AMERICAN AIRLINES
100 PARK AVENUE • NEW YORK 17, N. Y.

REPORT OF THE ANNUAL MEETING OF STOCKHOLDERS

To the Stockholders of American Airlines, Inc.:

The Annual Meeting of Stockholders of American Airlines, Inc. was held at the corporate office in Wilmington, Delaware, on May 15, 1951. This year, stockholders present in person or by proxy represented 4,870,463 shares, 76 percent of the total outstanding and a record representation at our meetings. On behalf of the directors and management, we thank each of you who attended in person or sent in your proxies and made this representation possible.

Formal business of the meeting was as follows:

1. 500,000 shares of Employees Stock, authorized since 1944 but unissued, were eliminated.
2. Instead, 500,000 shares of regular common stock were reserved for option and sale generally to employees.
3. 107,000 shares of common stock previously reserved for option and sale to a small group of executives were authorized for distribution among a larger number of executive personnel who would then not share in the general plan.
4. Messrs. Arthur Young & Company were re-appointed as independent auditors of the company's accounts.
5. The 17 directors of the company were re-elected to serve for another year.

A dividend of 25 cents per share on the common stock, payable June 20, 1951 to common stockholders of record at the close of business on June 1, was declared by the directors on the day following the stockholders meeting. We are glad to report that action.

A more detailed report on discussions at the stockholders meeting, including dividend policy, accompanies this letter. If there is any additional information that you might desire we will be glad to furnish you with it if at all possible.

PRESIDENT

May 31, 1951

SUMMARY OF GENERAL STATEMENT BY PRESIDENT C. R. SMITH AT THE MEETING

Earnings — 1951

Earnings for the first quarter were $2,914,000 after providing $4,350,000 for Federal income taxes. The volume of business for April and for the first half of May has continued at high level and earnings have continued to be favorable.

With careful control of expenditures and increasing volume of business, costs have remained comparable with last year on a ton-mile basis. All elements of cost continue to increase and any forecast of operating profit for the future should take that trend into consideration.

Dividends

A dividend of 25 cents per share was paid in 1950. Present earnings indicate that the payment of a dividend during this year will be warranted. Whether or not a dividend can be paid at mid-year will be decided by the directors.

Forecasts are that capital expenditures for the year 1951 will total $32,000,000. Those expenditures will be greater than earnings and depreciation for the year. Substantial capital additions are anticipated for 1952.

The replacement cost of operating equipment is presently $63,000,000 greater than the original book value. The annual depreciation charge on that additional value would be $8,500,000 per year. This means that the company must provide $63,000,000 more than is presently derived from the depreciation reserve to provide for the full replacement of the existing fleet.

For both of these reasons the policy of the company must be to retain a substantial portion of its annual earnings. At the same time we would like, as soon as the amount and stability of earnings will permit, to have our common stock on a quarterly dividend basis. That may be possible in 1952.

NOTE: On May 16, 1951, subsequent to Mr. Smith's statement, the Directors declared a common stock dividend of 25 cents per share to be paid June 20, 1951.

Coach Service

We are adding an additional coast-to-coast air coach flight on June 3, operating from New York through Dallas to Los Angeles. There will be other additions to the coach service as the volume of business and the availability of equipment will permit.

Air coach service has been successful, and it is evident that it is a permanent part of our service pattern. The company has been a leader in the regular low fare air transportation service, and it will endeavor also to lead in the institution and operation of equally efficient air coach and airfreight service.

Airfreight Service

The potential volume of our airfreight service has suffered in recent months by the necessity of transferring airfreight planes to the Korean airlift. Some of those have now been returned and will be added to the active fleet, permitting a substantial increase in capacity.

In addition, each of the 17 new Douglas DC-6B airplanes being delivered this year has a capacity of several tons for the transportation of cargo. With the entry of these planes into service, American is providing the fastest coast-to-coast airfreight service.

During 1952 several DC-6A airfreight planes will be added to the fleet. The airfreight business has proven of great utility and the increasing volume of business justified the confidence which the company has all along expressed in the merit and future of that part of the airline business.

Jet Airplanes

The company continues to explore the availability of more effective aircraft. At present the turbo-propeller type of airplane seems to indicate the greatest possibility of increased speed combined with greater operating economy.

Due to the requirements of the military procurement program the construction and testing of new commercial jet aircraft types will be delayed. It is not anticipated that any aircraft with jet power plants will be in commercial service in less than five years.

Air Mail

The company has been operating on temporary air mail rates. It is endeavoring to have the rates established on a permanent basis and with that purpose has held many meetings with representatives of the Civil Aeronautics Board. So long as high volume of business continues, it is probable that rates for the future may be on a lower basis than existing rates, but what rates will be cannot now be forecast.

REPRESENTATION AT MEETING

Directors, Officers and other representatives of the company present included

C. R. Smith, President and presiding officer

Directors Harry E. Benedict, Thomas M. Conroy and James A. Jackson

Malcolm A. MacIntyre and Thomas Holden of Debevoise, Plimpton and McLean, General Counsel

Harry Grumpelt, partner, Arthur Young & Company, independent auditors

William J. Hogan, Vice President and Treasurer, C. W. Jacob, Vice President and Secretary

RESULTS OF FORMAL BUSINESS

Sale of Stock to Employees and Officers

In 1944 the stockholders authorized reservation and sale of 500,000 shares of employees stock to general employees and officers. Under existing tax laws, the Directors did not consider it advisable to sell this stock to employees and none of it was issued. The Directors recommended that the authority to issue 500,000 shares of employees stock be cancelled and, instead, that stockholders authorize issuance of options to general employees, excluding top officers and supervisory personnel, to buy up to 500,000 shares of regular common stock. The price per share is to be fixed by the Directors at an amount not less than 85 percent of the highest selling price of the stock on the day options are granted, or $11.70, whichever is higher.

The proposal to eliminate the unissued class of employees stock (500,000 shares) was approved by a vote of 4,783,695 shares for the proposal, 39,298 shares opposed.

The proposal to authorize granting options to general employees to purchase up to 500,000 shares common stock was approved by vote of 4,104,812 shares for the proposal, 207,889 shares opposed.

In 1950 the stockholders authorized issuance of options to a limited number of officers and executives to purchase 250,000 shares of common stock of the company. Of this, options for 143,000 shares were issued to thirty individuals at a price of 70 cents per share above the closing price of the common stock on the New York Stock Exchange on date of issue. The Directors then recommended that the remaining 107,000 shares be reassigned for sale, under options, to supervisory personnel who were not included in the first allocation. The Directors recommended that this reallocated stock be sold subject to the same terms and conditions as the 500,000 shares reserved for option and sale to general employees.

The proposal was approved by vote of 4,104,812 shares for the proposal and 207,889 shares against.

Auditors

Messrs. Arthur Young & Company were reappointed as independent auditors of the company's accounts by vote of 4,806,927 shares for, 11,971 shares against.

Election of Directors

All of the seventeen Directors of the company were reelected to serve for another year.

Messrs. Harold T. Ames	Chicago, Illinois	Silliman Evans	Nashville, Tennessee
Harry E. Benedict	New York, New York	John W. Farley, Jr.	Boston, Massachusetts
James Bruce	New York, New York	Charles T. Fisher, Jr.	Detroit, Michigan
Edward H. Butler	Buffalo, New York	James A. Jackson	New York, New York
Amon G. Carter	Fort Worth, Texas	A. N. Kemp	Los Angeles, Cal.
Charles S. Cheston	Philadelphia, Pa.	Robert W. Miller	San Francisco, Cal.
Thomas M. Conroy	Cincinnati, Ohio	Orval M. Mosier	New York, New York
James H. Douglas	Chicago, Illinois	Edgar M. Queeny	St. Louis, Missouri

C. R. Smith, New York, New York

QUESTIONS AND ANSWERS

These questions were asked either in letters from stockholders or by stockholders at the Annual Meeting in Wilmington, on May 15th.

Stock Options

Question: The language describing the stock option plan is difficult to understand. What is a simple explanation of the program you propose?

Answer: The total number of shares to be reserved for sale to employees is the same as the total of some years ago; 750,000 shares. The stockholders will be asked: 1. To cancel the previous authorization for 500,000 shares of "employees stock". 2. Authorize, instead, 500,000 shares of ordinary common stock to be optioned and sold to employees. 3. Permit the allocation to employees of options on about 107,000 shares remaining undistributed from a previous authorization. (The previous authorization was 250,000 and 143,000 of that was allocated some time ago.)

Question: Can this program be made effective without clearance by the Wage Stabilization Board, Washington?

Answer: No, it cannot under present interpretation, but we will continue to press for its clearance. So far as I know no such stock option plan has been cleared by the Wage Stabilization Board. I can make no estimate of when or if, the clearance can be obtained. Nothing can be done about putting the plan in effect until that clearance has been secured.

Question: Will all employees of the company be permitted to participate in the stock option plan?

Answer: It is the intention of the company to propose a plan which will permit all employees who have worked with the company for one year or more to become participants in the plan if they elect to do so.

Question: Why should the employees be permitted to purchase stock for less than the quoted market value?

Answer: We would like for all employees to become stockholders in the company. That would be beneficial to them and beneficial to the company. We would like to have the plan attractive, so a greater proportion will be interested in participation.

Question: How do you justify such a program to the stockholders?

Answer: The primary purpose of this plan is to benefit the company, and thereby benefit the stockholders. If the employees are stockholders in the company they will have greater interest and pride in the organization and the resulting benefits to the company will be greater than the amount of discount on the stock involved.

Question: What are the benefits to the employee?

Answer: First, it provides an orderly plan for savings. Second, it gives an opportunity for investment in a growing business, on a favorable basis. Third, we hope that it will prove a profitable investment.

Bonuses

Question: What about a revival of the Christmas bonus plan, in effect some years ago but later discontinued?

Answer: During the five years ending with 1950 the company paid only one dividend, 25¢ per share. That represents an inadequate return to the stockholders on the value of their investment.

Question: Did the company pay a bonus to officers in 1950?

Answer: No. The proxy statement reflects the total paid to officers. If a bonus had been paid it would have been reported there.

Question: I saw in some trade paper a statement which some understood to mean that the company had paid a stock bonus to the officers. What are the facts about that?

Answer: No officer of American Airlines has been paid a bonus in stock, either in 1950 or at any other time. Some of the officers were given stock options in 1950, and the detail of that is shown in the proxy statement. For that stock they must pay the full amount specified in the option if they elect to purchase the stock.

Regional Meetings

Question: Mr. John Gilbert, stockholder, advocated a plan of regional meetings for stockholders and asked why that should not be done.

Answer: For some time we have been holding regional meetings of the Board of Directors. That, generally, has turned out well. We will be glad to consider holding one or more regional stockholders meeting at some later date. We are not prepared to do that this year and are not prepared now to make any commitment for next year. I feel fairly sure that we will want to hold at least one such meeting in 1953, perhaps earlier. Generally, we have no objection to the idea as such.

Financing

Question: In view of anticipated capital expenditures amounting to $32,000,000 do you plan to raise additional capital?

Answer: With the continuation of the present volume of business there should be no need for borrowing money or selling any securities.