To The Directors:

December 29, 1945

We have recently announced the purchase of aircraft from Consolidated Aircraft. This was done for the reason that this is a subject we have been considering for many months, as you know, and the story was beginning to leak out, in various inaccurate forms.

As you will remember, in our report on the subject at the last meeting of the Board, we asked several of the leading companies to submit designs to us. We received designs from Douglas, Curtiss, Boeing, Martin and Consolidated. The contest narrowed down to Martin and Consolidated, as we reported to you, but none of the models really developed the characteristics which we wanted.

Consolidated came in and submitted a second design, much more in keeping with our requirements and, in our opinion, as good as we could expect to have built, with the present knowledge of the art.

Martin had previously submitted us a price of $200,000 each, the same price at which they sold many of their 202 models to other air carriers. The contract contained an escalator clause which would permit increases in price, without definite limit, for increases in price of material and labor. The escalator clause was patterned on established indices but it was still without top limit.

After protracted negotiation, we agreed with Consolidated on a base price of $185,000 each and with a top limit of 5% on any form of escalation. If all of the escalation provision should be used up, and it may or may not be, top price would be $194,250. In other words, we know exactly what our top price will be and we are certain that it will be less than even the base price for the Martin. In other words, we have, in our opinion, secured a better airplane, at a lower price and without possibility of substantial increase in price. We consider this to be an excellent arrangement for the company and until conditions change materially it is our opinion that we will not for a long time be able again to purchase airplanes at this price.

This price is predicated upon an order of 100 aircraft and it is anticipated that our requirements will be 100. We had hoped to purchase 50 and option 50; that was not possible under this arrangement and we did not feel it fair to press the matter. The deal is an excellent one and we are not entitled to a better one under present and prospective conditions.

Please keep these prices in confidence, especially the provision with respect to top limit on escalation; it is highly probable that no other company will secure the benefit of such an advantageous contract and the principal reason that we will secure it is that we have pioneered the development, and detail, of this general type of high-speed, modern airplane and have contributed much of our experience, engineering ability and fund to the development of a more effective twin-engined airplane. We have benefitted and the whole industry has benefitted by the results of the American design competition.

C. R. Smith