

AMERICAN AIRLINES, Inc.

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

to be held December 6, 1944

To the Common Stockholders of
AMERICAN AIRLINES, INC.:

NOTICE IS HEREBY GIVEN that a special meeting of the holders of the Common Stock of American Airlines, Inc., a Delaware corporation (hereinafter called the "Corporation"), will be held at the statutory office of the corporation, 927 Market Street, Wilmington, Delaware, on December 6, 1944, at 11:00 o'clock A.M. (Eastern War Time), for the purpose of considering and acting upon the following proposals recommended and deemed advisable by the Board of Directors of the corporation:

1. The amending of the Certificate of Incorporation by decreasing the present authorized Preferred Stock of no par value from 100,000 shares to 50,000 shares, and by changing the name and designation of said Preferred Stock to Prior Preferred Stock.
2. The amending of the Certificate of Incorporation so as to increase the authorized capital stock of the corporation by creating 200,000 shares of Preferred Stock of the par value of \$100 per share, issuable in series, to fix certain of the powers, preferences and rights of such Preferred Stock and limitations and restrictions thereof, to authorize the Board of Directors to fix the remainder thereof in the case of shares of each particular series.
3. The amending of the Certificate of Incorporation so as to increase the authorized Common Stock of the corporation from 1,000,000 shares of the par value of \$10 per share to 2,400,000 shares of the par value of \$5 each, and to provide for a two for one split-up of the present Common Stock, so that each stockholder will receive two shares of Common Stock of \$5 par value for each of the Common Shares of \$10 par value held by him.
4. The amending of the Certificate of Incorporation so as to increase the capital stock of the corporation by creating 100,000 shares of Employees Stock of the par value of \$5 per share, to be issuable only to officers and other employees of the corporation and any of its subsidiaries, and to be convertible three years after issuance into Common Stock on a share for share basis.
5. To authorize the granting of options upon all or any shares of the Employees Stock of the corporation upon the terms and conditions set forth in the accompanying Proxy Statement.
6. To consider and act upon any other business which may properly come before the meeting or any adjournment or adjournments thereof.

While each of the above propositions is separate and independent, action on one is in no way dependent upon action on the others, except that approval of the plan to option Employees Stock is obviously dependent upon the amendment to the Certificate of Incorporation creating such new class of stock. Upon approval of all of the foregoing proposals, Article Fourth of the Certificate of Incorporation, as so amended, will read substantially as set forth in Exhibit "A" appended to the Proxy Statement accompanying this Notice.

The Board of Directors has fixed November 6, 1944 as the record date for the determination of the holders of the Common Stock entitled to receive notice of and to vote at said special meeting or any adjournment thereof.

If you are unable to attend the meeting in person, the management of the corporation requests that you execute and mail the attached proxy for said meeting. The proxy may be revoked at any time prior to the exercise thereof.

By order of the Board of Directors.

C. W. JACOB
Secretary

November 6, 1944.

AMERICAN AIRLINES, Inc.

PROXY STATEMENT

SPECIAL MEETING OF STOCKHOLDERS

To the Common Stockholders of
AMERICAN AIRLINES, INC.:

The accompanying Proxy is solicited by the management of American Airlines, Inc., a Delaware corporation, for use at a special meeting of the holders of the Common Stock of the corporation, to be held at the statutory office of the corporation, 927 Market Street, Wilmington, Delaware, on December 6, 1944, at 11:00 o'clock A.M. Eastern War Time, or at any adjournment or adjournments thereof. Such Proxy is revocable by the person executing it at any time before it is exercised.

This meeting is called and held to pass upon five separate propositions, all of which are recommended by the Board of Directors of the corporation:

1. The amending of the Certificate of Incorporation by decreasing the present authorized Preferred Stock of no par value from 100,000 shares to 50,000 shares, and by changing the name and designation of said Preferred Stock to Prior Preferred Stock.
2. The amending of the Certificate of Incorporation so as to increase the authorized capital stock of the corporation by creating 200,000 shares of Preferred Stock of the par value of \$100 per share, issuable in series, to fix certain of the powers, preferences and rights of such Preferred Stock and limitations and restrictions thereof, to authorize the Board of Directors to fix the remainder thereof in the case of shares of each particular series.
3. The amending of the Certificate of Incorporation so as to increase the authorized Common Stock of the corporation from 1,000,000 shares of the par value of \$10 per share to 2,400,000 shares of the par value of \$5 each, and to provide for a two for one split-up of the present Common Stock, so that each stockholder will receive two shares of Common Stock of \$5 par value for each of the Common Shares of \$10 par value held by him.
4. The amending of the Certificate of Incorporation so as to increase the capital stock of the corporation by creating 100,000 shares of Employees Stock of the par value of \$5 per share, to be issuable only to officers and other employees of the corporation and any of its subsidiaries, and to be convertible three years after issuance into Common Stock on a share for share basis.
5. To authorize the granting of options upon all or any shares of the Employees Stock of the corporation upon the terms and conditions hereinafter set forth in this Proxy Statement.

While the Board of Directors has recommended to the stockholders the approval of all of the matters specified above, each of the amendments to the Certificate of Incorporation and the plan of creating options upon all or any part of the Employees Stock of the corporation will

be voted upon as separate and independent proposals, and the adoption of any one or more thereof will not be dependent upon favorable action upon any of the others, except no proposal to consider the creating of options upon Employees Stock will be considered at the meeting unless the required majority of the holders of the Common Stock have first approved the proposed amendment to the Certificate of Incorporation creating such Employees Stock.

The full text of the proposed Amendment to the Certificate of Incorporation, in substantially the form to be filed if all of the amendments specified above are approved by the stockholders, is set forth as Exhibit "A" to this Proxy Statement. Appropriate changes or omissions will be made therein if less than all such amendments are adopted by the stockholders.

DECREASE OF AUTHORIZED SHARES OF PRESENT PREFERRED STOCK AND REDESIGNATION OF SAME AS PRIOR PREFERRED STOCK

The presently authorized Preferred Stock of the corporation consists of 100,000 shares without par value, of which 50,000 shares were issued in 1940 and the remaining 50,000 shares remain unissued. The outstanding Preferred Stock has been called for redemption January 15, 1945, at the redemption price of \$106 per share, plus accrued dividends thereon, and unless such outstanding Preferred shares are converted into Common Stock prior to said redemption date the same will be redeemed and retired January 15, 1945. It is proposed now by this Amendment to change the name and designation of the outstanding Preferred Stock to Prior Preferred Stock, pending the retirement of this stock on January 15, 1945, to reduce the authorized number of shares from 100,000 to 50,000 shares, but in no way to impair or disturb the preferences and rights which the holders of such Preferred Stock now have.

NEW PREFERRED STOCK

The second proposed Amendment will increase the authorized stock of the corporation by creating a new issue of 200,000 shares to be known as "Preferred Stock" of the par value of \$100 per share, which will for the time being, if issued prior to January 15, 1945, have rights secondary to the Prior Preferred Stock, but which will become the senior security of the corporation on January 15, 1945, when all of the Prior Preferred Stock has been redeemed or converted into Common Stock, and Prior Preferred Stock will no longer be outstanding or authorized.

Under the proposed amendment, the Board of Directors will be authorized within the limitations therein set forth to issue the Preferred Stock from time to time in one or more series, and in the resolution providing for the issue of each such series to fix (1) the designation of such series; (2) the dividend rate of such series (which shall not be in excess of \$7 per share per annum) and the quarterly dates upon which dividends at the rates so fixed shall be payable on shares of such series; (3) the redemption price or prices; (4) the terms and amounts of any sinking fund providing for the redemption of the shares of any series; (5) the right, if any, to convert any such shares into Common Stock of the corporation, and if made so convertible, the conversion price or rates of exchange.

The initial series of Preferred Stock has not been created, and as a matter of practical necessity, such provisions as well as the price at which such stock will be offered, which in any event will be not less than the par value thereof, the dividend rate, the provisions, if any, for a sinking fund, and the provisions, if any, for conversion into Common Stock, cannot be determined at the present time, since their determination will depend upon market conditions shortly before the issuance of any series of such Preferred Stock. Such offering price, however, will be not less than \$100 per share, and such Preferred Stock may be convertible into Common Stock at a conversion price for the Common Stock in excess of the market price of such stock at the date such conversion price is set by the Board of Directors, or may be issued in the discretion of the Directors without any conversion privilege whatsoever.

INCREASE OF COMMON STOCK

The presently authorized Common Stock of the corporation is 1,000,000 shares of the par value of \$10 per share, of which 574,848 shares were outstanding as of October 20, 1944, and 71,429 shares were reserved to be issued upon conversion of the outstanding 50,000 shares of Preferred Stock. The third proposed Amendment increases the authorized Common Stock to 2,400,000 shares and decreases the par value of said shares from \$10 to \$5 per share. This proposed Amendment if approved by the stockholders will therefore effect a recapitalization of the corporation so as to double the number of shares of outstanding Common Stock with the result that there will be outstanding two new shares of Common Stock for each presently outstanding share of Common Stock. As the result of this split-up, the 574,848 shares of Common Stock of \$10 par value now outstanding will be changed into 1,149,696 shares of Common Stock of \$5 par value per share without, however, effecting any change in the capital account of the corporation. The conversion rights of the holders of the outstanding 50,000 shares of Preferred Stock likewise must be proportionately adjusted in view of the reduction in par value and split-up of the outstanding Common Stock, so that the number of new shares of \$5 par value stock to be reserved for conversion of the outstanding Preferred Stock will be increased to 142,858 shares.

The purpose of the two for one split-up is to improve and broaden the market of the corporation's stock.

The increase in the authorized number of shares of Common Stock is also intended to provide shares of Common Stock to be available for conversion of such of the newly authorized Preferred Stock as may hereafter be issued in a series, providing for conversion into Common Stock and to provide 100,000 shares to be reserved for the conversion of Employees Stock, as well as to provide shares to be available for future financing through sales of Common Stock if and when the desirability of Common Stock financing shall arise. The corporation has no present intention of making any public offering of Common Stock.

SALE OF PREFERRED AND COMMON STOCK AND USE OF PROCEEDS

No definite plans have as yet been formulated by the management for the sale of any of the new Preferred Stock or increased Common Stock of the corporation, but it is known that the capital requirements of the corporation over the next few years involve heavy expenditures for the purchase of additional flying equipment and other property and equipment, and to supply the additional working capital required to care for the anticipated expansion in the corporation's business. When or how rapidly this additional capital will be required and can be providently utilized is not now known and obviously depends to a large extent upon the restoration of peace and the reconversion of present military aircraft factories to commercial production, although some additional flying and other equipment consisting for the most part of airplanes turned back by the armed forces may become available for commercial operations before the termination of the war. In addition to new and larger airplanes, it is known that there will be capital expenditures for spare parts and spare engines, radios and other communications equipment, hangars, repair machinery and shop equipment and the expansion of present routes and inauguration of service on possible new routes, including possible foreign routes, which may be hereafter acquired or participated in by the corporation. Contracts have already been entered into for the purchase of new Douglas DC-4 and DC-6 equipment from Douglas Aircraft Company, Inc. which together with additional engines and spare parts involve a total of approximately \$30,000,000.

While it is anticipated that a portion of the funds required for capital expenditures over this period can be provided from cash now on hand, future earnings and depreciation provisions and a portion from bank loans, other borrowings or the sale of equipment trust certificates, your management believes and prudent business judgment seems to indicate that the corporation should

be in a position to expand its capital resources to take care of this greatly increased and growing business, so that additional capital could be obtained through the sale of Preferred Stock, or Common Stock or both, and that the corporation should have the means through authorized but unissued Preferred and Common Stock to acquire such additional capital promptly as same is needed. For these reasons the stockholders are asked to authorize additional shares of Preferred and Common Stock, although no immediate plans for the issuance of the same have been formulated.

DESCRIPTION OF NEW PREFERRED STOCK

The following description summarizes certain of the provisions of the new Preferred Stock, which are fully and completely stated in Exhibit "A" of this Proxy Statement. As previously mentioned, the Board of Directors will have the right to fix by resolution in the case of each series of Preferred Stock the designation of such series, dividend rate, not in excess of \$7 per share per annum, redemption price or prices, terms and amount of any sinking fund and conversion privileges if such shares of Preferred Stock are made convertible into Common Stock, all of which provisions obviously will depend on general market conditions shortly before the time the initial series of Preferred Stock is offered for sale.

Dividend Rights

The Board of Directors in each resolution authorizing a series of Preferred Stock is authorized to fix the rate per annum not in excess of \$7 per share at which the holders of shares of such series shall be entitled to receive dividends. The rate per annum at which holders of shares of the initial series of Preferred Stock shall be entitled to receive dividends has not yet been fixed, but depending upon existing market conditions, will be fixed by the Board of Directors shortly before the issuance of the shares of Preferred Stock of this series. There are no limitations in any indentures or other agreements to which the corporation is a party restricting the payment of dividends on the Preferred Stock.

Voting Rights

It is provided in the Certificate of Amendment that as long as any shares of the Preferred Stock of any series shall be outstanding, the corporation shall not without the consent of the holders of at least two-thirds of the total number of shares of all stock of any series outstanding create or authorize any class of stock ranking prior to or (other than a series of the Preferred Stock) on a parity with the Preferred Stock, or amend, change or repeal any of the express terms of the Preferred Stock in a manner prejudicial to the holders thereof. With the foregoing exceptions, and except as otherwise required by the statutes of the State of Delaware, the exclusive voting power of the corporation is vested in the holders of the Common Stock and Employees Stock, and the holders of the Preferred Stock have no voting power as long as there is no default in respect of the declaration and payment of full regular quarterly dividends on the Preferred Stock of any series. In the case of any such default and the continuance of the same for four quarterly dividend periods, then and in every such case the number of directors of the corporation shall be increased by two more than the number constituting the Board prior to such default, and the holders of the Preferred Stock of all series, until such default is cured by the payment of dividends, shall have the right at all meetings of the stockholders of the corporation to elect two additional directors to represent the Preferred Stockholders as a class. In the event the number of directors to be elected by Common Stockholders is increased beyond the fifteen directors provided for in the present By-Laws of the corporation, the Preferred Stockholders when entitled to elect directors by reason of such default in the payment of dividends are in such case entitled to elect additional directors equivalent to one-fifth of the total number of directors to be elected by the holders of all classes of stock outstanding.

Redemption and Retirement Provisions

Upon at least thirty days previous notice to the holders of record of the Preferred Stock to be redeemed, the corporation by action of its Board of Directors may redeem the whole of the Preferred Stock or any series thereof, or any part of any series thereof on any quarterly dividend date at the redemption price as determined by the Board of Directors in the resolutions providing for the issuance of the particular series, plus any dividends accruing thereon to the redemption date. If less than all of the outstanding shares of Preferred Stock of any series are to be called for redemption, the shares to be redeemed may in the discretion of the Board be selected by lot or in such other manner as may be prescribed by the Board of Directors.

With respect to each series of the Preferred Stock the Board of Directors in the resolution establishing such series is authorized to fix the obligation, if any, of the corporation to retire shares of such series and to specify the terms and amount of any sinking fund to be provided for the purchase and redemption of shares of the Preferred Stock of such series.

Liquidation Rights

In the event of any liquidation or dissolution or winding up of the corporation, whether voluntary or involuntary, or in the event of a sale of all or substantially all of the assets of the corporation, or upon any distribution of its capital assets as a liquidating or partial liquidating dividend, the holders of the Preferred Stock of each series are entitled to receive \$100 for each share, plus an amount equal to the dividends unpaid and accumulated thereon, and no more, before the assets of the corporation shall be distributed among or paid over to the holders of the Common Stock and Employees Stock.

Preemptive and Subscription Rights

No holder of the Preferred Stock, Common Stock or Employees Stock of the corporation shall have any preemptive right to subscribe to stock of any class, or any bonds, notes, debentures or other obligations or securities convertible into stock whether now or hereafter authorized.

Conversion Rights

The Board of Directors in each resolution establishing a series of the Preferred Stock is authorized to determine whether or not the shares of such series shall be convertible into and exchangeable for shares of the Common Stock of the corporation, and if made so convertible or exchangeable, the conversion price or prices, or the rates of exchange and the adjustments, if any, and all other terms and conditions upon which such conversion or exchange may be made. As previously stated, the terms and conditions under which the initial series of Preferred Stock will be offered for sale are not now known and will depend upon market conditions prevailing at or near the date of such offering. It is contemplated, however, that if conversion rights are given in connection with any series of the Preferred Stock the conversion price or ratio will be above the market price of the outstanding Common Stock of the corporation at the date when such series of Preferred Stock is issued.

AUTHORIZATION OF EMPLOYEES STOCK

The proposed amendment to Article Fourth of the Certificate of Incorporation also authorizes 100,000 shares of a new class of stock having a par value of \$5 per share to be known as Employees Stock. The purpose of the Employees Stock is to encourage officers and other employees to become stockholders of the corporation and to furnish incentive to their continued service to the corporation. The authorization of the Employees Stock, the sale of which is

limited to officers and other employees of the corporation and any of its subsidiaries, will make it possible for the officers and other employees to whom allotments are made to purchase a class of stock of the corporation which will be subject to certain restrictions, but will have the same voting and dividend rights as the Common Stock and will be convertible into Common Stock on a share for share basis at the end of a three-year period from the date of the issuance of the same, provided the holder continues in the employ of the corporation, or immediately after any holder's decease, provided such holder's death occurs while he remains in the employ of the corporation or one of its subsidiaries. The Employees Stock is to be sold from time to time at a price to be fixed by the Board of Directors, but in no event less than the par value thereof or the book value of the Common Stock of the corporation, whichever price may be the higher. For the purpose of determining book value in connection with any sale of Employees Stock or repurchase of the same by the corporation upon any of the conditions hereinafter set forth, the computation of book value shall be made from the then latest available consolidated balance sheet certified by the Treasurer of the corporation, or at the election of the Board of Directors by its independent auditors and in accordance with the formula set forth in Subdivision III of Article Fourth of the Certificate of Incorporation, as amended (Exhibit "A" hereto), after the Board of Directors in its discretion has made reasonable allowance for estimated profits or losses, or other happenings affecting value subsequent to the date of such balance sheet. The book value of the Common Stock of the corporation at August 31, 1944, was \$32.12 per share and was below the price at which the Common Stock of the corporation was selling on that date. The closing price on the New York Stock Exchange of such stock on August 31, 1944, was \$77.50 per share, and on November 2, 1944 was \$80.75 per share. The proposed two for one split-up of the outstanding Common Stock will obviously decrease the book value 50% and will presumably have a corresponding effect upon the market price of the outstanding shares.

No definite plan for the sale of Employees Stock to officers and other employees has been formulated by the Board of Directors, but it is intended that such shares will be offered from time to time over an indefinite period to certain of the officers and other employees of the corporation and any of its subsidiaries, which categories at the present time include approximately 8,600 persons. The persons to whom Employees Stock will be sold, offered for sale or optioned for sale will be determined from time to time by a Committee of the Board of Directors, which Committee will not include any officer of the corporation or any person to whom such shares of Employees Stock have been or are being offered and every sale or plan of allotment will be subject to final approval of the Board of Directors. This Committee has not been appointed and will not be appointed until after the approval of the proposed Amendment by the stockholders of the corporation, so it is not possible at this time to disclose the names of the members of the Committee. The directors eligible to appointment on said Committee are, however, the directors who are not officers of the corporation as disclosed in the table on pages 10 and 11 hereof.

Each officer of the corporation, including directors who are officers (but excluding directors who are not officers), represents an eligible person to whom shares of Employees Stock may be offered by the corporation. A list containing the name and office of each officer and director appears on pages 10 and 11 of this Proxy Statement, and those who are not eligible to become purchasers of Employees Stock are indicated in such list with an asterisk before their names. Such list also states the aggregate amount of remuneration paid by the corporation and its subsidiaries, directly or indirectly, to each of the officers and directors in all capacities during the last fiscal year of the corporation. None of such eligible directors or officers, or any of their associates, had any substantial interest, direct or indirect in any property acquired within two years, or proposed to be acquired by the corporation or any of its subsidiaries.

DESCRIPTION OF EMPLOYEES STOCK

The following description summarizes certain of the provisions of the Employees Stock which are fully and completely stated in Exhibit "A" of the Proxy Statement.

***Dividend Rights, Voting Rights
and Liquidation Rights***

Each share of the Employees Stock is entitled to the same dividend rights, the same voting rights and the same rights upon liquidation, dissolution or winding up of the corporation as appertain to a share of Common Stock.

Preemptive and Subscription Rights

No holder of Employees Stock shall have any preemptive right to subscribe to stock, obligations, warrants, rights to subscribe to stock or other securities of the corporation of any class, whether now or hereafter authorized.

Conversion Rights

Each share of the Employees Stock shall be convertible at the option of the holder thereof, at any time after three full years from the original issuance of the same to the holder or his predecessor in interest, into full paid and non-assessable shares of Common Stock of the corporation, at the rate of one share of Common Stock for each such share of Employees Stock. The conversion price shall be subject to adjustment, from time to time, in the events and in the manner stated in the proposed amendment, and in the event of the death of a holder while in the employ of the corporation or any of its subsidiaries, such deceased holder's Employees Stock shall in such case be immediately convertible as hereinafter more fully explained.

Liability to Assessment

All shares of Employees Stock will be issued as full paid and non-assessable shares.

Restriction on Sale by Holder

With the exception of transfers in the case of a deceased holder of shares of Employees Stock to his executors, administrators or testamentary legatees shares of Employees Stock shall not be sold, assigned, bequeathed, or otherwise transferred by any holder or owner thereof, or by the executor, administrator, trustee or other representative of any such holder or owner, or by any receiver, trustee in bankruptcy or any representative of the creditors of any such holder or owner, or by the grantee or assignee of any shares of Employees Stock sold on execution, or otherwise, unless the same first shall have been offered for sale to the corporation. The executors, administrators or testamentary legatees of any holder of Employees Stock who dies while in the employment of the corporation or one of its subsidiaries may, however, at any time within six months following such decease convert such deceased holder's Employees Stock into Common Stock of the corporation and thereafter hold or dispose of such Common Stock free of all of the restrictions herein set forth with reference to the disposal or transfer of Employees Stock, but any Employees Stock of any such deceased holder not so converted within such six months period following the holder's death shall thereafter be subject to repurchase by the corporation upon the same terms and conditions as in the case of Employees Stock owned by a holder who ceases to be an employee of the corporation or one of its subsidiaries. Whenever any holder or owner of Employees Stock, or any executor, administrator, trustee, representative of a holder or owner, receiver, trustee in bankruptcy, representative of creditors, grantee or assignee shall desire to sell or dispose of shares of Employees Stock of the corporation, he shall notify the corporation of such desire and shall offer to sell such shares of Employees Stock to the corporation at the book value thereof. Such offer and notice shall be in writing addressed to the corporation at its principal office in New York, New York. The Board of Directors shall at their next meeting determine the book value of the Employees Stock and the corporation shall within sixty (60) days after its receipt of such offer and notice, advise the offerer of the book value of Employees Stock and of the corporation's acceptance

or rejection of the offer. An offerer upon being advised of the book value of shares of Employees Stock and of the rejection of the offer to sell shares thereof at book value may offer to sell shares of Employees Stock to the corporation for less than the book value thereof.

If, within sixty (60) days after the delivery to the corporation of any offer to sell shares of Employees Stock, the corporation shall not accept the same, the offerer shall be at liberty, within sixty (60) days after the expiration of such first mentioned sixty (60) days, to sell, assign or otherwise transfer the shares of Employees Stock comprised in such offer; provided that the certificates for such shares shall be presented for transfer within such sixty (60) days and further provided that if sold such shares shall not be sold at a price less than the lowest price at which the corporation had declined to purchase such shares. If however, such shares of Employees Stock shall not be so sold, assigned or otherwise transferred and the certificates therefor presented for transfer within such sixty (60) days together in the case of a sale, with evidence satisfactory to the corporation of the price at which such shares of Employees Stock were sold, such shares of Employees Stock again must be offered to the corporation, as hereinbefore provided, before the same or any part thereof can thereafter be sold, assigned or otherwise transferred.

Options of Corporation to Reacquire

The corporation shall not be required to transfer any shares of Employees Stock on its books which shall have been sold, assigned or transferred in violation of the foregoing provisions, and from and after any sale, assignment or transfer of any shares of Employees Stock made in violation of the foregoing provisions, the corporation shall have the right and option to purchase all or any part of such shares of Employees Stock at a price equal to the book value thereof at the date of such unauthorized sale, assignment or transfer, as determined by the Board of Directors; which right and option may be exercised at any time within sixty (60) days after the corporation shall have acquired knowledge of such violation.

In case any person holding shares of Employees Stock issued within the three years next preceding shall cease (other than by death) to be an employee of the corporation or one of its subsidiaries and regardless of whether the termination of the employment of such person is voluntary or involuntary, the corporation shall have, and it is hereby expressly given, the right and option to purchase all or any part of the shares of Employees Stock held by such person, at a price equal to the greater of the book value thereof as determined by the Board of Directors or the price paid to the corporation by such person for such shares of Employees Stock. Such right and option shall terminate sixty (60) days after such person shall have ceased to be an officer or employee of the corporation.

At any time during the first three (3) years after any shares of Employees Stock become convertible, the corporation may cause notice to be given to the holder of record thereof to convert such shares into Common Stock, and if not so converted within sixty (60) days after the date of such notice, the corporation shall, for an additional period of sixty (60) days, have the right and option to purchase such shares of Employees Stock at a price equal to the book value thereof as determined by the Board of Directors.

Restrictions on Sales by Corporation

Employees Stock, whether originally issued or whether reacquired and sold from the treasury of the corporation, may be issued or sold only to persons who at the time of such issuance or sale are officers or employees of the corporation or one of its subsidiaries and may be issued or sold only at a price per share equal to, or in excess of, the book value thereof determined, at the time of any particular offering thereof, by the Board of Directors; provided that no shares of Employees Stock shall be originally issued at a price less than the par value thereof.

EMPLOYEES STOCK OPTION PLAN

The Board of Directors has also recommended to the stockholders that they approve a proposal to authorize the creating of options upon any or all of the shares of Employees Stock to be authorized by the proposed Amendment to the Certificate of Incorporation. While no definite allotments of any options of Employees Stock have as yet been considered or made, it is contemplated that instead of selling such shares outright to officers and other employees to whom such allotments may be made, it might be preferable to option certain shares of Employees Stock to be taken up in installments over a period of not exceeding three years, with the provision that options may be exercised by the holders only while they continue to be employed by the corporation or one of its subsidiaries, and at the price specified in the option but not less than the book value or par value of the shares, whichever is higher, at the date of the exercise of such option. All options granted will be personal and non-assignable, and allotments under the Plan will be subject to the approval under the Salary Stabilization Regulations of the Treasury Department, if such approval is required. In case options are granted exercisable over a three-year period, it is intended that any option holder dying or leaving the employment of the corporation, shall forfeit the unearned portion of the option, but such former employee or the legal representatives of any deceased employee shall have for sixty days after the termination of the employment, whether voluntary or involuntary, or by death, the right to purchase that portion only of the optioned Employees Stock, the right to purchase which had accrued when the employment of the option holder terminated. For example, if an option holder leaves the employment of the corporation or dies in the first year after receiving the option, his right or the right of his estate to purchase two-thirds of the optioned stock will be forfeited; or if in the second year after receiving the option, one-third will be forfeited and become null and void. Such a plan will furnish a continued incentive for faithful service to the corporation, and at the same time will afford the recipients of options the opportunity of paying for the optioned stock in convenient installments over a period of years, and while employed by the corporation, rather than requiring immediate payment of the entire purchase price which might be difficult in the case of a stock which because of the restrictions heretofore mentioned cannot be sold and might have only nominal collateral value. No Employees Stock will in any case be actually issued until fully paid for and no dividends will be paid on Employees Stock until the actual issuance of the full-paid shares. If the book value of the outstanding shares increases, the option price will likewise increase, which should furnish every incentive to option holders to exercise and pay for their optioned stock at the earliest possible date. Any optioned shares in respect to which purchase privileges have terminated shall continue to be subject to the Plan and may thereafter be reallocated by the Committee.

The stockholders at the special meeting or any adjournment thereof, will be asked to approve the setting up of the Employees Stock Option Plan for officers and other employees, in accordance with which they may purchase their respective allotments of Employees Stock upon substantially the terms and conditions as above set forth. As previously mentioned, all allotments of Employees Stock are to be made by a Committee of Directors consisting of members of the Board who are not officers or employees of the corporation or any of its subsidiaries and who are not eligible to purchase Employees Stock or to participate in any allotment or options thereon, and will be subject to final approval of the Board of Directors.

EFFECTIVE DATE OF AMENDMENTS

The proposed amendments to the Certificate of Incorporation, if duly adopted by the vote of a majority of the stockholders entitled to vote in respect thereof, will become effective when the Certificate of Amendment has been duly filed in the office of the Secretary of State and a copy thereof, certified by said Secretary of State, has been recorded in the office of the Recorder of the County in which the original Certificate of Incorporation is recorded. The corporation expects to proceed with such filing of the Certificate of Amendment as soon as practicable after adoption of the proposed amendments by the stockholders.

INTEREST OF MANAGEMENT AND ASSOCIATES

The corporation has no outstanding securities other than shares of Common Stock and shares of Preferred Stock, which by the proposed Amendment to the Certificate of Incorporation are to be reclassified and designated Prior Preferred Stock. As previously mentioned all of the shares of such newly designated Prior Preferred Stock have been called for redemption as of January 15, 1945, and will be redeemed as of said date unless sooner converted into Common Stock of the corporation. Based upon information received from its Transfer Agent and from its respective directors and officers, the corporation believes that as of October 12, 1944, its present directors and officers and their associates respectively owned beneficially shares of the Common Stock and of the present outstanding Preferred Stock of the corporation which is hereafter to be designated as Prior Preferred Stock, as set forth in the following table. Each associate of the respective person named is a member of such person's family, having the same home as such person. No associate is included below unless such associate owned shares of the Common or Preferred Stock of the corporation on October 12, 1944.

<u>Name</u>	<u>Officer, Director, Associate</u>	<u>Common Stock</u>	<u>Preferred Stock</u>	<u>Remuneration** Fiscal Year Ended Dec. 31, 1943</u>
		<u>Owned Beneficially</u>		
*Harold T. Ames	Director	227	50	\$ 400.00
One associate of Mr. Ames		200	None	
*Harry E. Benedict	Director	201	None	400.00
A. R. Bone, Jr.	Regional Vice President— Los Angeles	100	None	6,756.49
*James Bruce	Director	110	None	320.00
W. Nelson Bump	Regional Vice President— Boston	None	3	6,409.26
One associate of Mr. Bump			8	
*Edward H. Butler	Director	25	None	240.00
One associate of Mr. Butler		12	None	
*Amon G. Carter	Director	3,200	None	200.00
Amos Culbert	Vice President	None	None	19,012.55
Ralph S. Damon	Director, Vice President, General Manager	550	None	14,000.00 (Sept. 1 to Dec. 31, 1943)
Five associates of Mr. Damon		700	60	
Terrell C. Drinkwater	Vice President	None	None	(elected 9-1-44)
*Silliman Evans	Director	110	None	360.00
*John W. Farley	Director	10	None	160.00
*Thomas S. Hammond	Director	55	None	80.00
*Chandler Hovey	Director	100	None	400.00
C. W. Jacob	Secretary	None	None	11,330.54
A. N. Kemp	Director, Chairman of the Board, President	500	None	46,509.51
L. W. King	Regional Vice President— Chicago	None	None	7,529.29
Paul G. Larie	Comptroller, Asst. Treasurer	None	None	10,016.41

* Indicates directors who are not eligible to purchase Employees Stock, but who are eligible to serve upon the Committee which will make allotments of Employees Stock and/or options thereon to officers and other employees of the corporation and its subsidiaries.

** Includes payments for retirement annuities and under group insurance plan.

<u>Name</u>	<u>Officer, Director, Associate</u>	<u>Common Stock</u>	<u>Preferred Stock</u>	<u>Remuneration** Fiscal Year Ended Dec. 31, 1943</u>
William Littlewood	Vice President	500	None	\$31,349.80
One associate of Mr. Littlewood		402	None	
V. J. Long	Asst. Secretary, Asst. Treasurer	None	None	7,611.59
*Walter S. McLucas	Director	110	None	280.00
M. D. Miller	Regional Vice President— Ft. Worth	None	None	11,678.60
Orval M. Mosier	Director, Vice President	650	None	27,435.70
*Edgar M. Queeny	Director	200	None	160.00
One associate of Mr. Queeny		200	None	
C. A. Rheinstrom	Director, Vice President	250	None	25,375.41
H. K. Rulison	Treasurer	400	None	16,980.10
Hugh L. Smith	Vice President	None	None	25,375.41
W. H. Miller	Asst. Vice President, Operations	67	None	11,710.26
W. G. Lipscomb	Asst. Vice President, Traffic	None	None	10,945.03

* Indicates directors who are not eligible to purchase Employees Stock, but who are eligible to serve upon the Committee which will make allotments of Employees Stock and/or options thereon to officers and other employees of the corporation and its subsidiaries.

** Includes payments for retirement annuities and under group insurance plan.

Except as above shown, the corporation is not advised of any substantial interest, direct or indirect, of any director or officer of the corporation or any associate of any such person in the matters to be acted upon pursuant to the enclosed Proxy, except to the extent that certain thereof may become purchasers of shares of Employees Stock.

METHOD AND EXPENSE OF PROXY SOLICITATION

The cost of the solicitation of proxies will be borne by the corporation. It is contemplated that the original solicitation of proxies by mail will be supplemented by telephone, telegraph and personal solicitation by approximately ten officers and employees of the corporation. As the shares of Common Stock are widely distributed among approximately 16,000 Common Stockholders and the individual holdings are for the most part small, the corporation has also engaged Georgeson & Co. and approximately sixty assistants to aid in the solicitation of proxies. The arrangements are that the corporation will pay a fee of \$5,000 for services of Georgeson & Co. in connection with the solicitation of proxies, plus out-of-pocket expenses (including compensation and expenses of assistants) estimated at approximately \$10,000. Supplementary solicitation will be by personal interview, mail, telephone and telegraph, and request will also be made of brokerage houses and other custodians, nominees and fiduciaries to forward, at the expense of the corporation, the soliciting material to the beneficial owners of stock held of record by such persons.

FINANCIAL STATEMENTS

The following consolidated financial statements of the corporation, together with Auditors' opinion, are appended to this Proxy Statement:

Consolidated balance sheet at December 31, 1943; consolidated statements of profit and loss and surplus for the years ended December 31, 1941, 1942 and 1943; consolidated supplementary profit and loss information for the years ended December 31, 1941, 1942 and 1943;

similar unconsolidated financial statements of the parent corporation only are omitted for the purpose of simplifying the Proxy Statement, as the differences between the consolidated financial statements submitted herewith and the unconsolidated financial statements of the parent corporation only are considered to be not sufficiently material to affect the exercise of prudent judgment as to the proposals set forth in the Proxy Statement.

Additional consolidated financial statements of the corporation and unconsolidated financial statements of the parent corporation only are on file with the Securities and Exchange Commission, Philadelphia, Pennsylvania, and the New York Stock Exchange.

OTHER MATTERS

The management knows of no other matters which are to be brought before the meeting. However, if any other such matters properly come before the meeting, it is the intention of the proxy holders to vote the proxies in accordance with their judgment upon such matters.

By order of the Board of Directors.

C. W. JACOB

Secretary.

November 6, 1944.

EXHIBIT "A"

PROPOSED AMENDMENT

to

THE CERTIFICATE OF INCORPORATION

of

AMERICAN AIRLINES, INC.

Pursuant to Section 26 of the General Corporation Law of the State of Delaware

A. Article Fourth of the Certificate of Incorporation of the Corporation, as heretofore amended, shall be amended to read as follows:

"FOURTH. The total number of shares of all classes of stock which the Corporation shall have authority to issue is Two Million Seven Hundred Fifty Thousand (2,750,000) shares of which Fifty Thousand (50,000) shares shall be shares of Prior Preferred Stock without par value (the said Prior Preferred shares being Fifty Thousand (50,000) shares out of a total of One Hundred Thousand (100,000) shares of Preferred Stock heretofore authorized by the Certificate of Amendment of the Certificate of Incorporation of American Airlines, Inc. as filed in the Office of the Secretary of State of Delaware October 24, 1940), and the name and designation of said shares of Preferred Stock now outstanding being hereby changed to 'Prior Preferred Stock'; Two Hundred Thousand (200,000) shares shall be shares of Preferred Stock of the par value of One Hundred (\$100) Dollars per share (hereinafter called 'Preferred Stock'), Two Million Four Hundred Thousand (2,400,000) shares shall be shares of Common Stock, which shares of Common Stock are of the par value of Five (\$5) Dollars per share, and are of one class (hereinafter called 'Common Stock'), and One Hundred Thousand (100,000) shares shall be shares of Employees Stock of the par value of Five (\$5) Dollars per share (hereinafter called 'Employees Stock').

"Notwithstanding anything herein contained, all and singular, the terms and provisions of the Certificate of Incorporation of the Corporation as heretofore amended, relating to the now outstanding Preferred Stock which is hereby named and designated 'Prior Preferred Stock,' shall be and remain in full force and effect in respect of any of said Prior Preferred Stock issued thereunder until the date as of which all of such outstanding Prior Preferred Stock shall have been converted or called for redemption and redeemed; provided that (if to be redeemed) notice of such redemption shall have been duly given and that default shall not then be made by the Corporation in paying or setting apart sufficient money for the payment of the redemption price at the time and place specified in said notice; but shares of such Prior Preferred Stock so converted or redeemed shall not be reissued, and from and after said date the terms and provisions relating to the Prior Preferred Stock heretofore designated as 'Preferred Stock' in the Certificate of Amendment of the Certificate of Incorporation of this Corporation as filed in the Office of the Secretary of State of Delaware October 24, 1940, shall become and be of no force and effect. Until such date the Prior Preferred Stock shall rank in all respects prior to the new Preferred Stock authorized by this Amendment to the Certificate of Incorporation of the Corporation.

"Subject to the foregoing, the designations and the powers, conversion privileges, preferences and rights, and the qualifications, limitations or restrictions thereof of the remaining classes of stock of the Corporation which are fixed by the Certificate of Incorporation and the express grant of authority to the Board of Directors of the Corporation (herein referred to as the 'Board of Directors'), to issue the new Preferred Stock in series and to fix by resolution or resolutions the designations and the powers, conversion privileges, preferences and rights, and the qualifications, limitations or restrictions thereof of the shares of the new Preferred Stock which are not fixed by the Certificate of Incorporation, are as follows:

I.

"1. Authority is hereby expressly granted to, and vested in the Board of Directors, at any time, and from time to time, to issue the Preferred Stock in one or more series, and in connection with the creation of each such series, to fix by resolution or resolutions providing for the issue of shares hereof, the designations, powers, conversion privileges, preferences and other special rights and qualifications, limitations or restrictions thereof of such series to the full extent now or hereafter permitted by the laws of the State of Delaware in respect of the matters set forth in the following subdivisions (a) to (e) inclusive:

"(a) The designation of such series.

"(b) The dividend rate of such series (which shall not be in excess of Seven (\$7) Dollars per share per annum) and the quarterly dates upon which dividends at the rates so fixed shall be payable on shares of such series.

"(c) The redemption price or prices per share of such series.

"(d) The terms and amount of any sinking fund provided for the purchase or redemption of the shares of any series.

"(e) Whether or not the shares of such series shall be convertible into and exchangeable for shares of the Common Stock of the Corporation, and if made so convertible or exchangeable, the conversion price or prices or the rates of exchange, and the adjustments, if any, at which and all other terms and conditions upon which such conversion or exchange may be made.

"2. The holders of the Preferred Stock of each series shall be entitled to receive, and the Corporation shall be obligated to pay, when and as declared by the Board of Directors of the Corporation from the surplus or net profits of the Corporation, dividends payable quarterly at the rate per share per annum for such series, and no more, as shall be fixed by resolution of the Board of Directors as in this Article Fourth provided and expressed or set forth in the certificates representing shares of Preferred Stock of such series. Such dividends shall accrue from the quarterly payment date next preceding the date of the original issue of each such share of Preferred Stock, unless such share shall be issued on a quarterly dividend payment date, and in such case from said date. Such dividends on the Preferred Stock of each series shall be cumulative, and shall be payable before any dividends shall be paid upon or set apart for the Common or Employees Stock so that if in any quarterly dividend period, dividends at the per annum rate determined as in this Article Fourth provided, shall not have been paid upon, or declared and set apart for, the Preferred Stock of each series, the deficiency shall be fully paid or set apart, but without interest, before any dividends shall be declared or paid upon the Common or Employees Stock. Dividends shall not be paid exclusively upon any one or more series of Preferred Stock, but dividends shall be paid ratably upon all outstanding Preferred Stock in the proportion to any one series that the annual dividend requirements of such series bear to the total annual dividend requirements of all outstanding Preferred Stock.

"3. Out of any surplus or net profits of the Corporation remaining after full cumulative dividends on the Preferred Stock of each series then outstanding for all previous quarterly dividend periods shall have been paid, and for the current quarterly dividend period shall have been declared and paid or provided for, and after all payments have been made or set aside, if any are required, for any sinking fund for the retirement of the Preferred Stock, then and not otherwise, the Board of Directors may declare dividends on the Common and Employees Stock from the surplus or net profits of the Corporation then remaining.

"4. The holders of the Preferred Stock shall not be entitled to receive any dividends declared and paid in stock of the Corporation.

"5. Upon at least thirty days' previous notice to the holders of record of the Preferred Stock to be redeemed, given by mail, postage prepaid, at their respective addresses as the same shall appear on the stock transfer records of the Corporation, the Corporation, by action of its Board of Directors, may redeem the whole of the Preferred Stock, or any series thereof, or any part of any series thereof, on any quarterly dividend date (which time when so fixed in each case is hereinafter called the 'Redemption Date'), and at such price for shares of each series as may be determined by the Board of Directors as in this Article Fourth provided (the price so determined for any series, plus dividends accumulated and unpaid thereon to the Redemption Date, being hereinafter called the 'Redemption Price' of such series). If less than all of the outstanding shares of Preferred Stock of any series subject to redemption are to be called for redemption, the shares to be redeemed may in the discretion of the Board be selected by lot or in such other manner as may be prescribed by the Board of Directors. From and after the date fixed in any such notice as the Redemption Date (unless default shall be made by the Corporation in depositing moneys for the payment of the Redemption Price), all dividends on the Preferred Stock thereby called for redemption shall cease to accumulate, and upon deposit by the Corporation in trust for the account of the holders of such stock called for redemption of the aggregate Redemption Price of the Preferred Stock so called for redemption, with a bank or trust company doing business in the Borough of Manhattan, in the City of New York, and having a capital and surplus of at least Five Million (\$5,000,000) Dollars, all rights of the holders thereof as stockholders of the Corporation shall cease and terminate except the right to receive the Redemption Price without interest from such bank or trust company, upon surrender of the certificates of stock to such bank or trust company, and except the right, if any, to convert such Preferred Stock into Common Stock of the Corporation on or prior to the Redemption Date at the conversion price determined as in this Article Fourth provided. After the deposit of such amount with such bank or trust company, the respective holders of the Preferred Stock to be redeemed shall be entitled to receive the Redemption Price at any time on actual delivery to such bank or trust company of certificates for the number of shares to be redeemed, properly stamped for transfer (if required), and duly endorsed in blank or accompanied by proper instruments of assignment and transfer thereof, duly endorsed in blank. The moneys so deposited which shall not be required for such redemption because of the exercise of any right to convert such Preferred Stock subsequent to the date of such deposit, shall be repaid to the Corporation forthwith. Any moneys so deposited which shall remain unclaimed by the holders of such Preferred Stock at the end of six years after the Redemption Date, together with any interest thereon, which shall be allowed by the bank or trust company with which the deposit shall have been made, shall be paid by such bank or trust company to the Corporation, after which the holders of such Preferred Stock shall look only to the Corporation for payment of the Redemption Price thereof (but without interest thereon). Preferred Stock so redeemed shall be cancelled and shall not be reissued.

"6. In the event of any liquidation or dissolution or winding up of the Corporation, whether voluntary or involuntary, or in the event of a sale of all or substantially all of the assets of the Corporation, or upon any distribution of its capital assets as a liquidating or partial liquidating dividend, the holders of the Preferred Stock of each series shall be entitled to receive One Hundred (\$100) Dollars per share, plus an amount equal to the dividends unpaid and accumulated thereon and no more, before any of the assets of the Corporation shall be distributed among or paid over to the holders of the Common or Employees Stock. If, upon any such liquidation, dissolution, or winding up, the assets of the Corporation, distributable as aforesaid, among the holders of the Preferred Stock of all series shall be insufficient to permit full payment to them of said amounts, then payment shall be made, first on account of the accrued and unpaid dividends on such Preferred Stock of all series, and then on account of the shares of Preferred Stock of all series ratably according to the total amounts which they shall be entitled to receive as hereinabove in this paragraph provided. After the payment in full of said amounts to the holders of the Preferred Stock of all series, the remaining assets and

funds of the Corporation shall be divided among and paid ratably to the holders of the Common and Employees Stock. A consolidation or merger of the Corporation with any other corporation or corporations shall not be deemed to be a liquidation, dissolution, winding up, sale or distribution of capital assets within the meaning of this clause, but any such consolidation or merger shall in no way impair the rights and preferences of the Preferred Stock.

"7. Anything herein, or in the By-Laws to the contrary notwithstanding, so long as any shares of the Preferred Stock of any series shall be outstanding, the Corporation shall not, without the consent of the holders of at least two-thirds of the total number of shares of the Preferred Stock of all series then outstanding, expressed by vote in favor of a resolution duly adopted at a special meeting of the Preferred Stockholders called for said purpose or, if permitted by law, given in writing by the holders of at least two-thirds of the number of shares of Preferred Stock of all series at that time outstanding:

"(a) Create or authorize any class of stock ranking prior to or (other than a series of this Preferred Stock) on a parity with the Preferred Stock.

"(b) Amend, change, or repeal any of the express terms of the Preferred Stock, or of any series thereof, in a manner prejudicial to the holders thereof, except that if such amendment, change, or repeal is prejudicial to the holders of one or more, but not to the holders of all of the series of Preferred Stock, then only the consent of the holders of two-thirds of the shares of such series so affected shall be required.

"(c) Issue any additional shares of any series of the Preferred Stock, unless either the net income of the Corporation available for the payment of dividends on the Preferred Stock for any twelve consecutive calendar months within the eighteen calendar months immediately preceding the calendar month within which such additional shares of Preferred Stock shall be issued, or the average annual net income for the three preceding calendar years shall have been at least two and one-half times the dividend requirements for a twelve-months' period upon the entire amount of the Preferred Stock then outstanding, and the additional shares of the Preferred Stock proposed to be issued, after giving effect to the acquisition or retirement of any shares to be effected through the issuance of the additional Preferred Stock then proposed to be issued.

"(d) Pay any dividends on or make any other distribution to the holders of the shares of its Common or Employees Stock except out of earned surplus accumulated subsequent to January 1, 1943.

"(e) Purchase, redeem, or reacquire any of its outstanding shares of Common Stock except out of earned surplus accumulated subsequent to January 1, 1943.

"8. Except as otherwise required by the statutes of the State of Delaware, and as in this Article Fourth otherwise provided, the holders of the Common Stock and Employees Stock shall exclusively possess voting power for the election of directors and for all other purposes, and the holders of the Preferred Stock shall have no voting power; provided, however, that in case the Corporation shall be in default in respect of the declaration and payment of full regular quarterly dividends on the Preferred Stock of any series for four quarterly dividend periods, then and in every such case the number of directors shall be two more than the number constituting the Board immediately prior to such default, and the holders of the Preferred Stock of all series, until such default shall have been cured by the payment of dividends, so that no accumulated dividends remain unpaid on the Preferred Stock of any series shall have the right, at all meetings of the stockholders of the Corporation, to elect two additional directors to represent the Preferred Stockholders as a class, voting separately as a class on such election; and the holders of the Common and Employees Stock, voting separately from the Preferred Stockholders, shall be entitled to elect the remaining directors. In the event the number of directors to be elected

by the Common and Employees Stockholders is increased beyond the fifteen directors provided for in the present By-Laws of the Corporation, the Preferred Stockholders, when entitled under the foregoing provision to elect directors representing Preferred Stockholders as a class, shall be entitled, so voting separately, to elect additional directors equal to one-fifth of the total number of directors to be elected by the holders of Preferred, Common and Employees Stock, or the nearest number thereto, and the Board shall be increased by the number of directors so to be elected by the holders of the Preferred Stock. Upon the happening of any such default so entitling the Preferred Stockholders to elect directors representing them as a class, a meeting of the Preferred Stockholders for the election of such additional directors shall be held upon call by the holders of record of not less than one thousand (1,000) shares of the Preferred Stock, or upon call by the Secretary of the Corporation, which shall be issued at the written request of the holders of record of not less than one thousand (1,000) shares of the Preferred Stock of the Corporation. At any such meeting of the Preferred Stockholders, a majority of the shares of Preferred Stock then outstanding shall be required for a quorum. Whenever after any such default in the payment of dividends on the Preferred Stock of the Corporation and the election of directors to represent Preferred Stockholders as a class, such default shall have been cured by the payment of dividends on the outstanding Preferred Stock so that no accumulated dividends remain unpaid on the Preferred Stock of any series, the term of office of the directors so elected to represent Preferred Stockholders as a class shall thereupon terminate at the next annual stockholders' meeting following the correction of such default and the exclusive right to elect directors shall again be vested in the holders of the Common and Employees Stock of the Corporation, subject, however, to being again revived upon any such subsequent failure of the Corporation in respect of four quarterly dividend periods to declare and pay the accumulated dividends upon the Preferred Stock of any series.

"9. No holder of shares of Preferred Stock of any series or of Common Stock or of Employees Stock shall be entitled, as such stockholder, or as a matter of right, to subscribe for, purchase, or receive any part of any authorized, but unissued stock, whether Preferred, Common or Employees Stock, or of any new or additional issue of stock of any class or designation, or of any bonds, notes, debentures, or other obligations or securities convertible into any class of stock of the Corporation, and all such unissued, new or additional shares of stock of any class, whether now or hereafter authorized, or bonds, notes, debentures, or other securities convertible into stock, may be issued and disposed of by the Board of Directors to such person or persons and on such terms and for such consideration (so far as may be permitted by law and except as hereinafter in the case of the Employees Stock expressly provided) as the Board of Directors in their absolute discretion may determine, and there shall be no preemptive rights with respect thereto, all preemptive rights with respect to the Preferred, Common and Employees Stock of the Corporation being hereby expressly waived.

"10. Notice of any regular or special meeting of the stockholders of the Corporation, or of the holders of any class of the stock of the Corporation, required or authorized by the Certificate of Incorporation, as amended, or by law, shall be mailed not less than ten days prior to the meeting of the stockholders entitled to vote thereat, of record as of a date fixed by the Board of Directors, and unless some mandatory provision of law shall be controlling, no other or longer notice need be given of such meeting, and all holders of stock of the Corporation, by becoming such stockholders, waive to the extent permitted by law, any right to any other or longer notice.

"11. The Corporation may from time to time issue and dispose of any of the authorized and unissued shares of Preferred Stock, for such consideration not less than its par value as may be fixed from time to time by the Board of Directors, or of Common Stock for such consideration not less than its par value, as may be fixed, from time to time by the Board of Directors, or of Employees Stock for such consideration not less than the par value thereof or the

book value of the Common Stock (whichever may then be the greater) and to officers and other employees of the Corporation or any of its subsidiaries and upon conditions as hereafter provided without action by the stockholders, and may provide for payment therefor to be received by the Corporation in cash, property or services except in the case of Employees Stock which is to be paid for in cash as hereinafter provided. Any and all such shares of the Preferred, Common or Employees Stock of the Corporation the issuance of which has been so authorized, and for which the consideration so fixed by the Board of Directors has been paid or delivered, shall be deemed fully paid stock, and shall not be liable to any further call or assessment thereon.

II.

"The following statements relate to the Common Stock:

"(1) Each share of the Common Stock of the Corporation of the par value of Ten (\$10) Dollars outstanding immediately prior to the filing of this Certificate of Amendment shall become without further action of the Corporation or the holder thereof equivalent to two of the herein authorized shares of Common Stock of the par value of Five (\$5) Dollars each.

"(2) One Hundred Thousand (100,000) shares of the herein authorized shares of Common Stock of the par value of Five (\$5) Dollars each shall be reserved for issuance only upon the conversion of shares of Employees Stock upon the terms and conditions hereinafter provided, and shall not be issued for any other purpose.

III.

"The following statements pertain to the Employees Stock:

"(1) With the exception of transfers in the case of a deceased holder of shares of Employees Stock to his executors, administrators or testamentary legatees, shares of Employees Stock shall not be sold, assigned, bequeathed, or otherwise transferred by any holder or owner thereof, or by the executor, administrator, trustee or other representative of any such holder or owner, or by any receiver, trustee in bankruptcy or any representative of the creditors of any such holder or owner, or by the grantee or assignee of any shares of Employees Stock sold on execution, or otherwise, unless the same first shall have been offered for sale to the Corporation, as hereinafter provided. The executors, administrators or testamentary legatees of any holder of Employees Stock who dies while in the employment of the Corporation or one of its subsidiaries may, however, at any time within six months following such decease, convert such deceased holder's Employees Stock into Common Stock free and clear of all restrictions herein set forth with reference to the disposal or transfer of Employees Stock, but any Employees Stock of any such deceased holder not so converted into Common Stock within such six months' period following the holder's death shall thereafter be subject to repurchase by the Corporation upon the same terms and conditions as in the case of Employees Stock owned by a holder who ceases to be an employee of the Corporation or one of its subsidiaries. Whenever any such holder, owner, executor, administrator, trustee, representative of a holder or owner, receiver, trustee in bankruptcy, representative of creditors, grantee or assignee shall desire to sell or dispose of shares of Employees Stock of the Corporation, he shall notify the Corporation of such desire and shall offer to sell such shares of Employees Stock to the Corporation at the book value thereof. Such offer and notice shall be in writing addressed to the Corporation at its principal office in New York, N. Y. The Board of Directors shall at their next meeting determine the book value of the Employees Stock, as hereinafter provided, and the Corporation shall, within sixty days after its receipt of such offer and notice, advise the offerer of the book value of Employees Stock and of the Corporation's acceptance or rejection of the offer. Nothing herein contained shall be deemed to prevent an offerer upon being advised of the book value of shares of Employees Stock and of the rejection of the offer to sell shares thereof at book value from offering to sell shares of Employees Stock to the Corporation for less than the book value thereof.

"If any offer referred to in the next preceding paragraph be accepted by the Corporation, it shall be the duty of the offerer forthwith to surrender the shares of Employees Stock which were the subject of such offer to the Corporation, duly endorsed and stamped for transfer, and such shares of Employees Stock shall be deemed to be the property of the Corporation, the right of the offerer to receive dividends thereon shall cease and all other rights of the offerer in respect of such shares of Employees Stock, excepting only the right of the offerer thereof to receive such purchase price, shall cease and terminate.

"If, within sixty days after the delivery to the Corporation of any offer to sell shares of Employees Stock, the Corporation shall not accept the same, the offerer shall be at liberty, within sixty days after the expiration of such first mentioned sixty days, to sell, assign or otherwise transfer the shares of Employees Stock comprised in such offer; provided that the certificates for such shares shall be presented for transfer within such sixty days and further provided that, if sold, such shares shall not be sold at a price less than the lowest price at which the Corporation had declined to purchase such shares. If, however, such shares of Employees Stock shall not be so sold, assigned or otherwise transferred, and the certificates therefor presented for transfer within such sixty days together, in the case of a sale, with evidence satisfactory to the Corporation of the price at which such shares of Employees Stock were sold, such shares of Employees Stock again must be offered to the Corporation, as hereinbefore provided, before the same or any part thereof can thereafter be sold, assigned or otherwise transferred.

"The Corporation shall not be required to transfer any shares of Employees Stock on its books which shall have been sold, assigned or transferred in violation of the foregoing provisions, and from and after any sale, assignment or transfer of any shares of Employees Stock made in violation of the foregoing provisions, the Corporation shall have, and it is hereby expressly given, the right and option to purchase all or any part of such shares of Employees Stock at a price equal to the book value thereof at the date of such unauthorized sale, assignment or transfer as determined by the Board of Directors; which right and option may be exercised at any time within sixty days after the Corporation shall have acquired knowledge of such violation.

"In case any person holding shares of Employees Stock issued within the three years next preceding shall cease (other than by death) to be an officer or employee of the Corporation or one of its subsidiaries, and regardless of whether the termination of the employment of such officer or employee is voluntary or involuntary, the Corporation shall have, and it is hereby expressly given, the right and option to purchase all or any part of the shares of Employees Stock held by such person at a price equal to the greater of the book value thereof as determined by the Board of Directors or the price paid to the Corporation by such person for such shares of Employees Stock. Such right and option shall terminate sixty days after such person shall have ceased to be an employee of the Corporation.

"For the purpose of determining book value of the Employees or Common Stock of the Corporation in connection with any sale of Employees Stock or the repurchase of same by the Corporation upon any of the conditions herein set forth, book value shall be computed by dividing the consolidated net assets of the Corporation and its subsidiaries, as of the end of the latest month as of which there is then available a consolidated balance sheet of the Corporation and its subsidiaries certified by the Treasurer of the Corporation or, at the election of its Board of Directors, by the Corporation's independent auditors, less an amount equal to the aggregate par or stated value, as the case may be, of all shares (if any) of outstanding stock, ranking, with respect to priority in payment of dividends or upon dissolution, liquidation or winding up of the Corporation, prior to the Common and Employees Stock, together with all dividends accrued and unpaid thereon, whether or not earned or declared, by the aggregate number of outstanding shares of Employees Stock and Common Stock and any other class or classes of stock of the Corporation not ranking, with respect to priority in payment of dividends or upon dissolution, liquidation or winding up of the Corporation, prior to the Employees Stock.

"In determining book value per share of Employees Stock as of any date, reasonable allowance may be made in the discretion of the Board of Directors for estimated profits or losses, or other happenings affecting book value subsequent to the date of the latest available consolidated balance sheet of the Corporation and its subsidiaries.

"For the purposes of the provisions with respect to Employees Stock:

"(a) The term 'subsidiary' shall mean (i) any corporation of which the Corporation directly or indirectly owns or controls such number of shares of the outstanding stock as at the time shall have, by the terms thereof, ordinary voting power to elect a majority of the board of directors of such corporation, irrespective of whether or not at the time stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency, and (ii) any corporation of which such number of shares of outstanding stock of the character described in the foregoing clause (i) shall at the time be owned or controlled directly or indirectly by the Corporation and any subsidiary as defined in the foregoing clause (i) or by one or more such subsidiaries.

"(b) The term 'foreign subsidiary' shall mean a subsidiary the principal part of the property of which is located, or the major part of the operations of which is conducted, outside of the continental limits of the United States.

"(c) The term 'consolidated balance sheet' shall mean a consolidated balance sheet of the Corporation and all its subsidiaries, prepared in accordance with then generally accepted principles of accounting; except that, at the option of the Corporation, there need not be consolidated (1) any foreign subsidiary or (2) any other subsidiary which is not required to be consolidated in accordance with then generally accepted principles of accounting.

"(d) The term 'consolidated net assets of the Corporation and its subsidiaries' shall mean the consolidated outstanding capital stock, paid-in surplus and earned surplus (exclusive of all reserves) of the Corporation and its subsidiaries, less good will and other similar intangible assets recorded in the accounts, all as determined from the consolidated balance sheet.

"(e) The term 'outstanding' used in reference to shares of stock of the Corporation shall mean issued shares excluding shares held by the Corporation or a subsidiary.

"(2) Each share of Employees Stock shall be convertible, at the option of the holder thereof, at any time after three full years from the original issuance of the same to the holder or his predecessor or predecessors in interest, upon surrender to the Corporation, or to any Transfer Agent of the Corporation for the Employees Stock, of the certificates for the shares so to be converted, into full paid and non-assessable shares of Common Stock of the Corporation at the rate of one share of Common Stock for each of the shares of Employees Stock so converted. In the event of the death of any holder of Employees Stock while in the employ of the Corporation or any of its subsidiaries, such deceased holder's Employees Stock shall become immediately convertible into Common Stock within the period and upon the conditions hereinbefore set forth. The conversion price in any case shall be subject to adjustment from time to time in the event the Corporation shall at any time take any action with respect to the Common Stock other than the declaration or payment of any dividend or dividends thereon, which, in the opinion of the Board of Directors of the Corporation, would affect materially and adversely the conversion rights of the shares of Employees Stock. In every such case the Board of Directors of the Corporation shall appoint a firm of independent public accountants (which may be the firm that regularly examines and reports upon the financial statements of the Corporation) which shall give their opinion as to the adjustment, if any, of the conversion ratio required to preserve to the holders of shares of Employees Stock conversion rights substantially equivalent to the conversion rights existing prior to such event, and the conversion ratio shall be forthwith adjusted in accordance with such opinion.

"No fractions of shares of Common Stock shall be issued upon conversion of shares of Employees Stock, but in lieu thereof non-dividend bearing and non-voting scrip (exchangeable for full shares of Common Stock) shall be issued in such denominations, in such form, bearer or registered, expiring after such reasonable time (which shall be not less than two (2) years from the date of issue), and containing such provision for the sale of full shares of Common Stock for which such scrip is exchangeable for the account of the holders of such scrip, and such other terms and provisions as the Board of Directors may, from time to time, determine prior to the issue thereof.

"The Corporation shall at all times reserve and keep available, out of its authorized but unissued Common Stock, the full number of shares of Common Stock deliverable upon the conversion of all shares of Employees Stock from time to time outstanding.

"(3) At any time during the first three (3) years after any shares of Employees Stock become convertible, the Corporation may cause notice to be given to the holder of record thereof to convert such shares into Common Stock, and if not so converted within sixty (60) days after the date of such notice, the Corporation shall, for an additional period of sixty (60) days, have, and it is hereby expressly given, the right and option to purchase such shares of Employees Stock at a price equal to the book value thereof as determined by the Board of Directors.

"(4) Whenever the Corporation shall exercise any right or option hereinabove given it to purchase shares of Employees Stock and shall deposit, with a bank or trust company in the Borough of Manhattan, the City of New York, having a capital and surplus of at least One Million Dollars (\$1,000,000), according to its last published statement of condition, in trust for the holder of record, his legal representatives and assigns, the purchase price determined as hereinabove provided of such shares of Employees Stock, and shall give notice to such holder of record of the place and amount of such deposit, and that such deposit will be payable to such holder upon surrender of the certificates for such shares of Employees Stock, duly endorsed and stamped for transfer, then and thereupon all rights of such holder of record, his legal representatives and assigns, in law and in equity, as a stockholder of the Corporation shall cease, and such shares of Employees Stock shall be and become the property of the Corporation.

"(5) Any notice hereinabove provided to be given by the Corporation to a holder of record of shares of Employees Stock shall be sufficient if sent by registered mail to the address of such holder as the same appears on the stock books of the Corporation and every such notice shall bind the holder, his legal representatives and assigns.

"(6) Each outstanding share of Employees Stock shall have the same dividend rights, voting rights and rights upon liquidation, dissolution or winding up of the Corporation as appertain to a share of Common Stock.

"(7) Employees Stock, whether originally issued or whether reacquired and sold from the treasury of the Corporation, may be issued or sold only to persons who at the time of such issuance or sale are officers or employees of the Corporation, or of one of its subsidiaries, and may be issued or sold only at a price per share to be paid in cash and equal to, or in excess of, the book value thereof or, if no shares of Employees Stock are then outstanding, the book value of the Common Stock determined, at the time of any particular offering thereof, by the Board of Directors; provided that no shares of Employees Stock shall be originally issued at a price less than the par value thereof."

B. The capital of the Corporation will not be reduced under or by reason of said amendment.

C. Said amendment has been duly adopted in accordance with the provisions of Section 26 of the General Corporation Law of the State of Delaware.

CERTIFICATE OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders
 AMERICAN AIRLINES, INC.:

We have examined the consolidated balance sheet of AMERICAN AIRLINES, INC. AND CONSOLIDATED SUBSIDIARY at December 31, 1943 and the consolidated statements of profit and loss and surplus for the three years then ended, have reviewed the system of internal control and the accounting procedures of the Companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the Companies and other supporting evidence, by methods and to the extent we deemed appropriate. It was not practicable to confirm receivables from the U. S. Government, as to the substantial accuracy of which we satisfied ourselves by other means. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of profit and loss and surplus present fairly the position of the Companies at December 31, 1943, and the results of their operations for the three years then ended, in conformity with generally accepted accounting principles applied on a basis consistent throughout the period under review.

ARTHUR YOUNG & COMPANY

New York, N. Y.
 October 23, 1944.

AMERICAN AIRLINES, INC. AND CONSOLIDATED SUBSIDIARY

CONSOLIDATED BALANCE SHEET

at December 31, 1943

ASSETS

CURRENT ASSETS:

Cash on hand and demand deposits.....		\$ 9,362,960
Marketable securities, at cost (approximately market)—		
U. S. Treasury bonds and certificates.....	\$3,994,966	
U. S. Treasury tax notes	5,026,000	
Canadian Government bonds.....	<u>90,900</u>	9,111,866
Accounts receivable—		
U. S. Government—		
For the transportation of air mail.....	\$1,518,463	
For services performed at cost under war contracts.....	\$5,553,894	
Less: Advance payments received	<u>2,921,609</u>	2,632,285
For air travel, etc.....	<u>1,306,706</u>	1,306,706
	\$5,457,454	
Air travel plan subscribers.....	767,653	
Other airline companies and agents—traffic and express balances.....	1,978,349	
Other trade accounts.....	585,629	
Indebtedness of employees.....	64,657	
Due from subsidiary not consolidated.....	<u>3,254</u>	
	\$8,856,996	
Less: Reserve for doubtful accounts receivable.....	<u>154,003</u>	8,702,993
Inventories—parts and supplies, at the lower of cost (determined on first-in first-out basis) or market.....		<u>781,299</u>
Total current assets.....		\$27,959,118

INVESTMENTS AND SPECIAL FUNDS:

Investment in subsidiary not consolidated, at cost (Note 1).....	\$ 500,000	
Less: Reserve for loss (Note 1).....	<u>14,096</u>	
	\$ 485,904	
Miscellaneous investments in connection with operations, at cost (no quoted market value).....	24,230	
Special cash deposits.....	<u>65,540</u>	575,674

PROPERTY AND EQUIPMENT:

Flight equipment, at cost.....	\$7,526,565	
Less: Reserve for obsolescence and depreciation.....	<u>6,158,020</u>	\$1,368,545
Land, buildings and other equipment, at cost (Note 2).....	\$4,980,744	
Less: Reserve for depreciation.....	<u>2,078,684</u>	2,902,060
Non-operating property and equipment, at estimated realizable value.....	<u>26,320</u>	4,296,925

LONG-TERM OPERATING PROPERTY PREPAYMENTS, LESS AMORTIZATION..... 522,283

DEFERRED CHARGES:

Prepaid rents and insurance.....	\$ 54,045	
Other deferred charges.....	<u>68,472</u>	122,517
		<u>\$33,476,517</u>

Reference is made to the explanatory notes on pages 28 to 30 hereof.

AMERICAN AIRLINES, INC. AND CONSOLIDATED SUBSIDIARY

CONSOLIDATED BALANCE SHEET

at December 31, 1943

LIABILITIES, CAPITAL STOCK AND SURPLUS

CURRENT LIABILITIES:

Accounts payable (trade).....		\$ 1,637,623
Due to other airline companies—traffic balances.....		2,030,012
Due to subsidiary not consolidated.....		51,557
Dividend declared on preferred stock (paid January 15, 1944).....		53,127
Accrued liabilities—		
Salaries and wages.....	\$ 689,162	
Federal income taxes (Note 3).....	3,545,442	
Other accrued taxes.....	349,100	
Sundry	360,241	4,943,945
Air travel plan subscribers' deposits.....		2,702,716
Total current liabilities.....		<u>\$11,418,980</u>

UNEARNED TRANSPORTATION REVENUE..... 104,404

RESERVE FOR TRANSITION TO PEACETIME OPERATIONS (Note 4)..... 1,750,000

CAPITAL STOCK:

Preferred stock—		
Authorized—100,000 shares without par value		
Issued and outstanding—50,000 shares of \$4.25 Cumulative Convertible Preferred Stock (Note 5).....	\$5,100,000	
Common stock—		
Authorized—1,000,000 shares, par value \$10 per share		
Issued and outstanding—574,848 shares.....	5,748,480	10,848,480
Reserved—71,429 shares for conversion of \$4.25 Cumulative Convertible Preferred Stock (basic conversion ratio—1-3/7 shares of common stock for each share of preferred stock)		

SURPLUS, per accompanying statement:

Paid-in surplus	\$1,942,682	
Earned surplus	7,411,971	9,354,653
		<u>\$33,476,517</u>

Reference is made to the explanatory notes on pages 28 to 30 hereof.

AMERICAN AIRLINES, INC. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS

For the Three Years Ended December 31, 1943

	Year ended Dec. 31, 1941	Year ended Dec. 31, 1942	Year ended Dec. 31, 1943
	(Note 8)	(Note 8)	
OPERATING REVENUES:			
Passenger	\$20,922,773	\$21,512,980	\$23,356,327
Mail	4,269,881	3,266,825	4,886,389
Express	756,116	1,720,036	2,580,562
Other	350,008	482,173	628,152
	<u>\$26,298,778</u>	<u>\$26,982,014</u>	<u>\$31,451,430</u>
OPERATING EXPENSES (Note 9):			
Flying operations	\$ 5,812,741	\$ 5,019,233	\$ 5,010,982
Ground operations	3,661,245	4,088,568	4,647,226
Maintenance and repairs.....	3,646,945	3,309,446	3,681,035
Passenger service	1,729,580	1,701,725	1,882,402
Traffic and sales.....	2,462,465	2,603,087	2,785,074
Advertising and publicity.....	1,052,144	953,659	1,124,541
Retirement benefit plan and other employee welfare (Note 10).....	212,511	446,706	407,209
Social security taxes.....	307,496	292,493	305,012
Provision for doubtful accounts receivable.....	9,096	5,414	12,193
General and administrative.....	1,075,033	1,232,392	1,920,625
Provision for obsolescence and depreciation of property and equipment (Note 11).....	2,615,038	1,715,909	1,210,712
	<u>\$22,584,294</u>	<u>\$21,368,632</u>	<u>\$22,987,011</u>
	<u>\$ 3,714,484</u>	<u>\$ 5,613,382</u>	<u>\$ 8,464,419</u>
OTHER INCOME:			
Profit on sale and retirement of property and equipment (exclusive of extraordinary income in 1942).....	\$ 169,513	\$ 21,131	\$ 261
Cash discounts on purchases.....	42,520	34,273	37,660
Interest earned	3,383	11,446	50,902
Reduction in reserve for loss on investment in subsidiary not consolidated (Note 1).....	—	—	35,615
Miscellaneous	12,339	16,556	17,728
	<u>\$ 227,755</u>	<u>\$ 83,406</u>	<u>\$ 142,166</u>
	<u>\$ 3,942,239</u>	<u>\$ 5,696,788</u>	<u>\$ 8,606,585</u>
DEDUCTIONS FROM INCOME:			
Interest expense	\$ 61,630	\$ —	\$ 1,482
Special provision for doubtful accounts receivable.....	—	100,000	30,000
Provision for loss on investment in subsidiary not consolidated (Note 1)	—	49,711	—
Route extension and development expenses.....	70,357	28,782	51,676
Miscellaneous	29,092	70,092	58,737
	<u>\$ 161,079</u>	<u>\$ 248,585</u>	<u>\$ 141,895</u>
	<u>\$ 3,781,160</u>	<u>\$ 5,448,203</u>	<u>\$ 8,464,690</u>
EXTRAORDINARY INCOME—EXCESS OF PROCEEDS OVER BOOK VALUE OF FLIGHT EQUIPMENT SOLD AT THE DIRECTION OF THE U. S. GOVERNMENT			
	<u>—</u>	<u>1,177,845</u>	<u>—</u>
	<u>\$ 3,781,160</u>	<u>\$ 6,626,048</u>	<u>\$ 8,464,690</u>
PROVISION FOR INCOME TAXES:			
Federal income taxes (Note 3).....	\$ 1,296,000	\$ 2,750,000	\$ 3,500,000
State and foreign income taxes.....	12,000	24,334	21,721
	<u>\$ 1,308,000</u>	<u>\$ 2,774,334</u>	<u>\$ 3,521,721</u>
	<u>\$ 2,473,160</u>	<u>\$ 3,851,714</u>	<u>\$ 4,942,969</u>
PROVISION FOR TRANSITION TO PEACETIME OPERATIONS (Note 4).....			
	<u>—</u>	<u>—</u>	<u>1,750,000</u>
NET PROFIT CARRIED TO EARNED SURPLUS.....	<u>\$ 2,473,160</u>	<u>\$ 3,851,714</u>	<u>\$ 3,192,969</u>

(*)

(*) Includes \$834,845 of excess of proceeds over book value of flight equipment sold at the direction of the U. S. Government after deduction of applicable federal income tax provision.

Reference is made to the explanatory notes on pages 28 to 30 hereof and to the consolidated supplementary profit and loss information on page 31 hereof.

AMERICAN AIRLINES, INC. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SURPLUS

For the Three Years Ended December 31, 1943

	Year Ended Dec. 31, 1941	Year Ended Dec. 31, 1942	Year Ended Dec. 31, 1943
PAID-IN SURPLUS:			
Balance at beginning of year.....	\$1,456,345	\$1,942,682	\$1,942,682
Arising from the conversion of 4½% Convertible Debentures into Common Stock, par value \$10 per share, conversion price \$12.50 per share.....	486,337	—	—
Balance at end of year.....	<u>\$1,942,682</u>	<u>\$1,942,682</u>	<u>\$1,942,682</u>
EARNED SURPLUS:			
Balance at beginning of year.....	\$1,011,249	\$2,516,845	\$5,293,781
<i>Add:</i>			
Net profit for year, per accompanying statement..	2,473,160	3,851,714	3,192,969
Adjustment of prior years' expense accrual.....	107,214	—	—
	<u>\$3,591,623</u>	<u>\$6,368,559</u>	<u>\$8,486,750</u>
<i>Deduct:</i>			
Dividends declared—			
On Preferred Stock			
(\$4.25 per share in cash in each year).....	\$ 212,506	\$ 212,506	\$ 212,507
On Common Stock			
(\$1.50 per share in cash in each year).....	862,272	862,272	862,272
	<u>\$1,074,778</u>	<u>\$1,074,778</u>	<u>\$1,074,779</u>
Balance at end of year.....	<u>\$2,516,845</u>	<u>\$5,293,781</u>	<u>\$7,411,971</u>

AMERICAN AIRLINES, INC. AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1943 AND CONSOLIDATED STATEMENTS OF PROFIT AND LOSS FOR THE THREE YEARS THEN ENDED

NOTE 1:

The accounts of the following wholly-owned subsidiaries are consolidated with those of the Company in the accompanying financial statements:

- American Airlines de Mexico, S. A. (organized in 1941)
- Century Properties Company (a relatively unimportant company which was dissolved in 1942)
- Ontario Airways, Limited (a relatively unimportant company which was dissolved in 1943)

The Company's investment in American Airlines de Mexico, S. A. is carried on the Company's books at December 31, 1943 at \$1,131,418 (representing investment in capital stock of and non-current account receivable from this subsidiary) which is \$22,482 less than the Company's equity in the net assets of this subsidiary, as shown by the books of the latter. This difference, which has been treated in consolidation as a credit to earned surplus, represents undistributed earnings of this subsidiary since date of organization.

The accounts of Sky Chefs, Inc., a wholly-owned subsidiary which was organized in 1941 and has been engaged in airport restaurant and airline catering operations since 1942, are not consolidated in the accompanying financial statements. This subsidiary's operations resulted, for the year 1942, in a net loss of \$49,711 (provision for which was charged to the Company's profit and loss account) and, for the year 1943, in a net profit of \$35,615 (which was credited to the Company's profit and loss account). After deduction of the reserve of \$14,096 provided by the Company for the subsidiary's accumulated net loss, the Company's investment in this subsidiary is carried on the Company's books at December 31, 1943 at an amount equal to the Company's equity in the net assets of this subsidiary, as shown by the books of the latter. Separate financial statements of this subsidiary are not submitted since its assets and operations are not material in relation to those of the Company.

NOTE 2:

Property and equipment at December 31, 1943 include approximately \$980,000 (after deduction for depreciation) in respect of land, buildings and other ground equipment owned by the Company's consolidated subsidiary, American Airlines de Mexico, S. A., and located in and used in airline operations within the Republic of Mexico. Net current assets in foreign countries are not substantial in amount.

Foreign property and equipment and related reserves for depreciation are converted from foreign currency to U. S. dollars at exchange rates in effect at the date such fixed assets were acquired. Other foreign assets and foreign liabilities are converted from foreign currency to U. S. dollars at exchange rates in effect at the balance sheet date. Profit or loss resulting from conversion of foreign currency to U. S. dollars has not been substantial in amount.

NOTE 3:

No provision has been made for federal excess profits tax as the Company is believed to be exempt therefrom for the years 1941, 1942 and 1943, the exemption for the year 1943 resulting from an unused excess profits credit carry-over from prior years provided for in the Revenue Act of 1943. The Company's liability for federal taxes for the years 1942 and 1943 is subject to the Internal Revenue Bureau's review of the tax returns for such years.

NOTE 4:

The reserve for transition to peacetime operations was provided by the management for such extraordinary expenses as might be incurred during the period of transition from wartime to peacetime operations. No separate funds have been segregated as against this reserve.

NOTE 5:

On October 20, 1944 the \$4.25 Cumulative Convertible Preferred Stock was called for redemption January 15, 1945 at the redemption price of \$106.00 per share, plus accrued dividends thereon of \$1.0625 per share, (the total redemption price, including accrued dividends, for the 50,000 outstanding preferred shares amounting to \$5,353,125) and unless such outstanding preferred shares are converted into common stock prior to said redemption date the same will be redeemed and retired January 15, 1945.

AMERICAN AIRLINES, INC. AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1943 AND
CONSOLIDATED STATEMENTS OF PROFIT AND LOSS FOR
THE THREE YEARS THEN ENDED—(Continued)

NOTE 11:

Provision for obsolescence and depreciation of property and equipment is based on amortizing the cost thereof (less adjustment for residual values of certain classes of equipment) over the estimated useful lives of the respective items. The estimated useful lives and the residual values used during the year 1943 for the principal classifications of property and equipment were as follows:

	Estimated useful life	Residual value
Flight equipment:		
Aircraft—		
Douglas DC-3 purchased prior to January 1, 1940.....	5 years	\$8,000
Douglas DC-3 purchased subsequent to January 1, 1940.....	4 years	8,000
Stinson Reliant	4 years	2,000
Engines—		
Cyclone SGR 1820 G-102 (Douglas DC-3).....	5,000 hours	425
Wright R760-E2 (Stinson Reliant).....	3,000 hours	400
Propellers—		
Hydromatic hubs and blades (Douglas DC-3).....	6,000 hours	None to \$5
Other hubs and blades (Stinson Reliant).....	3,000 hours	None
Aircraft radio equipment.....	3 years	None
Flight equipment spare parts and assemblies—		
Major rotative parts and assemblies.....	Same as equipment to which applicable	None
Repair parts—		
Estimated irreducible minimum supply required for operation.....	To June 30, 1945	15%
No provision for obsolescence is made in respect of repair parts on hand in excess of the above minimum as it is anticipated that they will be used (and the cost thereof charged to expense) in the ordinary course of business prior to June 30, 1945.		
Buildings and other equipment:		
Buildings and improvements on land owned.....	10 years	None
Buildings and improvements on land not owned and improvements to leased property	10 to 20 years not exceeding life of lease	None
Station communication equipment.....	4 and 10 years	None
Hangar, shop and ramp equipment.....	10 years	None
Motorized vehicles and equipment.....	3 to 4 years	None
Furniture, fixtures and office equipment.....	10 years	None
Typewriters	5 years	\$35
Airport and airway lighting equipment.....	10 years	None
Storage and distribution equipment.....	10 years	None
Miscellaneous ground equipment.....	1 to 10 years	None

Except in the case of flight equipment repair parts, the above estimated useful lives and residual values were also in effect during the years 1941 and 1942. As the result of a reduction in the estimate of the irreducible minimum supply of flight equipment repair parts required for operation and an increase in the estimate of the useful life thereof the provision for obsolescence of such items amounted for the year 1943 to \$65,629 as compared with \$242,811 for each of the years 1941 and 1942.

The Company has consistently followed the policy of considering as replacements only complete units of the various items of equipment (such as complete engines, complete instruments, etc.) and has charged to profit and loss as maintenance the cost of installations representing less than complete units.

The accumulated reserve for obsolescence and depreciation applicable to items of property and equipment sold or retired has been used in the determination of the profits or losses on sale or retirement, such profits or losses being credited or charged to profit and loss.

AMERICAN AIRLINES, INC. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED SUPPLEMENTARY PROFIT AND LOSS INFORMATION

For the Three Years Ended December 31, 1943

	Charged directly to profit and loss		Charged to other accounts (Note 1)	Total
	Operating expenses	Other		
YEAR ENDED DECEMBER 31, 1941:				
Maintenance and repairs.....	\$3,646,945	\$ —	\$ —	\$3,646,945
Provision for obsolescence and depreciation of property and equipment	\$2,615,038	\$10,816	\$ —	\$2,625,854
Taxes, other than income and excess profits taxes (Note 2)—				
Federal and state social security taxes.....	\$ 307,496	\$ —	\$ —	\$ 307,496
Federal capital stock tax.....	101,650	—	—	101,650
Miscellaneous state and local taxes.....	48,905	2,505	—	51,410
	\$ 458,051	\$ 2,505	\$ —	\$ 460,556
Management and service contract fees.....	\$ —	\$ —	\$ —	None
Rents	\$ 459,951	\$ 4,054	\$ —	\$ 464,005
Royalties	\$ —	\$ —	\$ —	None
YEAR ENDED DECEMBER 31, 1942:				
Maintenance and repairs.....	\$3,309,446	\$ —	\$ 780,544	\$4,089,990
Provision for obsolescence and depreciation of property and equipment	\$1,715,909	\$ 3,286	\$ 253,102	\$1,972,297
Taxes, other than income and excess profits taxes (Note 2)—				
Federal and state social security taxes.....	\$ 292,493	\$ —	\$ 69,884	\$ 362,377
Federal capital stock tax.....	48,000	—	—	48,000
Miscellaneous state and local taxes.....	37,496	2,549	6,565	46,610
	\$ 377,989	\$ 2,549	\$ 76,449	\$ 456,987
Management and service contract fees.....	\$ —	\$ —	\$ —	None
Rents	\$ 475,667	\$ 6,150	\$ 30,260	\$ 512,077
Royalties	\$ —	\$ —	\$ —	None
YEAR ENDED DECEMBER 31, 1943:				
Maintenance and repairs.....	\$3,681,035	\$ —	\$2,695,525	\$6,376,560
Provision for obsolescence and depreciation of property and equipment	\$1,210,712	\$ —	\$ 218,433	\$1,429,145
Taxes, other than income and excess profits taxes (Note 2)—				
Federal and state social security taxes.....	\$ 305,012	\$ —	\$ 178,411	\$ 483,423
Federal capital stock tax.....	187,500	—	—	187,500
Miscellaneous state and local taxes.....	67,719	2,400	8,621	78,740
	\$ 560,231	\$ 2,400	\$ 187,032	\$ 749,663
Management and service contract fees.....	\$ —	\$ —	\$ —	None
Rents (Note 3).....	\$ 489,690	\$ 3,750	\$ 81,831	\$ 575,271
Royalties	\$ —	\$ —	\$ —	None

NOTE 1:

Amounts applicable to the performance of war contracts—charged direct to the U. S. Government.

NOTE 2:

Does not include federal and state taxes on gasoline and oil nor sales taxes treated as part of purchase cost of materials and supplies.

NOTE 3:

At December 31, 1943 the Company had 58 leases on real property expiring after December 31, 1946, the annual rentals on which aggregate \$422,310. These leases include agreements permitting the Company the use of landing fields where the rental is based on the number of flights to and from such fields. In such cases the annual rental has been computed on the basis of the December 31, 1943 flight schedules.