

March 11, 1950

PROPOSED COMMON STOCK OPTIONS

I. The Notice of Meeting would carry the following item:

"To consider and act upon a proposal to authorize the issuance of options upon an aggregate of not more than 125,000 shares of Common Stock, the effect of which, if approved, would be to reduce, after June 1, 1950, the shares of Common Stock subject to option from 250,000 shares, the number ~~now~~ subject to options expiring June 1, 1950 ~~which were~~ granted to C.R. Smith and assigned by him in part to others, to not more than 125,000 shares, all as set forth in the accompanying Proxy Statement."

II. The Proxy Statement would contain the following description:

The present options on 250,000 shares of the Common Stock of the corporation at \$11.70 per share expire on June 1, 1950. These options were granted initially in 1945 to Mr. Smith who assigned his rights to 85,500 such shares to other persons performing services for the corporation or American Overseas Airlines, Inc. Up to this point, none of the options have been exercised and except for 19,000 shares, all are still held by persons who are connected with the corporation or its subsidiary, American Overseas Airlines, Inc.

The Board of Directors believes it advisable that it be authorized, on and after June 1, 1950 (the

In net effect, the proposal of your Board of Directors is this. Presently outstanding options upon 250,000 shares of Common Stock at an option price of \$11.70 per share that were granted to Mr. C.R. Smith and assigned in part by him to others expire on June 1, 1950. Such options will not be renewed. New options are proposed expiring on June 1, 1955 and totaling not more than 125,000 shares rather than 250,000 shares. Participation in these options will not be confined to a single person but instead a maximum of 25 persons, selected by a Committee of the Board of Directors, will be permitted to participate. The price of the shares optioned will be not less than \$11.70 per share, the price now set in the existing outstanding options.

by the Board of Directors for the new options is less than \$ \_\_\_\_\_ per share (and, as above stated, the lowest option price that can be set is \$11.70 per share), some dilution will take place in the price at which Common stock is to be valued upon conversion of outstanding 3-1/2% Cumulative Convertible Preferred Stock of the corporation. The maximum dilution in conversion price would occur if the new option price is \$11.70 per share and on that basis would amount to a decrease in conversion price of Common Stock from \$ \_\_\_\_\_ to \$ \_\_\_\_\_ per share.

Allocation of the options will be undertaken by a Committee of Directors who will not participate in the options and will be limited to a maximum of twenty-five persons. Directors who are not officers will be ineligible to participate. Eligibility is restricted to persons performing services for the corporation or its subsidiary, American Overseas Airlines, Inc. The committee has not been appointed and no options will be granted unless authorized by the vote of a majority of the shares represented in person or by proxy at the annual meeting. Accordingly, the identity of the persons who will receive options and the number of shares for which individual options are to be issued cannot be determined until and unless the Committee is appointed after favorable action at the stockholders meeting.

expiration date of the old options) but before August 1, 1950, to grant new options upon up to 125,000 shares of authorized but unissued Common Stock exercisable at a price to be determined in the discretion of the Board of Directors but not less than \$11.70 per share.

The experience of your Board of Directors since 1945 has served to confirm its opinion that the issuance of stock options to persons engaged in performing executive or similar services for the corporation or its subsidiary furnishes added incentives and inducements to key personnel that greatly benefit the corporation.

Your Board of Directors has recommended that the new options by their terms should be exercisable by the holders thereof at any time up to and including June 1, 1955 and the actual amount to be allocated will be decreased by the number of shares, if any, taken up on the old options between now and June 1, 1950 by any persons holding those options who at the time of exercise are still associated with the corporation or American Overseas Airlines, Inc.

The closing price of the Common Stock of the corporation on the New York Stock Exchange on March 1, 1950 was \$ \_\_\_\_\_, and during 1949 the closing price on the New York Stock Exchange ranged between a high of \$ \_\_\_\_\_ on \_\_\_\_\_ and a low of \$ \_\_\_\_\_ on \_\_\_\_\_ . If the ultimate price determined