



AMERICAN AIRLINES INC.

CABLE ADDRESS AMAIR

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

February 1, 1946

Memorandum to the Directors:

Mid-Continent Case: Hearing in this case, before the Examiner, was concluded last week. Counsel for American did a fine job of handling the case and, in my opinion, the record is in excellent shape. I would not care to predict without reservation that we will win the case but I am impressed that the record clearly indicates that it would be in the public interest for the acquisition to take place. For that reason, we have the right to be optimistic about the outcome. Next the opposing counsels will file their briefs, then the Examiner's report, then answers to the Examiner's report and then decision by the Board. It is a long road but we are doing the best we can to expedite things.

General Counsel: Tentative arrangements have been completed for the employment of another firm as General Counsel for the company. Present firm will serve until March 1, 1946. Details will be given at the February meeting.

Aircraft Engines: We will require about 500 engines for the DC6 and Consolidated 240 aircraft which we have on order. Price from Pratt & Whitney is \$23,000.00 each. We have made arrangements to secure some 400 from the Navy at approximately \$10,000.00 each and believe that our total requirements can be taken care of from that source. If this is possible, capital saving of \$6,500,000.00 will be made.

Financing: A proposal for financing our requirements will be presented at the February meeting. We will probably have to raise \$50,000,000.00 during the year. In the interim, and in order to avoid rush and get a reasonable market, we will probably borrow \$30,000,000.00 from banks. Please keep this quiet; we are already swamped with inquiries from banks and investment bankers who want to lend us some money or sell our securities.

DC4 Operation: We began January 30 the operation of two trips per day, non-stop, between New York and Chicago with C54 equipment. Other services will be added during the month of February.

Pilot Pay Negotiations: Many meetings have been held by Mr. Damon and the airline Committee. Things are proceeding with reasonable satisfaction although no definite agreement is yet in sight.

Military Operation: The Trans-Con operation for Army Air Forces will terminate on March 31, 1946, with gradual lessening of the services to be operated in the interim. We have been operating four trips, coast to coast, with C47 equipment and 5 trips per day with C54 equipment.

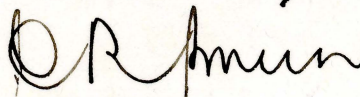
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Reservation of 70% Space Eastbound by ODT: This will end, we believe, within the next two weeks, thereby affording better opportunity of providing seats for our civilian passengers on the Transcontinental service.

Operations for the Year: Some airline officials have been predicting a bad year for 1946. I do not share that 12 month opinion. I believe that we will have considerable difficulty with earnings for the first quarter; this is our transition period from war-time operation to peace-time operation, but I think that we will do well for the other three quarters. Expenses are very high and we do not yet have the increased capacity to absorb them, but increased services will be available for each month from now on and I believe that we can operate the services which we have planned with reasonable load factors and, after the first quarter, at substantial profit. We are fortunate in that we can confine our transition period to months; compared with declining industries we have a simpler problem.

Consolidated Operations: You may have read the article in Saturday Evening Post and Reader's Digest about the necessity of operating with greater economy, partially through industry effort at more economical joint operation. This is slow going but we are making progress and during the year I believe that we can make some real accomplishments.


C. R. Smith

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