in which injunctive relief and monetary damages are being sought, have been brought in 1976 alleging that TWA violated the Civil Rights Act of 1964 by engaging in employment practices which unjustly discriminate on the basis of sex, or race, or both. The outcome of these cases cannot be predicted. It is, however, the opinion of TWA's General Counsel that the final resolution of these cases will not materially affect TWA's financial condition.

(d) There exist certain other contingent liabilities resulting from actual and threatened litigations, but in the opinion of TWA's General Counsel none will result in liability which, over and above any insurance coverage in respect thereof, would materially affect TWA's financial condition or interfere with its operation.

MISCELLANEOUS LINE ITEMS - LIABILITIES

The only line item not previously categorized is noted as follows:

UNITED AIRLINES	1976	1975
Equity of others in subsidiaries	$1,872	$1,537

TITLE

The majority of the airlines reports surveyed use the word "income" in their descriptive title for their operating statement. The following table indicates the breakdown of operating statement titles:

Table 3-1

Operating Statement Titles	1976
Income	3
Income and retained earnings	1
Operations	2
Earnings	3
Other titles	2
Total	11

Examples of the operating statement titles used are as follows:

Statement of Income
Statement of Earnings
Statement of Consolidated Earnings
Statement of Consolidated Income and Retained Earnings
Statement of Operations and Earnings Retained for Use in the Business
Consolidated Statement(s) of Operations
Consolidated Statement(s) of Operations and Retained Earnings

* * * * *

UNUSUAL FORMATS

TRANS WORLD AIRLINES - Operating revenues and expenses classified as air transport, transport related or nontransport. All other carriers report operating revenues and expenses by functions. (000 omitted).

TRANS WORLD AIRLINES	1976	1975
OPERATING REVENUES:		
Airline:		
Air transport	$1,935,628	$1,728,097
Transport related	101,620	77,679
Nontransport	45,598	35,783
Total	2,082,846	1,841,559
Hotel operations	348,296	307,853
Vending and food service	539,311	490,713
Total	2,970,453	2,640,125

TRANS WORLD AIRLINES (continued)

OPERATING EXPENSES:		
Cost of services and products sold:		
Airline:		
Air transport	$1,562,247	$1,500,108
Transport related	70,776	52,985
Nontransport	40,592	32,422
Total	1,673,615	1,585,515
Hotel operations	279,256	251,944
Vending and food service	496,719	454,279
Total	2,449,590	2,291,738
Selling and administrative	417,290	375,825
Mutual aid (Note 12)	512	17,566
Total	2,867,392	2,685,129
OPERATING INCOME (LOSS)	$ 103,061	$ (45,004)

RESTATEMENT, EXTRAORDINARY ITEMS, ACCOUNTING CHANGES, AND PRIOR PERIOD ADJUSTMENTS

The number of airlines restating prior years income in 1976 is as follows:

Table 3-2

Restated	3
Not restated	8
Total	11

An example of the footnote concerning a restatement follows:

UNITED AIRLINES

NOTE 2--ACCOUNTING RESTATEMENT

Effective July 1, 1976, United reverted to the unit method of depreciation for aircraft. Under the group/composite method previously used since January 1, 1975, depreciation had included a factor for early retirements of aircraft due to possible casualty losses. (Such early retirements had also been provided for prior to 1975, although in accounts separate from depreciation. In contemplation of the 1975 change to group/composite depreciation, the cumulative balance of these separate provisions had been reclassified to accumulated depreciation at December 31, 1974.) In 1975, the Securities and Exchange Commission questioned United's depreciation method and, in 1976, required United to eliminate from aircraft depreciation any allowance for possible early casualty retirements.

UNITED AIRLINES (continued)

The accompanying financial statements and notes thereto have been restated to reflect the unit method of depreciation for aircraft (which eliminates any allowance for early retirements due to casualty losses) and to include in current earnings those gains and losses on sale or retirement of individual aircraft not previously recognized because of group/composite depreciation. The restatement decreased UAL's previously reported net loss for 1975 by $1,104,000 ($.04 per share) and increased retained earnings at January 1, 1975 by $17,250,000.

SUMMARY OF EXTRAORDINARY ITEMS:

The number of airlines showing an extraordinary item in 1976 or 1975 is as follows:

Table 3-3

	1976	1975
Extraordinary item......................	2	-
No extraordinary item...................	9	11
Total....................	11	11

The following illustrates an extraordinary item:

PAN AMERICAN WORLD AIRWAYS	1972	1973	1974	1975	1976
(LOSS) BEFORE EXTRAORDINARY ITEMS	$(29,188)	$(21,753)	$(84,925)	$(46,075)	$ (8,322)
EXTRAORDINARY ITEMS:					
Gain on debenture exchange					117,514
Less income tax (expense)					(28,203)
Tax effect of loss carryforward					13,604
NET INCOME (LOSS)	$(29,188)	$(21,753)	$(84,925)	$(46,075)	$ 94,593

The airlines reported accounting changes as follows:

Table 3-4

	1976	1975
Cumulative effect in income statement only	-	3
Cumulative effect in retained earnings statement:		
Income statement restated	-	1
Both income statements and retained earnings statements restated	-	1
Restatement of financial statements disclosed in notes	1	-
Effect of change in prior period disclosed in notes	1	-
Other	1	-

The accounting changes made were for the following reasons:

Table 3-5

	1976	1975
Depreciation changes	2	1
Vacation pay accruals	-	2
Foreign currency transactions	-	2
Pension costs	-	1
Uninsured costs	-	1

An example of the income statement presentation (000 omitted) and note disclosure of an accounting change follows:

BRANIFF AIRWAYS	1976	1975
INCOME BEFORE PROVISION FOR INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE.	$36,023	$27,823
PROVISION FOR INCOME TAXES	9,006	6,475
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	27,017	21,348
CUMULATIVE EFFECT OF ACCOUNTING CHANGE FOR VACATION PAY (LESS FEDERAL INCOME TAX BENEFIT OF $4,033,000)		(4,367)
NET INCOME	$27,017	$16,981

BRANIFF AIRWAYS

NOTE 2 - ACCRUED VACATION PAY

In 1975, the Company adopted the accounting practice of recording vacation pay as earned rather than as paid which was the prior practice. The new method is the predominant practice and improves the comparability of the financial statements with those of other companies. The effect of the change in 1975 was to decrease income before cumulative effect of accounting change by $775,000. The cumulative effect, to December 31, 1974 to apply retroactively the new method, is shown as a one-time charge against 1975 income.

Only one airline reported a prior period adjustment. An example of the retained earnings presentation for the prior period adjustment follows:

TRANS WORLD AIRLINES	1976	1975
STATEMENT OF CONSOLIDATED RETAINED EARNINGS:		
Balance at beginning of year, as previously reported	$ 98,733	$189,012
Prior period adjustment of income tax expense		(4,000)
Balance at beginning of year, as restated	98,733	185,012
Net income (loss)	36,833	(86,279)
Balance at end of year	$135,566	$ 98,733

OPERATING REVENUES

The principal operating revenue captions used by airline companies and the subcaptions and the number of times such captions appeared are as follows:

Table 3-6

Principal Captions

Operating revenues	10
Revenues	1
Total	11

Table 3-7

Subcaptions

Passenger	9
Other	6
Cargo	5
Mail	4
Mutual aid assistance	2
Freight	2
Transport related	2
Nontransport	2
Charter	2

The remainder of the operating revenue subcaptions are listed below. They appeared only once.

Table 3-8

Freight and express	Express, freight, and mail
Charter, contract services and other	Charter and other transportation
	Airline
Air transport	Hotel operations
Hotels	Business services
Vending and food service	Other operations
Incidental and other revenues	

Examples of operating revenue presentation (000 omitted) by various airlines are as follows:

BRANIFF AIRWAYS	1976	1975
OPERATING REVENUES:		
Passenger	$582,715	$509,894
Express, freight, and mail	50,443	44,531
Charter	12,808	14,657
Transport related	21,536	19,035
Other	7,081	6,843
Total	$674,583	$594,960

CONTINENTAL AIRLINES

OPERATING REVENUES:		
Airline:		
Passenger	$463,271	$455,146
Cargo	48,854	46,307
Charter, contract services and other (Note 9)	28,319	2,356
Total airline	540,444	503,809
Other operations	11,020	11,588
Total operating revenues	$551,464	$515,397

NORTHWEST AIRLINES	1976	1975
OPERATING REVENUES:		
Passenger	$786,414	$659,849
Cargo	119,882	88,308
Mail	25,137	23,280
Charter and other transportation	25,955	29,019
Mutual Aid Agreement	(559)	(5,340)
Nontransport	6,979	5,447
Total operating revenues	$963,808	$800,563

OPERATING EXPENSES

The principal operating expense captions used by airline companies and the subcaptions and the number of times such captions appeared are as follows:

Table 3-9

Principal Captions

Operating expenses	10
Expenses	1
Total	11

Table 3-10

Subcaptions

General and administrative	8
Flying operations	6
Maintenance	6
Depreciation and amortization	6
Passenger servicing	5
Aircraft and traffic servicing	4
Depreciation	2
Hotel operations	2
Flying and ground operations	2
Other	2
Sales and advertising	2
Sales, advertising, and reservations	2
Promotion and sales	2

The remainder of the operating expense subcaptions used are listed below. They appeared only once.

Table 3-11

Reservations and sales	Selling and administrative
Marketing and advertising	Advertising and publicity
Direct maintenance	Marketing and administrative
Maintenance and ground operations	Maintenance burden
Aircraft servicing	Ground servicing
Fuel	Traffic servicing
Depreciation and obsolescence	Fuel and Oil
Nontransport	Depreciation and amortization, less amounts charged to other accounts
Air transport	Transport related
Business services	Vending and food service
Mutual aid	Operations, exclusive of expense listed separately
Cost of incidental revenue	
Wages, salaries, and employee benefits	

Examples of the operating expense presentation (000 omitted) by various airline companies are as follows:

DELTA AIR LINES	1976	1975
OPERATING EXPENSES:		
Flying operations	$ 464,854	$ 425,300
Maintenance	162,047	162,486
Aircraft and traffic servicing	279,262	259,522
Promotion and sales	170,747	147,055
Passenger service	138,388	127,452
Depreciation	148,897	127,191
General and administrative	47,138	32,994
Total operating expenses	$1,411,333	$1,282,000

UNITED AIRLINES		
OPERATING EXPENSES:		
Operations, exclusive of expenses listed separately - Airline:		
Flying and ground operations	$1,588,299	$1,354,611
Maintenance	402,998	325,764
Hotels	174,868	149,142
Business services	83,747	13,194
Depreciation and amortization	204,562	190,427
Sales and advertising	266,025	224,561
General and administrative	149,828	129,813
Total operating expenses	$2,870,327	$2,387,512

WESTERN AIR LINES

OPERATING EXPENSES:		
Fuel	$108,279	$ 93,134
Wages, salaries, and employee benefits	226,367	201,661
Depreciation and amortization	38,058	36,054
Other	202,643	179,563
Total operating expenses	$575,347	$510,412

DEPRECIATION

All the airlines surveyed used straight-line depreciation. The following table is a list of the ranges used by the airline companies surveyed for the "useful life" of their flight equipment:

Table 3-12

10 years	1
11 - 16 years	1
12 - 14 years	1
12 - 15 years	1
12 - 18 years	1
14 years	2
14 - 16 years	1
15 years	1
18 years	1
Total	10

National Airlines, instead of disclosing the useful life of their flight equipment disclosed the termination dates by type.

An example of a depreciation and useful life footnote is at Section 1, Summary of Accounting Policies, page 1-6.

NON-OPERATING INCOME (EXPENSE)

The principal non-operating income (expense) captions used by airline companies, and the subcaptions and the number of times such captions appeared are as follows:

Table 3-13

Principal Captions

Other income (expense)	3
Other income (deductions)	3
Non-operating income and (expense)	2
Non-operating expense (credit)	1
Other charges (credits)	1
Non-operating income/deductions from income	1
Total	11

Table 3-14

Subcaptions

Gain (Loss) on property disposals	10
Interest capitalized	8
Other - net	7
Interest income	6
Interest expense	4
Miscellaneous expense	4
Interest on long-term debt	3

The remainder of the non-operating income (expense) subcaptions are listed below. They appear only once.

Table 3-15

Interest on long-term debt, net of capitalized interest
Interest expense (exclusive of interest capitalized)
Realized and unrealized gains on foreign currency translations
Gains on extinguishment of debt
Interest earned
Net earnings of subsidiary
Gain on foreign currency translation
Foreign exchange losses
Temporary investments income
Mutual aid payments-guaranteed

Examples of the non-operating income (expense) presentation (000 omitted) by various airline companies are as follows:

CONTINENTAL AIRLINES

	1976	1975
NON-OPERATING EXPENSE AND (INCOME):		
Interest expense	$29,701	$36,232
Less interest expense capitalized		(955)
Loss on disposition of Boeing 747 aircraft		17,503
Other, net	(1,242)	(603)
Total non-operating expense - net	$28,459	$52,177

TRANS WORLD AIRLINES

	1976	1975
OTHER CHARGES (CREDITS):		
Interest expense	$64,719	$67,232
Interest income	(18,129)	(13,092)
Interest capitalized	(115)	(2,897)
Gain on foreign currency translation - net	(11,993)	(16,002)
Loss on disposition of property - net	2,172	16,227
Other - net	4,309	6,989
Total other charges (credits)	$40,963	$58,457

TAX PROVISIONS

The degree of tax disclosure in the income statement varies among the airlines. The captions used to describe the provisions are summarized as follows:

Table 3-16

Provision for income taxes	3
Provision (credit) income taxes	2
Provision for taxes on income	1
Federal income tax (credit)	1
Income taxes	1
Income taxes (credits)	1
Income tax (expense) credit	1
Taxes on earnings	1
Total	11

Additionally, the following subcaptions are used:

Table 3-17

Income taxes provided
Less amortization of investment tax credit
Deferred Federal income tax credit
State and foreign income taxes

In the footnote disclosure of the surveyed airlines, ten included a schedule disclosing a breakdown of the provision. The other airline provided a footnote, but did not disclose the breakdown.

Examples of the income statement presentation (000 omitted) and the related footnote disclosure follows:

BRANIFF AIRWAYS	1976	1975
INCOME BEFORE PROVISION FOR INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE.	$36,023	$27,823
PROVISION FOR INCOME TAXES..................	9,006	6,475
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE..................................	27,017	21,348
CUMULATIVE EFFECT OF ACCOUNTING CHANGE FOR VACATION PAY (LESS FEDERAL INCOME TAX BENEFIT OF $4,033)........................		(4,367)
NET INCOME................................	$27,017	$16,981

NOTE 6 - Income Taxes

Provision for income taxes for the years ended December 31, 1976 and 1975 is summarized as follows:

	1976	1975
	(in thousands)	
Federal:		
Current - before investment tax credit..............................	$4,263	$3,956
Current - investment tax credit........	(2,040)	(1,699)
Deferred...............................	6,683	4,168
Other....................................	100	50
Total.....................	$9,006	$6,475

Deferred Federal income taxes, other than those relating to the cumulative effect of accounting change (see Note 2), result from timing differences in the recognition of expenses for tax and financial statement purposes. The sources of these differences and the tax effect thereof were as follows:

	1976	1975
	(in thousands)	
Excess of tax over book depreciation....	$13,342	$9,283
Excess of book over tax amortization of developmental and preoperating costs..................................	(400)	(621)
Investment tax credits recognized in deferred Federal income taxes.........	(6,286)	(4,829)
Other..................................	27	335
Total....................	$ 6,683	$4,168

The reason for the difference, expressed as a percentage of income before provision for income taxes and cumulative effect of accounting change, between the statutory U. S. Federal income tax rate and the effective tax rate is as follows:

	1976	1975
Statutory rate.............................	48%	48%
Investment tax credit......................	(23%)	(24%)
Effective rate.............................	25%	24%

Investment tax credits generated and unapplied on tax returns amounted to approximately $15,235,000 at December 31, 1976 which expires $848,000, $6,086,000, and $8,301,000 in the years 1981 through 1983. In addition, investment tax credits of $4,616,000 were used by a former parent, and the Company is claiming its right to reimbursement of such amounts since such credits would have been utilized by the Company under provisions of the Internal Revenue Code. There is a dispute between the parties as to the former parent's obligation in this matter. The Company intends to aggressively pursue collection of its claim. Approximately $16,851,000 of such amounts have been applied as a reduction of provisions for deferred Federal income taxes. Also see Note 9.

PAN AMERICAN WORLD AIRWAYS	1976	1975
INCOME TAX (EXPENSE) CREDIT:		
Deferred Federal income tax credit.................	$ 4,016	11,654
State and foreign income taxes.....................	(4,115)	(3,510)
Total income tax (expense) credit..........................	$ (99)	$ 8,144

(C) The net Federal income tax (expense) credit included in these statements is reflected in the following captions (in thousands):

	Year Ended December 31				
	1972	1973	1974	1975	1976
Deferred Federal income tax credit	\$24,931(a)	\$19,036	\$54,363	\$11,654	\$ 4,016
Equity in income of unconsolidated subsidiaries and associated companies, net of income taxes		(392)	(908)		(1,077)
Extraordinary items:					
Income tax (expense) related to gain on debenture exchange					(28,203)
Tax effect of loss carryforward					13,604
Net Federal income tax (expense) credit	\$24,931	\$18,644	\$53,455	\$11,654	\$(11,660)

(a) Net of reversal of \$4,096 investment tax credits recorded in prior years.

The deferred Federal income tax credits for the years 1972 through 1975 represent reversals of a portion of the deferred Federal income taxes provided in prior years for the income taxes expected to be payable in later years as a result of timing differences in the recognition of certain expenses, principally depreciation, for financial reporting purposes as compared with income tax reporting purposes. Such Federal income tax credits are used to reduce financial statement losses because it is appropriate to assume that tax loss carryforwards will be available to reduce taxes that would otherwise be payable as a result of the reversal of the timing differences. The utilization of Federal income tax credits to reduce financial statement losses is limited to the lower of the tax effect of the loss or the tax effect of timing differences expected to reverse prior to the expiration of the seven-year period during which a tax loss carryforward is available. The 1972 and 1973 deferred Federal income tax credits represent the statutory rate applied to the pre-tax income or loss of the companies included in the consolidated tax return utilizing state and foreign income taxes as deductions. The 1974 and 1975 deferred Federal income tax credits were limited to the tax effect of timing differences expected to reverse in the carryforward periods.

The deferred Federal income tax credit for 1976 results from the utilization of the loss before extraordinary items to offset the gain from the debenture exchange. The income tax expense related to the gain on the debenture exchange and the deferred Federal income tax credit have been calculated at an effective Federal income tax rate of 24%, which rate recognizes the full 50% allowable for investment tax credits, although such credits may not be claimed in income tax returns until future years.

Approximately $56,000,000 of loss carryforwards were available as of December 31, 1975 for financial reporting purposes for application against income reported subsequent to that date. This amount was fully utilized in 1976; the tax effect of these loss carryforwards has been included as an extraordinary credit, also at an effective Federal tax rate of 24%.

The Company estimates that no Federal income tax will actually be payable for 1976 because of the availability of the tax loss carryforwards to offset taxable income. See Note 5 to Consolidated Financial Statements.

INVESTMENT TAX CREDIT

Only one airline surveyed had an investment tax credit amount appear on the face of the income statement as a separate line item. The presentation of the provision is as follows:

DELTA AIR LINES	1976	1975
PROVISION FOR INCOME TAXES:		
Income taxes provided..........................	$ 53,949	$ 39,324
Less - Amortization of investment tax credits....	(14,613)	(11,359)
Total provision for income taxes.......................	$ 39,336	$ 27,965

The related footnote disclosure for income taxes for Delta Air Lines is at page 1-15.

NET INCOME

The principal captions used by the airlines to designate net income are summarized as follows:

Table 3-18

Net income.....................................	4
Net earnings...................................	3
Net income (loss)..............................	2
Net earnings for the year......................	1
Net earnings (loss) for the year...............	1
Total..........................	11

EARNINGS PER SHARE

The principal captions used by the surveyed airlines to designate earnings per share for a simple capital structure are summarized in the following table:

Table 3-19

Earnings per share.............................	2
Earnings per share of common stock.............	1
Net income per common share....................	1
Earnings per common share......................	1
Earnings (loss) per share......................	1
Total..........................	6

The principal captions used to designate a dual presentation of earnings per share are summarized as follows:

Table 3-20

Primary earnings per share
Fully diluted earnings per share
Earnings (Loss) per common share on average shares
Earnings (Loss) per common share assuming full dilution
Earnings (Loss) per share of common stock - primary
Earnings (Loss) per share of common stock - fully diluted
Earnings per share - primary
Earnings per share - fully diluted

The following table shows whether the amount of common shares outstanding or equivalents is shown in the income statement or disclosed elsewhere.

Table 3-21

Shown on income statement.....................	3
Shown on balance sheet........................	1
Disclosed in notes............................	7
None..	-
Total.........................	11

An example of an earnings per share presentation in the income statement and the related footnote disclosure follows:

AMERICAN AIRLINES

	1976	1975
EARNINGS (LOSS) PER SHARE OF COMMON STOCK:		
Primary..	$1.97	$(.79)
Fully diluted..	$1.90	$ -

H. EARNINGS (LOSS) PER SHARE

Primary earnings (loss) per share of common stock are based on the average number of shares of common stock outstanding during the year (1976 - 28,574,000; 1975 - 28,549,000). The inclusion of common stock equivalents (stock options) would not have a dilutive effect on primary earnings per share.

Fully diluted earnings per share were determined on the basis of the average number of shares of common stock and common stock equivalents outstanding and assumes the conversion of the subordinated convertible debentures, if such conversion would have a dilutive effect, into common stock. Net earnings applicable to common stock were increased to reflect the elimination of interest and debt expense (less tax effect) related to the convertible debentures. The number of shares used in this calculation for the year ended December 31, 1976, was 32,485,000. Fully diluted earnings per share are not applicable to 1975 since the effect would be anti-dilutive.

EASTERN AIR LINES	1976	1975
EARNINGS PER COMMON SHARE (Note B):		
Income (Loss) before extraordinary item and cumulative effect of a change in accounting principle	$1.76	$(2.86)
Extraordinary item	.56	-
Cumulative effect on prior years (to December 31, 1974) of changing method of recording vacation liability (Note D)	-	(1.84)
Net income (loss)	$2.32	$(4.70)

NOTE B - EARNINGS PER SHARE

Earnings per share are based on the average number of common and common equivalent shares outstanding - 19,197,247 in 1976 and 19,043,225 in 1975. Net income available to common shareholders has been reduced by the Preferred Stock dividends in arrears of $677,000 for 1976 and $813,000 for 1975. The effect on earnings per share of assuming conversion of the outstanding convertible issues would not be material for 1976 and would have had an anti-dilutive effect for 1975 (see Note K for a discussion of the preferred stock exchange).

MISCELLANEOUS LINE ITEMS

Of the eleven (11) airline companies surveyed only one showed a previously undescribed account - equity in income of unconsolidated subsidiaries and associated companies. The example follows:

PAN AMERICAN WORLD AIRWAYS	1976	1975
EQUITY IN INCOME OF UNCONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES, NET OF INCOME TAXES (NOTE D)	$4,511	$4,865

TITLE

The airline companies included in the survey used several titles to describe their statement of changes in financial position. The following table indicates the breakdown of the statement titles:

Table 4-1

Statement(s) of Changes in Financial position	6
Consolidated statement(s) of changes in financial position	3
Statement of changes in consolidated financial position	2
Total	11

* * * * *

FORMAT

The format of the statements used by the surveyed airline companies is as follows:

Table 4-2

Balanced statement	1
Unbalanced statement	10
Total	11

The net totals shown on the unbalanced statements are:

Table 4-3

Changes in working capital	8
Cash and investments	2
Total	10

The principal captions used by airline companies to designate sources, applications and net changes in financial position are as follows:

Table 4-4 - Sources

Source of funds	3
Funds provided by	3
Funds provided	2
Sources of working capital	2
Working capital provided	1
Total	11

Table 4-5 - Applications

Application of funds	3
Funds used	2
Funds used for	2
Application of working capital	1
Funds applied for	1
Uses of working capital	1
Working capital used	1
Total	11

Table 4-6 - Net Change in Financial Position

Increase (decrease) in working capital	3
Decrease in working capital	2
Increase (decrease) in funds during year	1
Increase (decrease) in cash and short-term investments	1
Increase in working capital	1
Total increase (decrease)	1
Not disclosed	1
Increase in cash and temporary cash investments	1
Total	11

* * * * *

OPERATIONS

All of the airline companies surveyed included in their statement of changes a section indicating the funds provided internally or from operations. Those items included in such section are summarized in Table 4-7.

Table 4-7

Deferred income taxes	11
Depreciation and amortization	10
Net income	8
Other	5
Deferred investment tax credit	3
Translation of foreign indebtedness	3
Gain (loss) on disposal of property and equipment	3
Equity in subsidiary	2
Cumulative effect of accounting change	2
Earning before cumulative effect of change in accounting principle	2
Income before extraordinary item and cumulative effect of accounting change excluding gain on sale	1
Amortization of deferred investments credits	1
Deferred Federal income tax benefit of accounting change	1
Warrant expense	1
Gain from repurchase of long-term debt	1
Depreciation and obsolescence	1

Examples of the operations section (000 omitted) of the airline companies' statement of changes in financial position follow:

AMERICAN AIRLINES	1976	1975
SOURCE OF FUNDS:		
Net earnings (loss)	$ 56,315	$(22,410)
Less undistributed earnings (loss) of Flagship International, Inc.	(3,918)	183
Total	60,233	(22,593)
Depreciation and obsolescence	109,813	105,695
Deferred Federal income tax	17,900	(6,400)
Total source of funds	$187,946	$ 76,702

EASTERN AIR LINES

FUNDS PROVIDED BY:		
Income (loss) before extraordinary item and cumulative effect of accounting change excluding (loss) gain on sale of equipment of ($620) and $3,956.......	$ 35,002	$(57,670)
Depreciation and amortization - operations	103,144	98,248
Depreciation and amortization - other.....	4,760	5,172
Provision for income taxes................	10,857	-
Translation of foreign indebtedness.......	(4,756)	(4,579)
Warrant expense...........................	4,019	-
Non-transport subsidiaries:		
Equity in results of operations.........	-	4,027
Provision for impairment in investment..	-	16,756
Funds provided from operations exclusive of accounting change....................	153,026	61,954
Cumulative effect of accounting change....	-	(35,000)
Funds provided from operations............	$153,026	$ 26,954

NORTHWEST AIRLINES

SOURCE OF FUNDS:		
Net earnings..............................	$ 51,737	$ 43,396
Items not requiring current funds:		
Depreciation and amortization:		
Aircraft and related flight equipment	92,747	88,304
Other................................	9,967	10,576
Deferred income taxes..................	36,765	7,731
Deferred investment credit.............	(522)	(1,375)
Total from Operations..	$190,694	$148,632

OTHER SOURCES

Captions used to describe the other sources* of funds or working capital are summarized as follows:

Table 4-8

Issuance of long-term debt..........................	10
Proceeds from disposal of property and equipment....	10
Other - net...	7
Cash advances returned on leased equipment..........	4
Proceeds from employee stock purchase plan..........	3
Increase (decrease) in unused tickets held by passengers..	3
Increase (decrease) in non-current receivables..	2
Issuance of common stock............................	2
Dividends...	2

*Captions that appeared only once are listed in the following table:

Table 4-9

Working capital components	Reduction in equipment purchase deposits
Revolving credit notes	Proceeds from sale of investments
Increase in accounts payable	Decrease in accounts receivable
Increase in accounts payable and accrued liabilities	Increase in deferred credits and other items
Federal income tax refund	

Examples of the other sources section (000 omitted) of the airline companies' statement of changes in financial position are as follows:

CONTINENTAL AIRLINES	1976	1975
Proceeds from new borrowing	$ 3,327	$ 61,115
Proceeds from disposition of property and equipment	6,732	45,151
DELTA AIR LINES		
Long-term financing	$50,543	$ 97,833
Disposition of property and equipment (book value)	5,790	39,001
Common stock issued under employee stock option plan	-	55
Other	3,284	517
TRANS WORLD AIRLINES		
Net cash received from sale of certain equipment	$24,011	$140,292
Proceeds from sale of investment	-	9,000
Net book value of property retired	5,617	8,250
Long-term debt issued	20,383	40,738
Common stock issued	5,038	5,382
Increase (decrease) in:		
Accounts payable and accrued liabilities	13,502	(2,163)
Advance ticket sales	12,424	10,308
Revolving credit notes - net	-	77,000
Decrease (increase) in receivables	3,645	(19,560)

USES OF FUNDS

The various captions used to describe the uses of funds are summarized in the following table:

Table 4-10

Decrease in long-term debt	11
Property, equipment, and deposits	11
Cash dividends	6
Increase in deferred charges and other items	2
Other - net	2
Increase in investment and advances of subsidiary	2
Increase in route acquisition costs	2
Prepayment of long-term debt	2
Advance payments on equipment purchase contracts	2

Captions that appeared only once are listed in the following table:

Table 4-11

Repurchase of common stock	Decrease in accrued liabilities
Additions to equipment purchase deposits	Increase in other items - net
Decrease in accounts payable	Increase - deferred credits and non-current liabilities
Deposits pledged as security	Deferred charges
Working capital components	Increase in receivables
Goodwill arising in acquisition	Increase in expendable parts and supplies

Examples of the uses of funds section (000 omitted) of the airline companies' statement of changes in financial position follow:

BRANIFF AIRWAYS	1976	1975
APPLICATION OF FUNDS:		
Purchase of property and equipment	$ 89,606	$ 67,092
Reduction of long-term debt	128,372	28,245
Additions to equipment purchase deposits	23,679	13,131
Cash dividends to parent company	5,610	5,805
Additions to long-term prepayments	4,285	4,548
Additions to deferred charges	954	680
Other - net		3,299
Total	$252,506	$122,800

PAN AMERICAN WORLD AIRWAYS

USES OF WORKING CAPITAL:		
Property and equipment additions	$ 58,696	$ 69,762
Long-term debt becoming currently payable	25,875	22,975
Retirement of long-term debt	9,383	18,514
Deposits pledged as security	10,639	-
Total	$104,593	$111,251

WESTERN AIR LINES

APPLICATIONS OF WORKING CAPITAL:		
Purchase of property and equipment and advances thereon	$ 42,362	$ 41,985
Repurchase of common stock (Note 10)	30,527	-
Reduction of long-term debt including transfers to current liabilities	20,000	15,750
Cash dividends	5,312	7,126
Preoperating costs related to route development	4,270	-
Total	$102,471	$ 64,861

CHANGES IN COMPONENTS OF WORKING CAPITAL

The methods used by airline companies to disclose the components of changes in working capital follow:

Table 4-12

Disclosure in separate summary or note to statement	8
Disclosure within the statement	3
Total	11

Examples of the various types of disclosure of the change in components of working capital follow (000 omitted):

BRANIFF AIRWAYS	1976	1975
INCREASE (DECREASE) IN WORKING CAPITAL, BY COMPONENTS:		
Cash	$(15,107)	$ 6,599
U. S. Government and other securities	11,013	(7,383)
Accounts receivable	778	11,211
Inventory	744	107
Other current assets	26	(1,397)
Notes payable and current maturities of long-term debt	3,784	(1,936)
Accounts payable	(2,003)	633
Air traffic liability	(613)	(226
Income taxes payable	(564)	771
Dividends payable	-	1,005
Accrued compensation and retirement benefits	(2,270)	(1,757)
Accrued vacation pay	(1,200)	(9,420)
Other current liabilities	1,409	(3,182)
(DECREASE) IN WORKING CAPITAL	$(4,003)	$(4,975)

CONTINENTAL AIRLINES	1976	1975
CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash	$ 7,908	$ 5,323
Short-term investments	(10,042)	(105)
Receivables	(14,135)	13,141
Spare parts and supplies, net	340	4,427
Prepaid expenses	223	(84)
(Increase) decrease in current liabilities:		
Current instalments of long-term debt	(6,515)	19,723
Accounts payable	2,263	(384)
Airline traffic liability	390	(7,378)
Accrued expenses	2,039	(7,081)
Total increase (decrease)	$(17,529)	$ 27,582

UNITED AIRLINES

(COMPONENTS SHOWN WITHIN THE STATEMENT UNDER "OTHER SOURCES"):		
Issuance of long-term debt......................	$ 26,222	$105,375
Increase (decrease) in accounts payable and accrued liabilities................	121,944	(1,389)
Increase in advance ticket sales and customer deposits..........................	54,933	18,941
Other, net..	6,817	9,518

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