March 14, 1947

TO THE DIRECTORS OF AMERICAN AIRLINES, INC.

Enclosed are the Minutes of the meeting of the Board of Directors held February 19, 1947, together with an envelope for your convenience in returning them. Please advise if there are any corrections or comments.

C. W. Jacob
Secretary

Encl.

MINUTES OF A REGULAR MEETING
OF THE BOARD OF DIRECTORS OF
AMERICAN AIRLINES, INC.

A regular meeting of the Board of Directors of American Airlines, Inc., was held in the Carlton Suite of the Ritz-Carlton Hotel, New York, New York, on Wednesday, February 19, 1947, at 10:00 o'clock a.m., Eastern Standard Time, pursuant to due notice to all of the directors of the corporation in accordance with the By-Laws.

There were present at the meeting:

Harry E. Benedict
James Bruce
Ralph S. Damon
Silliman Evans
John W. Farley
O. M. Mosier
Edgar M. Queeny
C. R. Smith

being a quorum of the Board of Directors.

As hereinafter indicated, Director Evans entered the meeting after it had been called to order.

Also present at the request of the directors were Vice President - Treasurer Maulsby Forrest, Comptroller and Assistant Treasurer Paul G. Larie, and Mr. James H. Douglas of the firm of Douglas and Proctor, General Counsel for the corporation.

Directors Ames, Butler, Carter, Hammond, Kemp and McLucas were unable to attend the meeting.

The Chairman of the Board presided and the Secretary kept the minutes of the meeting.

1. The Secretary stated that the minutes of the last meeting of the Board of Directors held on January 15, 1947, had been mailed to each director

and presented a summary of the action taken at such meeting. Thereupon, upon motion duly made and seconded, such minutes were approved.

2. The Chairman stated that on February 1, 1947, he had written the directors recommending that they consider electing Mr. Charles S. Cheston of Philadelphia, Pennsylvania, as a director to fill one of the vacancies on the Board occasioned by the resignation of Mr. Chandler Hovey on April 8, 1946 and Mr. Charles A. Rheinstrom on May 15, 1946. He further recommended that the directors consider electing Mr. Thomas M. Conroy of Cincinnati, Ohio, to fill the other vacancy.

Mr. Cheston was associated with E. B. Smith & Company for many years and later with its successor, Smith, Barney & Company, as a Senior Partner. During the recent war he held the rank of Brigadier General, United States Army, Office of Strategic Services. He is a director of J. P. Morgan & Company, Monsanto Chemical Company, Provident Mutual Life Insurance Company, Philadelphia National Bank, Western Savings Fund Society, Mead Corporation, Philco Corporation, Muskogee Company, and Kansas, Oklahoma & Gulf Railway Company. In addition, he is a member of the Business Advisory Counsel to the Secretary of Commerce.

Mr. Conroy is Executive Vice President and Director of Central Trust Co. of Cincinnati, a Director of S. A. Gerrard Co. and Frederick A. Schmidt, Inc., and Vice President and Trustee of the Cincinnati Bureau of Governmental Research. During World War I he served in the United States Navy as a Lieutenant Commander and during the last war was Chairman of the Naval Officer Procurement Committee for the Cincinnati areas.

Whereupon after discussion, Messrs. Charles S. Cheston and Thomas M. Conroy were duly nominated and elected directors of the corporation, to hold said directorships until the next annual meeting of the stockholders of the corporation and until their successors are elected and qualified. The election of Mr. Charles S. Cheston is to become effective upon the approval by the Civil Aeronautics Board, to the extent required, of the interlocking relationships involved by his holding the office of director of the aforesaid companies.

3. The Chairman reported that Mr. P. P. Willis had tendered his resignation as Vice President - Advertising of the corporation effective February 1, 1947. He said it was planned that Mr. Willis would return to his former association as Vice President of Ruthrauff and Ryan and it was felt that in this capacity he could continue effectively to handle advertising matters for the corporation. Thereupon the resignation of Mr. Willis was accepted with regret and with the expressed appreciation of the directors for the services rendered by him.

4. The Chairman stated that the resignation of Mr. H. K. Rulison became effective February 15, 1947 and suggested that in view of Mr. Rulison's long and faithful service to the company, the directors consider approval of a gift to Mr. Rulison of $5,000 principal amount of $3.50 Cumulative Convertible Preferred Stock. Thereupon, after discussion and upon motion duly made and seconded, the purchase of $5,000 principal amount of $3.50 Cumulative Convertible Preferred Stock of the corporation at an approximate net cost of $3,600 to be given Mr. Rulison in appreciation of his services prior to retirement, was approved.

Director Evans arrived at this point and thereafter participated in the meeting.

5. At the request of the Chairman, Mr. Forrest presented and explained preliminary, subject to audit, financial statements of the corporation prepared for the year ended December 31, 1946 consisting of consolidated balance sheets, statements of profit and loss and other financial exhibits.

6. The President presented and explained a statement of capital expenditures authorized by the management since the last meeting of the Board of Directors, each in an amount less than $100,000 and not, therefore, requiring approval of the Board. These amounted in total to $43,048.39 for the corporation and $649.50 for American Airlines de Mexico, S.A.

7. The President stated he wished to report that the company had sold in 1946 obsolete and surplus parts and assemblies having a book value of $178,778.36 and had realized therefrom $95,847.92; that the loss of $82,930.44 on such sales is reflected in the financial statements of the company.

8. The Secretary stated that inasmuch as the company is now serving Cincinnati, Ohio through the Kenton County Airport located in Covington, Kentucky, certain flights operating between Covington and Louisville, Kentucky on A.M.Route 22 may constitute intrastate operations within the State of Kentucky and it is therefore desirable to consider authorizing the qualification of the corporation in the State of Kentucky. Whereupon, after due consideration, upon motion duly made and seconded, the following resolutions were unanimously adopted:

> RESOLVED, that the officers of this corporation be and hereby are authorized and empowered to do any and all things deemed necessary in their discretion in order to qualify this corporation as a foreign corporation authorized to do business in the State of Kentucky, and be it further

> RESOLVED, that the registered agent for American Airlines, Inc., in Kentucky be Robert Hubbard of Corporation Guarantee and Trust Company, Kentucky Home Life Building, Louisville, Kentucky or such other person as the Corporation Guarantee and Trust Company may designate.

9. The Chairman reported that negotiations have been in progress for nearly two weeks looking to the termination of the contract between Republic Aviation Corporation and American for the purchase of twenty Republic Rainbows by American. He advised that in response to the letter addressed to Republic, which was approved at the January meeting of the Board, a letter had been received from Republic asserting that it could perform its obligations under the contract, denying that it was in any way in default, and asserting that Republic would hold American fully responsible for damages arising from any breach by American. The Chairman then asked Mr. Douglas to report the course of the negotiations and their present status.

Mr. Douglas stated that negotiations had been carried on with Mr. Livingston Platt, General Counsel for Republic. Detailed figures had been submitted on costs of the Rainbow project and commitments to sub-contractors representing that the loss to be incurred by Republic in terminating the contract would amount to $5,700,000 plus such amount as might be required to settle approximately $9,000,000 of contracts and commitments to subcontractors and suppliers. He stated that little progress had been made due to a wide difference between Republic and American as to the probable cost of settling claims of sub-contractors and suppliers, and Republic's insistence that American make a large cash contribution to any settlement, until consideration was given to the possibility of American's indemnifying Republic respecting sub-contractors' claims. After careful study, the corporation's officers in charge of engineering and of purchasing estimated that the claims could be settled for from $500,000 to $760,000. Mr. Douglas then advised Mr. Platt that he would recommend a settlement by which American would assume the cost of settling claims on settlements approved by American, if Republic would give notes to American for its advance payments on the contract, payable out of tax refunds to be received with respect to losses on the Rainbow project. Mr. Douglas stated that a settlement along these lines is being submitted by Mr. Platt to the directors and officers of Republic, that he believes a satisfactory settlement can be arrived at, but that substantial concessions may be necessary from the terms summarized above.

In the discussion that followed the increasingly marginal character of the Rainbow was emphasized, both as to the possibility of profitable operation as an extra-fare transport, and as to its probable early obsolescence.

Upon motion duly made and seconded, the following resolution was unanimously adopted:

> RESOLVED, that it is deemed desirable to terminate the Purchase Contract for RC-2 airplanes between Republic Aviation Corporation and this corporation upon such terms as may be approved by the Chairman and the President, and to that end they are authorized, with the advice of counsel, to continue negotiations with Republic Aviation Corporation, and in the event an agreement of settlement terminating the Republic contract can be reached which they deem satisfactory, the Chairman or President is authorized to execute such agreement.

10. The Chairman stated that on February 13, 1947, the Civil Aeronautics Board had initiated a general investigation of airline rates, fares and charges for the carriage of passengers and property to determine if any adjustment therein would increase the amount of revenues from non-mail sources. He said that the management continued to advocate low fares and rates as a means of broadening the air transport market, although it might

be necessary to make some temporary upward revision in the level of passenger fares for Douglas DC-3 and DC-4 aircraft which now average approximately 4.5 cents per mile. The Chairman also stated it was planned that the company would adopt a new higher basic fare of approximately 5.5 cents per mile for transportation in Douglas DC-6 aircraft upon the inauguration of such service in May or June of this year.

There being no further business to come before the meeting, upon motion duly made and seconded, the meeting was adjourned.

C. W. Jacob, Secretary

APPROVED:

C. R. Smith, Chairman