



## AMERICAN AIRLINES INC.

CABLE ADDRESS AMAIR

100 EAST 42nd STREET · NEW YORK 17, NEW YORK · MURRAY HILL 5-3900

June 10, 1946

Messrs. James Bruce ✓  
Amon G. Carter  
John W. Farley  
A. N. Kemp  
Edgar M. Queeny

We signed up with the underwriters this morning, the agreement to become effective when the registration statement is made effective by the SEC; we hope that it will be during this afternoon. If so, the underwriters plan to offer the securities on Tuesday morning.

One of our stockholders, Mr. E. L. Cord, called me about 3:30 AM today. He is of the belief that the conversion rate is much too low and that the deal, altogether, is not a good one. I gather that he believes the general market will later improve and that we should wait until we can secure better prices for our securities. I have sent him a long telegram, in addition to the long conversation of last evening, pointing out the urgency of our requirements and the inadvisability of waiting to provide for the financial requirements of the company; we cannot afford to hazard the future actions of the stock market.

I have not been able to convince Mr. Cord and it seems that he has been busy throughout the day disposing of a substantial part of his stock in American. This is evident from the fact that there is heavy selling, that nearly all of it is coming from Hutton & Company, Los Angeles, and that Hutton & Company handle nearly all of Mr. Cord's security transactions. This is regrettable but I believe that the market will absorb the stock in amount sufficient not to interfere with the accomplishment of the financial program. That cannot, of course, be definite until after the securities are actually sold but present indications are that the market will weather the storm.

We made a tentative trade with the underwriters on Thursday, last. Bonds to be sold at 100; net to company 98-3/4. Preferred stock to be sold at 102 $\frac{1}{2}$ -103, net to company 100-3/4, with conversion at 23.

The underwriters came back to us on Friday, in a group, indicating that their survey of the possibilities indicated, without doubt, that the deal could not be accomplished on that basis. They said that the choice was either to tell us that on Friday or wait and run the risk of having to tell us that on Monday. Of the two, Friday was obviously the better.

At the price of 102 $\frac{1}{2}$ -103, conversion at 23, a major part of the upper group of underwriters indicated, definitely, that they would drop out, on the basis that the deal would be very "sticky" and could not be accomplished. Principal factor was the high rate of conversion, higher than the market is accustomed to in a usual security and higher than an air transport stock would take, and sell. They considered the price

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high, also. The decision had to be either to change the price or call off the deal. No change was indicated in the price of the bonds, although many of the firms expressed the belief that it would take a lot of "selling" to move the issue.

Another meeting of the Board was called, 7:00 PM, and the matter was discussed in detail. Calling off the deal would involve the reputation and credit of the company, would be difficult to explain and would make the next deal much more difficult. Need for funds for the company would not warrant postponement of the deal, inasmuch as no improvement therein could be expected except in event of general market strengthening. Accordingly, it was voted to accomplish the deal: 3% bonds to be sold to public at par; company to net 98-3/4. 3 $\frac{1}{2}$ % preferred, convertible, conversion at \$21, to be sold to the public at 102, company to net 100.

This deal is not as good as we had expected. I am sure that it will in some respects be disappointing to you. On the other hand, it is not of character which will warrant discarding it; it is the best deal available and in many respects not a bad deal.

We can conclude that some of us have been more optimistic about our prospects than the actual market reception would warrant. First setback was that Moody would not give the bonds a bank rating. We believe that they should have bank rating but could not persuade Moody. This substantially ~~were~~ lowered the temperature for the bond issue. A second factor ~~were~~ readily apparent/that the market is not sure that we can fill as many planes as we have purchased. This stems somewhat from scanning of figures, more from conversations of men in aircraft manufacturing, and in the airline business, who have been retailing gloomy predictions about the future. Another substantial factor is that the market has been looking at some very substantial airline losses in the last several months, running around an average of \$1,600,000. a month for TWA, for instance. The market is not too sure when these losses will cease and profits will begin. Another factor is that the market for American common is presently down from the high of 19-7/8 by more than three points. Another factor is, of course, that the general market has been reasonably sluggish. With respect to the bond interest rate, governments have firmed up since our first conversations and have thereby affected the interest rate of industrials. On this point, nearly no interest was evidenced in the bonds by 25 leading insurance and banking institutions, first at 2-3/4 and then at 2-7/8; the bonds had to sell at 3 to attract interest. Again, this is a big airline issue; a company with book value capital of \$26,000,000. engaged in raising an additional \$80,000,000.

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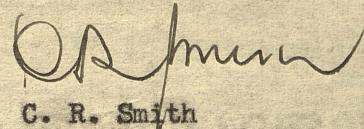
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As I told Mr. Cord this morning, nearly all of us know the detail of this business; its problems and prospects. We are all bullish about the future of air transportation and it may be that we have permitted our optimism to outstrip our judgment in determining what we think we should receive for our securities. After all, it is the market judgment, not ours, which determines the value that we can receive for our securities. I am convinced that we can make no better deal at this time than has been made; I am convinced that the underwriters have done a sincere job in getting the best price possible and I am sure that we cannot afford to throw this deal overboard, hoping that future market appreciations will permit us to do better.

At least two of the factors will take further information, and time, to cure:  
1. Fear that we have overbought airplanes. We will not know the answer to this until much further along, certainly not within the next month or two.  
2. Airline losses. While I think that American will soon turn the corner, if we get our additional airplanes delivered on time, I can make no prediction about TWA and some other of the companies. Both of these factors may obtain for some time and we cannot with any surety postpone our financing until these factors have either become better or have been overcome. I do not know what the general market will do in the future but I am sure that we will not want to be predicated our entire security for the future upon the premise that the general market will go up.

I do not think that we need to be apologetic about this deal. We would have done better several months ago, but we could not do it several months ago. On the whole it is a deal which meets the requirements of the company's financial program, with terms entirely capable of being sustained, and I believe that all of us will feel all right about it after the deal has been consummated and we are then in position to meet our present and future commitments with surety.

Sincerely yours,



C. R. Smith

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