

# FORT WORTH STAR-TELEGRAM

MORNING

EVENING

SUNDAY

AMON G. CARTER, PRESIDENT

FORT WORTH, TEXAS

March 15, 1946.

Mr. C. R. Smith,  
Chairman of the Board,  
American Airlines, Inc.,  
100 East 42nd Street,  
New York City, N.Y.

Dear C. R.:

Your letter outlining preliminary financial plans covering the requirement of 100 million dollars in new money for American received. I would not be so presumptuous as to pose as an expert in financial matters of this magnitude, yet, the more I study and analyze the situation from its various angles, the more committed I become to your original plan, which you submitted to the last meeting of the board, February 20. This plan called for the issuance of 30 million dollars in 3 percent cumulative convertible preferred stock, four shares of common for one of preferred; 50 million in two and three fourths percent debentures and a 10-year bank loan of 20 million dollars, at 2% or less. In the matter of splitting the stock, I favor a split of five for one.

As I understand, Aviation Corporation owns about 262,000 of the approximately 1,290,567 shares at present outstanding, to which would be added the approximately 97,000 shares involved in payment for the Mid-Continent deal. Aviation Corporation no doubt, will have to dispose of its holdings. This would mean a substantial amount of common stock to be absorbed on the market sometime within the next three or four months. Accordingly, I feel it extremely important that the company refrain from issuing additional common stock at this time.

The proceeds from the issuance of 30 million dollars in preferred stock, plus the 25 millions in cash indicated in your letter, would give a backlog of 55 million dollars, which should be sufficient to back up the additional 70 millions (50 millions in debentures and 20 millions in ten-

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year bank loan).

Some of the directors brought out at the last meeting that as a matter of safety we should issue more common stock and less preferred, debentures and bank loans. They used in their arguments the financial structures of a number of large corporations: U. S. Steel, General Electric and others. I am not prepared to take issue with them on this point, yet I do not feel that the situations of American and the companies mentioned are parallel. This industry is still in its infancy; it compressed 30 years of normal growth and development into the five years of the war period. It is strictly a cash business, subject to heavy depreciation; it should not be compared to old, long established industries, subject to less rapid growth and expansion.

I think American, after the split up, within the next two or three years will sell for from \$25 to \$35 a share. If you split the stock five for one and sell the new shares at \$15 - 4,000,000 shares of common would bring \$60,000,000. This would raise our capital structure to about 11,000,000 shares. Under your original plan, after the split up of five for one, the Mid-Continent deal, our option and the issuance of 30 millions in cumulative convertible preferred, the outstanding common stock would be only 8,390,000 shares (including 1,200,000 shares to take care of the conversion of the 30 million preferred). Hence, the corporation would lose \$21 per share, if and when the split up stock should sell at \$35. This would mean a tidy saving of approximately \$80,000,000 to the corporation and present stockholders.

This may sound fantastic to some of our ultra-conservative directors but it is no more impossible than what has happened since December 1944 when the management recommended to the directors that 150,000 shares of the old stock be sold at \$54 to \$75 per share. This would have provided \$8,000,000 to \$8,150,000 new capital. After a long and thorough discussion, the plan was abandoned. The same stock (after a split of two for one) is selling at \$75.00 to \$80.00 a share and is worth about \$15,000,000 or \$16,000,000 more than what the management insisted on selling for at that time.

The new setup as recommended - 30 millions preferred, 50 millions debentures and 20 million

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10-year bank loan - has a good chance of saving the stockholders 75 or 80 million dollars in the long run.

I have greath faith in the possibilities of American within the next few years. I have every confidence in the ability of the managment to do the job.

The public is becoming more air-minded every day. Just stop and think! America had 10 million men under arms. Hundreds of thousands of them were educated to fly; the remainder are prospective customers. Now, larger and faster planes are coming along. If we keep our feet on the ground and do not permit the company to get so large that we lose contact, with each other, nothing can stop American from expanding five to ten times during the next five or ten years. I feel this is a conservative statement. Why get cold feet? Incidentally, the interest on the debentures and the bank loan would be chargeable to expense. This would amount to about \$2,750,000 annually. Depreciation would be a big factor in providing the sinking fund for retirement of the debentures and the bank loan.

While you asked the directors to consider this matter in confidence, I did take the liberty of discussing it, in confidence, with my bankers, solely to determine how it would affect my interests as a stockholder. After a thorough analysis of your original plan, they unhesitatingly pronounced it sound and regarded it as a protection for the stockholders in the long run. Incidentally, the bankers referred to are rather substantial folks and do not live in Fort Worth.

Therefore, with all due respect to other members of the board who may think differently, I unhesitatingly recommend your original plan. In so doing, I am bearing in mind the fact that I have a substantial investment in the stock. Naturally, I would not expect my opinion to influence others, but if I owned one-half of the common stock I still would have no hesitancy in supporting your plan. No doubt the other directors will have had sufficient time to formulate their ideas and I hope that we have a full attendance at the next board meeting March 20. It no doubt will be the most important meeting we ever have had.

Sincerely,

*A. G. Carter*

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